

# Enhancing the Attractiveness of the Island of Ireland to High-Value Foreign Direct Investment

Iulia Siedschlag, ESRI  
Weijie Yan, ESRI  
Nigel Driffield, University of  
Warwick

7 December 2021



**Roinn an Taoisigh**  
Department of the Taoiseach



# Research and Policy Background

- Growing importance of **knowledge-intensive sectors** for innovation, productivity and export-led economic growth
- **Foreign direct investment (FDI)** – associated with benefits
  - **Direct benefits**
    - New technologies and managerial know how
    - Job creation
  - **Wider indirect benefits** via spillovers on the innovation, productivity and trade performance of domestic firms
- **Attracting FDI in knowledge-intensive sectors** – recent emphasis on wider benefits from high-tech and R&D in addition to job creation

# Research Objectives

- **Patterns of high-value FDI** on the island, Great Britain and EU26 – focus on new greenfield FDI projects – new operations by foreign companies at a new site
- The importance of **factors that influence location choices for high-value FDI** in Ireland, Northern Ireland and across EU26 and UK
  - **Demand factors:** market potential and market growth;
  - **Supply factors:** labour costs, workforce skills, investment in R&D in the public sector
  - **Agglomeration economies** – clusters of firms in knowledge-intensive sectors
  - **Fiscal incentives:** corporate taxation, government funding of business R&D
  - **Infrastructure:** broadband access
  - **Business regulations:** barriers to FDI, complexity of regulations
- **Possible scenarios** for enhancing the attractiveness of both jurisdictions to high-value FDI
  - **Policy levers** – investment in R&D in the public sector, workforce skills, broadband access
  - **Policy coordination and cooperation**

# Data and Methods

## ■ Data on FDI projects

- Data source - Financial Times fDi Markets data base, 2003-2020
- 60,743 new greenfield FDI projects established in the EU and UK of which 33,482 in high-value knowledge-intensive sectors:  
aerospace, biotechnology, pharmaceuticals, medical devices, semiconductors, business machines and equipment, electronic components, consumer electronics, telecommunications, software and IT services, financial services, business services, space and defence

## ■ Location-specific factors

- Data sources: Eurostat, OECD, European Commission, 2002-2020
- Ireland, Northern Ireland and other 96 locations in the EU and UK

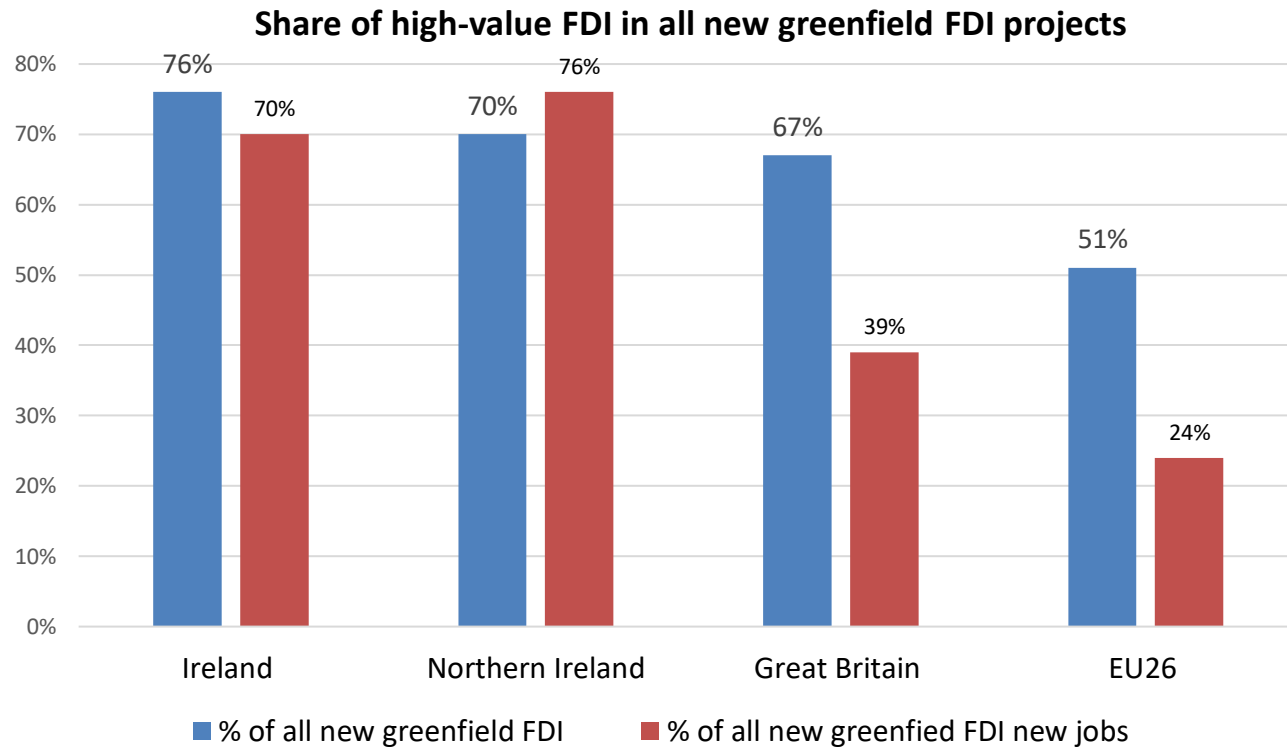
## ■ Methods

- Descriptive analysis
- Econometric modelling of location choices for FDI projects

# Main Findings - Descriptive Analysis

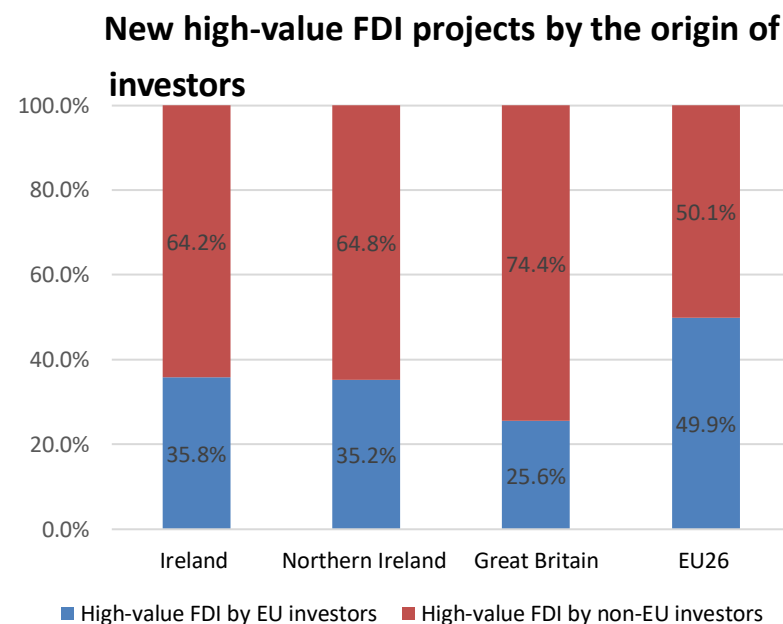
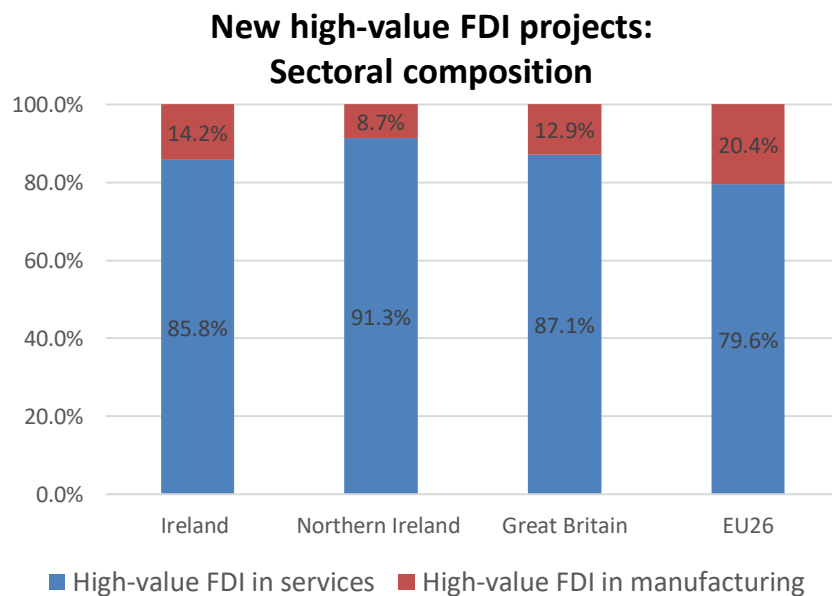
- High-value FDI in Ireland and Northern Ireland – **higher shares in all new greenfield FDI projects** in comparison to Great Britain and EU26
- **High-value FDI projects in services** dominate in both jurisdictions
- **Over two thirds** of investments are by **investors from non-EU countries**
- **High value FDI intensity** – number of high-value FDI projects per one million inhabitants over 2003-2020
  - out of 98 locations in the EU and UK Ireland ranks 4<sup>th</sup> (**286 new high value FDI projects per one million inhabitants**) and Northern Ireland ranks 17<sup>th</sup> (**116 new high-value FDI projects per one million inhabitants**) above the median location in the EU (and above Scotland, North East England and Wales)

# Patterns of high-value FDI, 2003-2020



Source: Authors' calculations based on data from the Financial Times fDi Markets.

# Patterns of new high-value FDI, 2003-2020



*Source:* Authors' calculations based on data from the Financial Times fDi Markets.

## Enhancing the Attractiveness to High-Value FDI across the Island of Ireland - Policy Options

- **Higher investment in R&D in the public sector (Government and Higher Education)** in both jurisdictions
- **Increased educational attainment of the working age population** in Northern Ireland
- **Cooperation and coordination of policies** with respect to market potential, workforce skills, investment in R&D in the public sector – such an approach is facilitated by:
  - Northern Ireland's continued access to the EU Single Market for goods
  - Recognition of qualifications and labour mobility enabled by the Common Travel Area between Ireland and United Kingdom



## Policy Scenarios – Performances of Ireland and Northern Ireland relative to competing locations for high-value FDI in EU26 and GB

Location-specific factors	Ireland	Northern Ireland	Scenario 1 Top 3 FDI locations average	Scenario 2 Top 5 FDI location average	Scenario 3 Top 10 FDI locations average
Education and training, % of population aged 25-64	11.0%	10.9%	14.2%	12.9%	14.5%
Workforce skills, % of population aged 25-64 with upper secondary and tertiary education	85.5%	76.2%	79.3%	76.8%	80.4%
GERD in the public sector, PPS per inhabitant in 2005 prices	141.9	97.6	346.7	351.8	383.9
Broadband access, % of households	92.0%	94.0%	94.0%	93.6%	93.9%

*Source:* Authors' calculations based on data from the Financial Times fDi Markets, and Eurostat.  
*Notes:* The data are for 2020 or the most recent year available.

# Policy scenarios for enhancing the attractiveness of Ireland and Northern Ireland to high-value FDI

% change in the average annual number of FDI projects in high-value sectors

## Ireland

	Scenario 1	Scenario 2	Scenario 3
Education and training	1.7%	1.0%	1.8%
GERD in the public sector	18.5%	18.8%	20.8%
Broadband access	0.6%	0.7%	0.8%

## Northern Ireland

	Scenario 1	Scenario 2	Scenario 3
Education and training	1.7%	1.0%	1.8%
Workforce skills	7.7%	1.4%	10.6%
GERD in the public sector	27.3%	27.6%	29.8%

Source: Authors' estimates.