

## Legal

# A gateway for FDI

For decades, Ireland has pursued a clear strategy of being a business-friendly location for foreign direct investment, writes Mark O'Sullivan

Ireland's early FDI strategy was to attract companies in the manufacturing sector to use the country as a platform to export manufactured goods into Europe. However, since Ireland's cost base increased in the mid-90s, the focus has increasingly been on sectors creating positions higher up the value chain.

In more recent years, FDI has been flowing into sophisticated sectors including technology, pharmaceuticals and medical devices, and financial services. Foreign investment is now the main driver behind Ireland's economic recovery. The 2008 financial crisis ultimately served to increase Ireland's competitiveness and to renew its focus on being, as our Taoiseach so often puts it, "the best small country in the world in which to do business."

International companies announcing Irish jobs in the first half of 2013 alone include Ebay, EMC, McAfee, Pfizer, Symantec, Zurich, Yahoo, Facebook, Guidewire, Groupon, Novartis, AOL and FireEye.

Along with leading technology companies like Google, Dell, Intel, Hewlett Packard, Twitter and Apple, nine of the top 10 global pharmaceutical companies, eight of the top 10 medical technology companies and over half of the world's 50 largest financial institutions have a presence in Ireland. By way of example, a significant portion of our own firm's revenues are derived from international companies and financial institutions.

## Competitive advantages

To find out more about FDI in Ireland, we commissioned a major report in 2012 by the Economist Intelligence Unit which found that Ireland's most important competitive advantages are access to EU markets, a competitive corporate tax infrastructure, a uniquely talented workforce - both home-grown and from abroad - and a stable regulatory framework that supports business.

Most FDI continues to come from the US which accounted for 74% of Ireland's FDI in 2012 alone. Ireland is the top location for US FDI globally in the chemicals and pharma sector and second worldwide in the IT sector. The reasons for US interest in Ireland are many, but a shared language, a similar business and legal culture and Ireland's business-friendly, cost-effective



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environment and highly-skilled workforce are all key factors.

## International gateway

Ireland, as the only English-speaking eurozone member state, is the leading gateway for international companies wishing to access to the EU's market of 500 million people. Indeed, if the UK were to follow through with Prime Minister Cameron's promised referendum on EU membership and decide to leave the EU, Ireland would then be the only English-speaking nation in the entire EU.

Ireland once looked on in awe at the technological marvels being produced in faraway places like the US, Germany or Japan. However, now we are very much at the centre of global technological innovation. Incentives such as 25% R&D tax credits and other government support helps to keep Ireland at the forefront of research and innovation globally.

Ireland is also increasingly benefiting from clustering effects. A critical mass of leading companies in various sectors is already here. This means that a highly skilled cluster of support services and industries also exists. This creates a virtuous cycle where the existence of the necessary support services actually draws in FDI. This is already emphatically the case in the financial services sector, where investors regularly cite

the excellence and knowledge base of Ireland's sector-specific professional services as one of Ireland's key advantages over other locations.

## Future prospects

Ireland's future success in attracting FDI is dependent on a number of key factors: continuing to ensure companies are not embroiled in red tape; ensuring that our corporate tax regime remains competitive; investing in education to ensure that Ireland continues to deliver the skills international companies need, and ensuring that our cost base remains in check.

We will inevitably face external challenges along the way, particularly as FDI levels are contingent on optimal economic conditions in the US and other large markets. However, there is much that we as a nation can do to ensure that we continue to offer the best possible environment and infrastructure for investment.

The reaction to recently announced changes to the Irish corporate residency regime in Minister Noonan's Budget speech showed how closely Irish tax policy is monitored by the international business community, and international media outlets like the Wall Street Journal and the New York Times. Great care needs to be taken to ensure that such changes do not harm Ireland's position, particularly given increased competition from the UK and other EU jurisdictions.

## Proactive approach

It's vital that Ireland remains business-friendly and ensures its tax and regulatory regime is flexible enough to deal with changes in international tax policy. The OECD's base erosion and profit shifting (BEPS) project is gaining momentum and changes are likely to occur which may affect some multinational companies operating in Ireland. The Irish government will need to be proactive in responding to such changes and should, for example, consider introducing a patent box regime to incentivise innovative companies, following the UK's lead.

In order to continue attracting innovative companies to Irish shores, the Irish State itself will have to innovate, by continually adapting so that Ireland remains the most attractive gateway into the EU for FDI. ■