

FDI in Ireland remains resilient in uncertain times: A review of recent OECD and IDA Ireland reports

At a time of economic uncertainty, it remains important for Ireland to continue to attract and retain foreign direct investment (“**FDI**”). Ireland has built a reputation as a leading FDI location which is evidenced by the long-standing presence of large multinational companies (“**MNCs**”) in a variety of sectors. It is clear that the current sectoral FDI base has been key to driving Ireland’s economic growth. Despite the unprecedented challenges companies faced during 2020, recent publications indicate that FDI in Ireland is well placed to weather the storm of the COVID-19 pandemic if Ireland can provide support and solutions to these companies. In that context, it is critical that Ireland remains competitive in order to maintain and grow its FDI base.

Provided below is a short summary of the OECD’s FDI Qualities Assessment of Ireland, an overview of the performance of IDA Ireland (“**IDA**”) in 2020 and the recently published IDA Strategy for 2021-2024.

1 OECD - FDI Qualities Assessment of Ireland

The OECD recently published a report, **FDI Qualities Assessment of Ireland** (the “**OECD Report**”), which examines the impact of FDI in Ireland during the period 2006 to 2016. The OECD Report was jointly developed by the OECD and the IDA and builds on OECD work under the FDI Qualities Assessment initiative. It should be noted that the OECD Report pre-dates the COVID-19 pandemic and does not take account of the impact the pandemic has had on FDI in Ireland.

The OECD Report found that Ireland is the second most open economy to trade in the OECD and that Ireland’s FDI base deeply integrates Ireland’s economy into global value chains (“**GVCs**”). The OECD Report highlights the continued strength of international investment in Ireland. IDA-supported sectors experienced rapid growth, higher productivity and increased R&D expenditures and wages compared to sectors with less foreign firm activity. Foreign affiliates made a considerable contribution to the Irish economy in terms of trade, productivity, innovation, and employment between 2006 and 2016, both directly and indirectly. As such, FDI was central to Ireland’s recovery from the financial crisis.

In summary, the OECD Report provides an overview and an examination of the following points:

- the role of FDI in trade and integration in GVCs;
- how foreign investment contributes to productivity and labour market outcomes;
- labour productivity dynamics of foreign affiliates in two important sectors in the Irish economy (manufacturing, and information and communications); and
- the indirect impacts of foreign affiliates – by examining potential factors driving spillovers to domestic firms, with a special focus on labour mobility as a key channel for spillovers.

Despite notable growth, the OECD Report identifies a lack of diversification among Ireland’s FDI base (currently concentrated in the manufacturing, information and communications and the finance and insurance sectors). The OECD Report highlights that this lack of diversification could potentially expose Ireland to risks related to macroeconomic trends in trade and investment and to policy changes in partner countries. However, the OECD Report did briefly recognise the resilience of these sectors during the current COVID-19 pandemic. It is also clear that the sectors that predominately make up Ireland’s FDI base are aligned with the sectors driving economic growth in the 21st century.

2 IDA Performance Update

While the OECD Report only provides analysis in respect of FDI in Ireland from 2006 to 2016, the IDA recently announced its **Performance Results for 2020** which are as follows:

- Investments continued and FDI employment grew in 2020 despite the impact of COVID-19;
- 20,123 new jobs were created in 2020;
- Numbers directly employed in the multinational sector in Ireland grew to 257,394;
- The existing base of FDI has shown continued resilience;
- 246 investments were won in 2020 – 95 being from new investors;
- More than half (52%) of investments went to regional locations;
- There was a net job creation of 8,944; and
- There were higher job losses than recent years in some sectors.

3 IDA Strategy - Driving Recovery & Sustainable Growth 2021-2024

The findings from the OECD Report have been an important input into the development of the IDA’s new 2021-2024 organisational strategy, “**Driving Recovery & Sustainable Growth 2021-2024**” (the “**IDA Strategy**”) which was published this month. The IDA Strategy reflects the long-term goals of FDI in Ireland, the National Economic Plan and key national policies on enterprise, innovation and the environment.

While the OECD Report does not address the impact of the COVID-19 pandemic on FDI, the IDA Strategy highlights the future challenges that Ireland will face as a result of the severe and immediate impact of COVID-19 on the Irish economy. The IDA Strategy acknowledges the negative effect of the pandemic, particularly in the labour market, with unemployment averaging approximately 16% in 2020 and forecasted to remain above 10% in 2021.

The IDA Strategy recognises the importance of FDI to Ireland’s economic recovery. It recognises that while MNCs are not immune to the effects of the pandemic and Brexit, their on-going resilience emphasises the importance of FDI to Ireland. As such, the IDA Strategy hopes to capitalise on opportunities for Ireland to provide MNCs with solutions to the challenges they will continue to face as a result of the pandemic and Brexit over the next 4 years. This will help the IDA to safeguard and enhance existing clients’ mandates as well as attracting further investment from next-generation MNCs.

The IDA Strategy is framed through five interlinked pillars consisting of Growth, Transformation, Regions, Sustainability and Impact with the following main objectives:

- Win 800 total investments to support job creation of 50,000 and economic activity;
 - Partner with clients for future growth through 170 R&D and Investment and 130 training investments;
 - Win 400 investments to advance regional development;
 - Embrace a green recovery with 60 sustainability investments;
 - Target a 20% increase in client expenditure in Ireland; and
 - Maximise the impact of FDI,
- (the “**Strategy Objectives**”).

The IDA Strategy highlights that the success of the Strategy Objectives will depend on the skill and knowledge of IDA teams around the world, on the support of Government, the provision of the required resources (outlined in further detail in the IDA Strategy), and on collaborative engagement with key stakeholders to maximise the impact of FDI in Ireland.

If you would like to discuss these or other FDI-related matters, please get in touch with Matheson’s International Business Group or your usual Matheson contact.

Contacts



Emma Doherty
Partner
E: emma.doherty@matheson.com
T: 01 232 2479



Caitríona Lavelle
Trainee
E: caitriona.lavelle@matheson.com
T: 01 232 3375