



As the FDI landscape evolves, how can Ireland successfully adapt?

EY Attractiveness Survey Ireland
July 2024

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Overview

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Foreword

The latest EY Attractiveness Survey finds that while it is not the best of times for Foreign Direct Investment (FDI) into Ireland, neither is it the worst of times.

Ireland won 100 projects in 2023, placing it 11th on the league table of most desirable investment destinations in Europe, down from 10th position in 2022. Encouragingly, optimism about the future rose. 66% of respondents expect Ireland's attractiveness to improve over the coming three years (up from 46%), and 79% are planning to establish new or expand existing operations here in the next 12 months.

Centred on talent, business-friendly policies, stability and access to Europe's single market, Ireland's FDI model has been highly successful for decades. The global landscape is changing, however. Trade and investment policies have become more inward-orientated and competition among jurisdictions has intensified, making for an increasingly challenging environment. Concurrently, sustainability and

digitalisation are reshaping economies the world over, with the promise of Artificial Intelligence (AI) standing at the forefront of this transformative wave.

Against this backdrop, our research delves into international investors' plans and sentiment, considers what Ireland should be doing domestically to bolster its appeal as a location for FDI, and where it needs to concentrate its efforts to maintain competitiveness on the global stage.

Investors have identified clear areas for policymakers to focus on, including supporting high-tech industries and innovation.

All-in-all, there are interesting times ahead for FDI and Ireland.

Key takeaways

1 Ireland's direction of travel in domestic areas such as skills and infrastructure is right but continued progress is needed.

2 In a fast-changing world, Ireland's tax regime and incentives offering must stay very competitive.

3 As a digital front-runner Ireland should capitalise on its AI credentials and seize emerging opportunities.

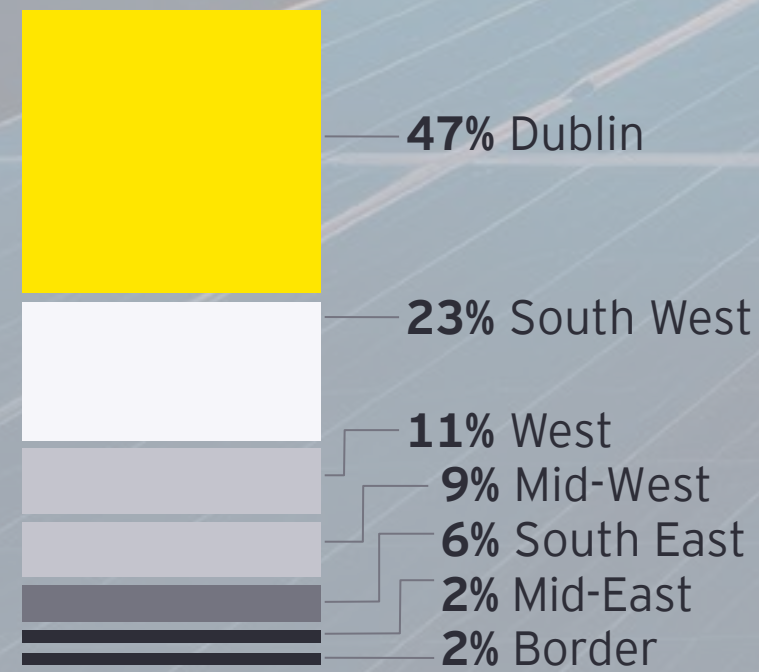
Executive summary

Foreign Direct Investment slips in 2023

Project count

100 *184 in 2022*

Regional spread

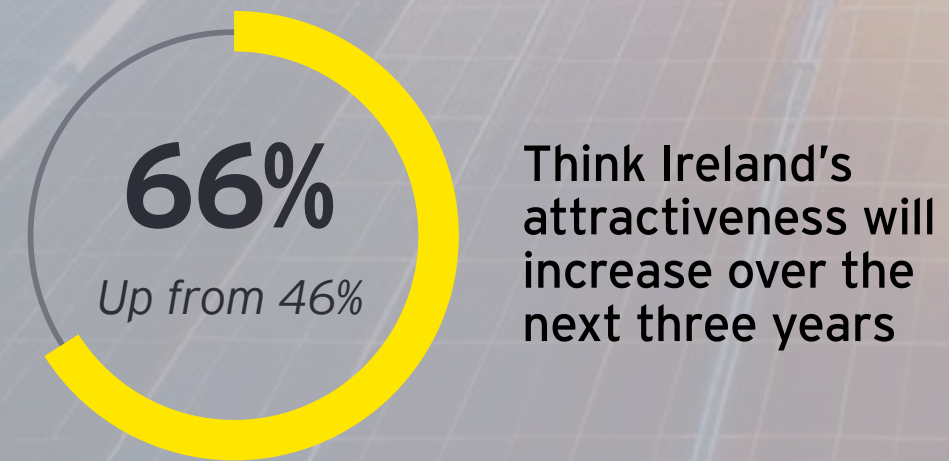


European ranking

11th *10th in 2022*

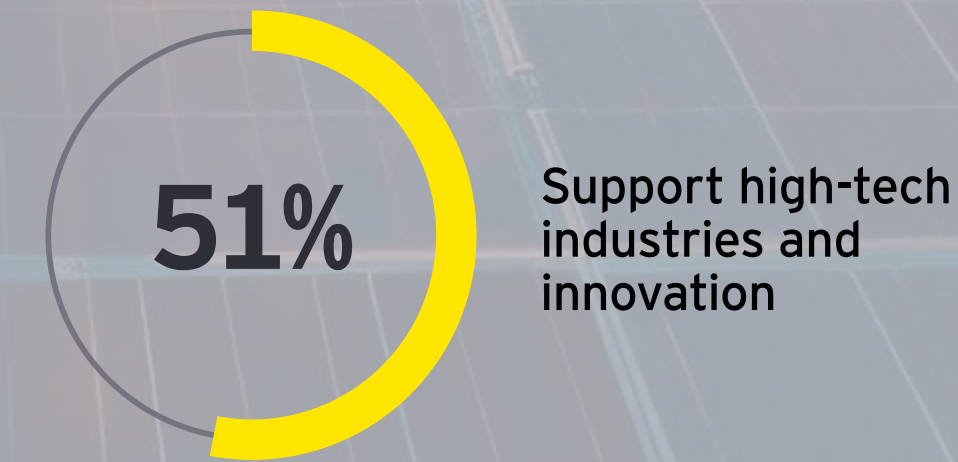
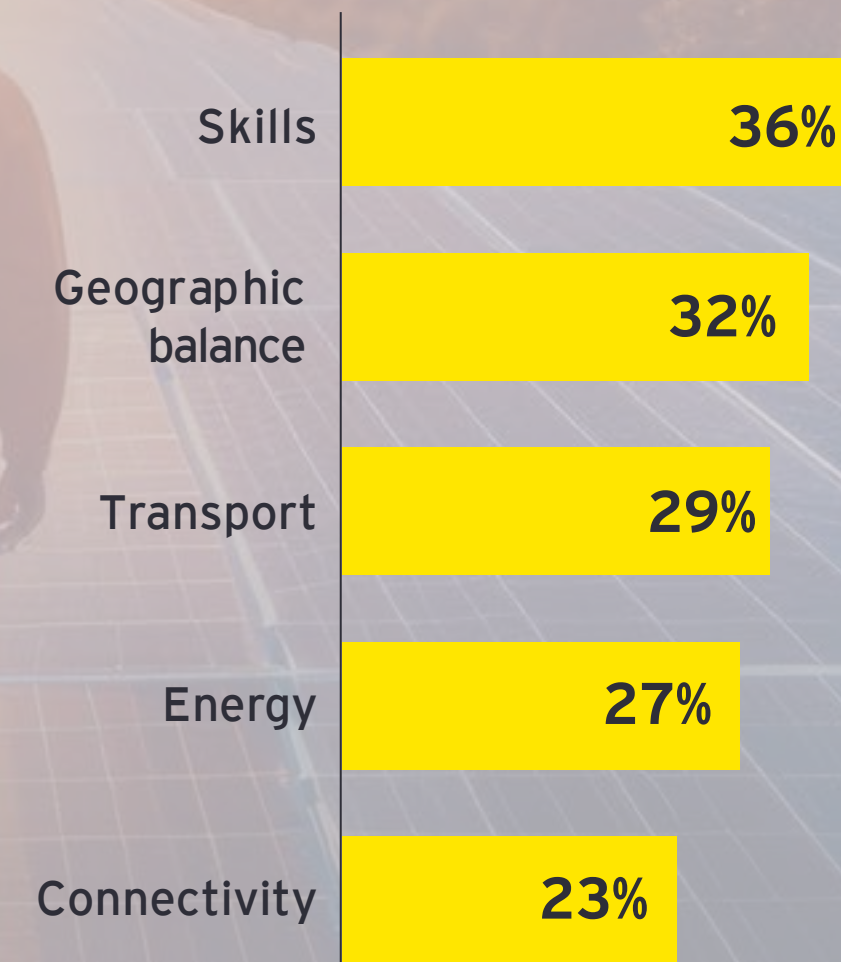
Brighter outlook for 2024 and beyond

Planning to establish or expand operations in Ireland



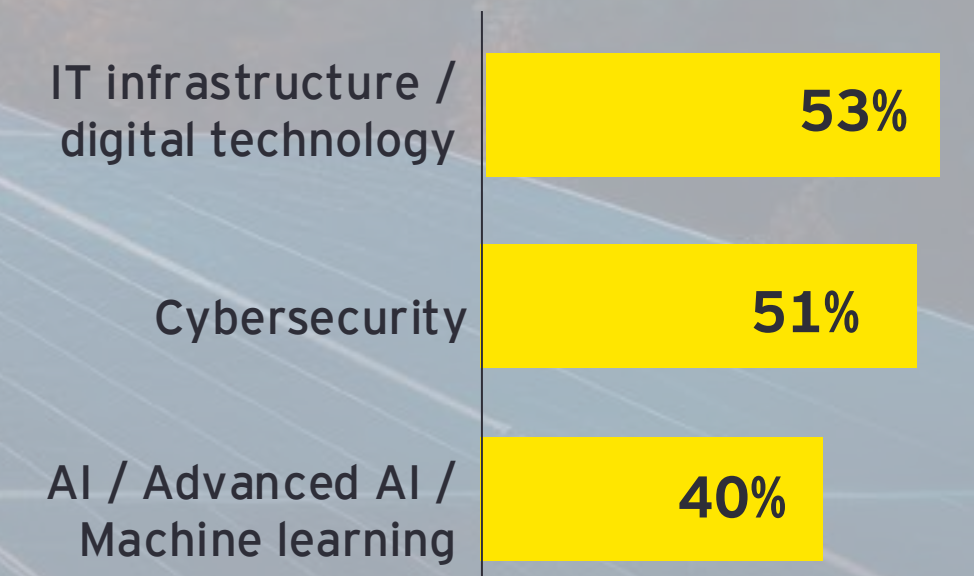
Dublin 7th
Place in European city league table

Policy areas for Ireland to focus on



Key agenda items for investors

Investment intentions for the next three years



Why Ireland for AI?

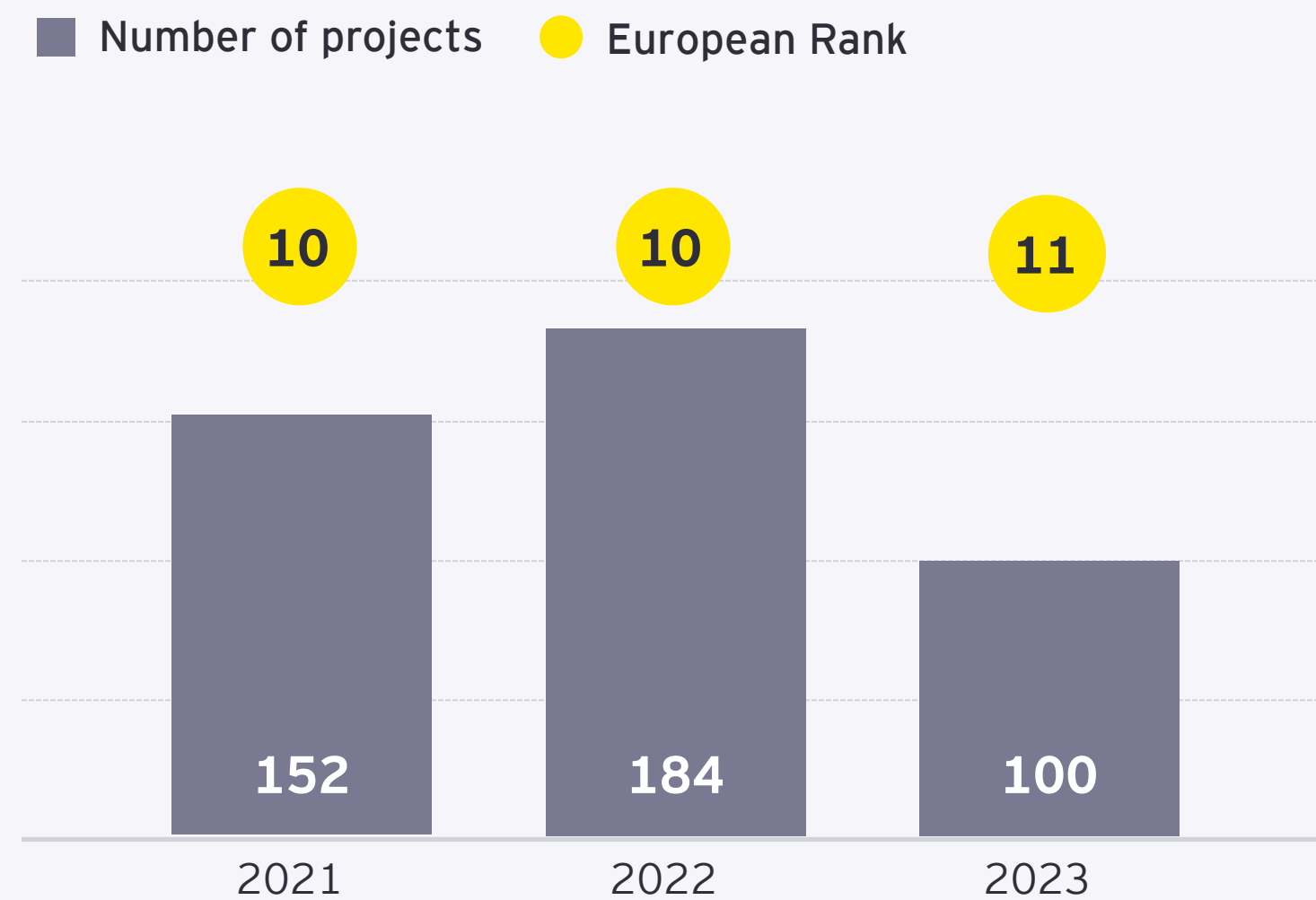


Looking back

02

Some slippage in 2023

Ireland's FDI performance between 2021 and 2023



Ireland attracted 100 FDI projects in 2023, placing it 11th on the league table of most desirable investment destinations in Europe. The announcements spanned all regions and a range of high value-added sectors. The country did comparatively well in Medical Devices, Finance, Software & IT Services, and Pharmaceuticals, ranking in the top 10. The overall project count was lower than the year before, however.

The slippage in 2023 comes after a strong performance in 2022. It reflects a softening in FDI at European level (-4%), including sharp drops in investment from the US, in Software & IT, and in Business & Professional Services.

Three in five projects into Ireland last year originated from the US compared with one in five across Europe, a ratio that has been broadly constant in recent times. Ireland also relies heavily on US investment in technology and global business services, two sectors that were the subject of significant global adjustment in 2023.

Investment in Pharmaceuticals and Medical Devices was down too amid continuing post-pandemic normalisation.

Ireland's rank in Europe

11th
Overall

4th Medical Devices

7th
Joint Finance

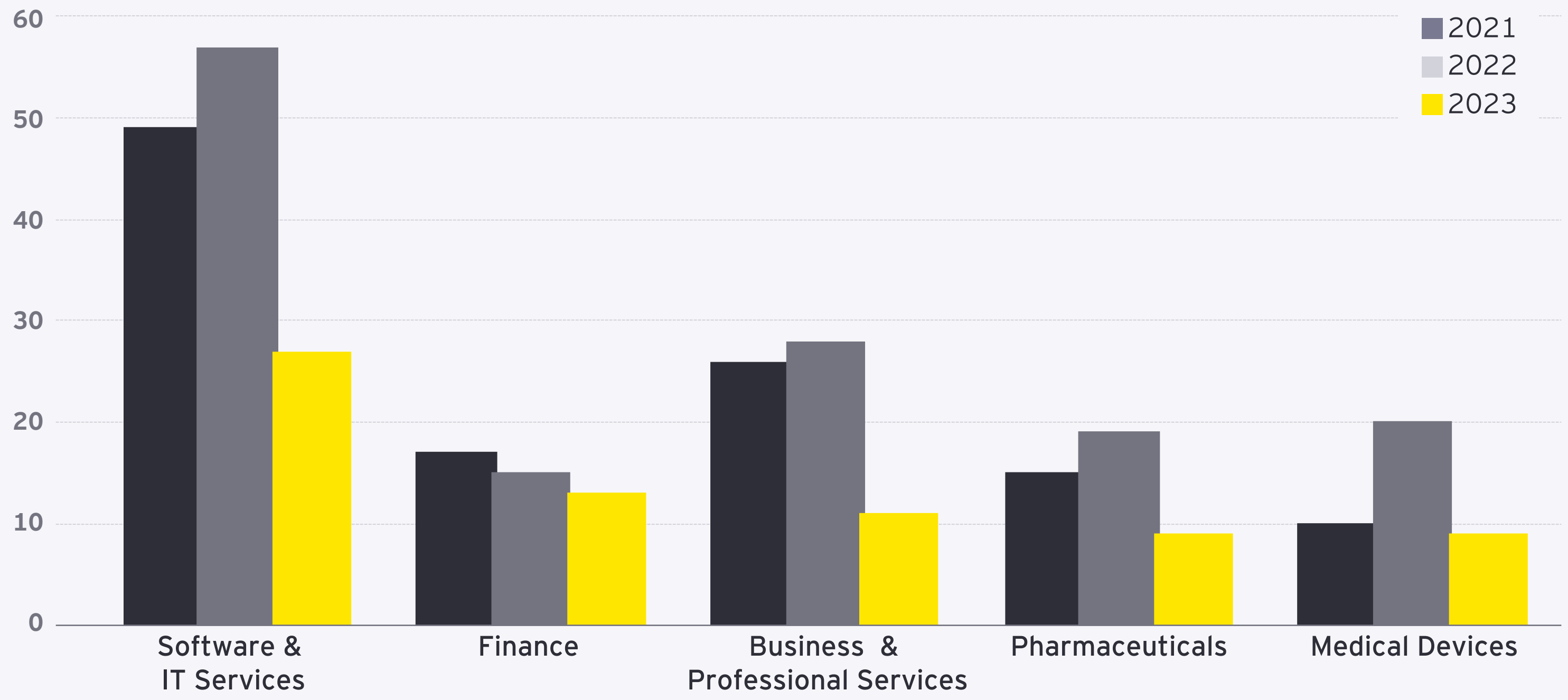
8th Software & IT Services

8th Pharmaceuticals

Generally, prospects for key multinational sectors in Ireland remain positive, and the large-scale investments undertaken here in the past few years will generate decades-long returns.

Indeed, winning transformational investments in research, development and innovation, digitalisation, sustainability, and talent development is an ongoing focus for the IDA.

FDI project count in key Irish sectors (2021-2023)



“

Although the decline in FDI in 2023 is disappointing, Ireland only slipped one place in the annual ranking of European countries. Looking to 2024 and beyond, the improvement in investor sentiment is very encouraging and it is good to see Dublin featuring among the top 10 cities in terms of future attractiveness.



Feargal De Freine
Assurance Partner and
Head of FDI, EY Ireland

Moving forward

03



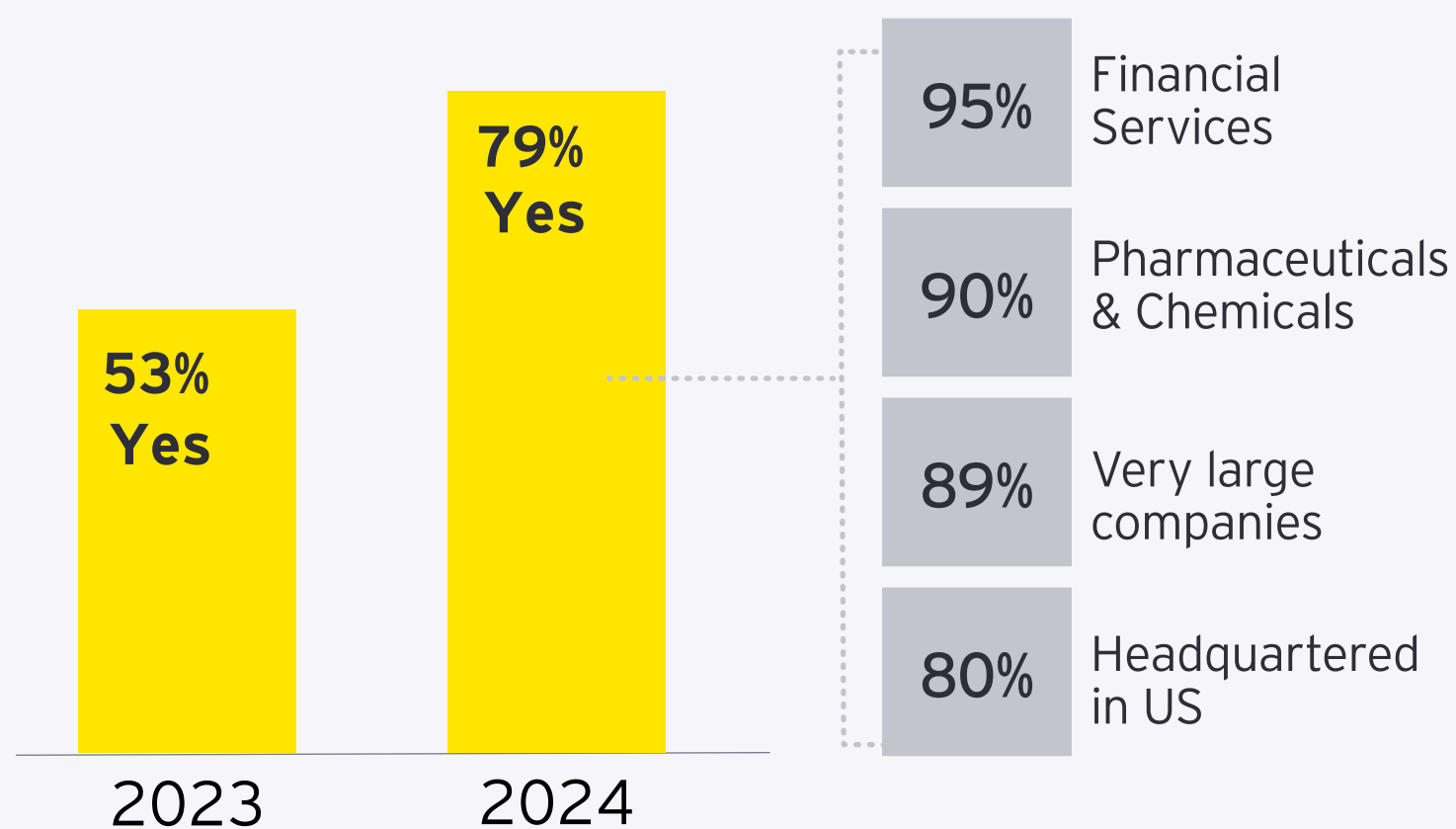
Brighter outlook for 2024 and beyond

If 2023 was a subpar year for FDI projects, the future is shaping up better. Our survey finds that 79% of international investors are planning to establish new, or expand existing, operations in Ireland over the next 12 months, up from 53% last year.

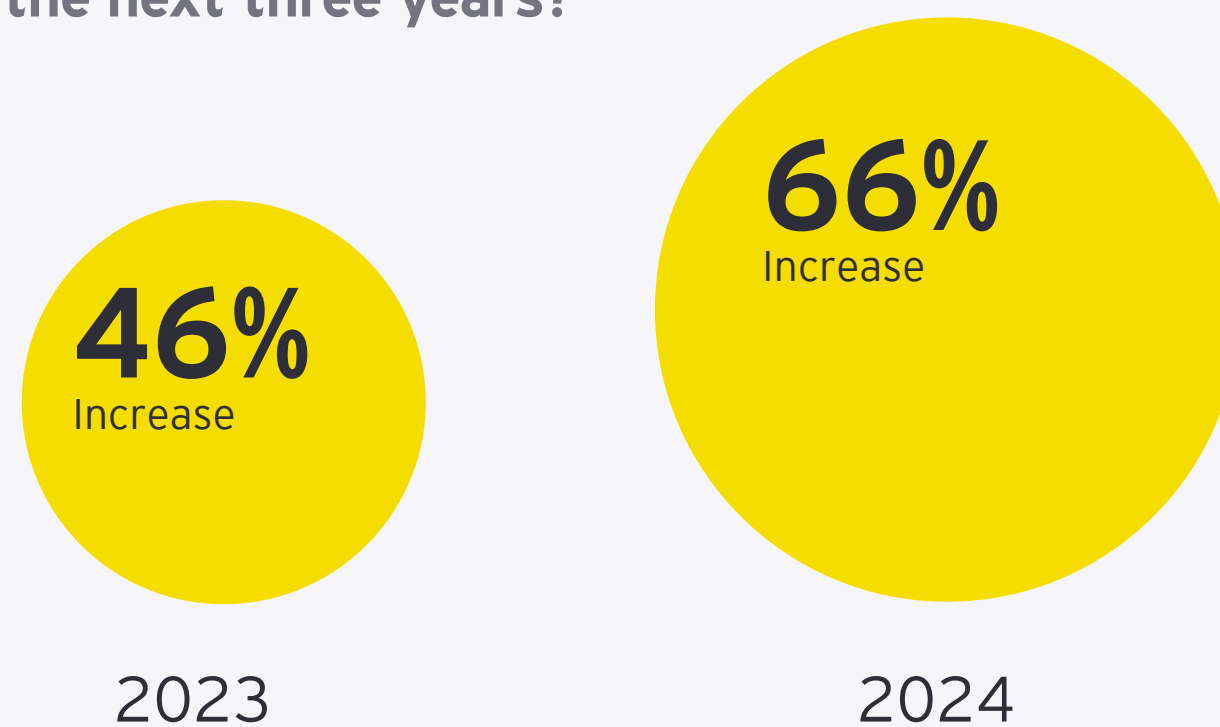
The results indicate that investment intentions are strongest in the Financial Services and Pharmaceuticals & Chemicals sectors, and that larger companies have more concrete plans to invest than smaller companies. Business support services (i.e. global business services and data centres) and sales and marketing offices are the most common activities for companies looking to grow their footprint in Ireland in the near term. Manufacturing facilities and headquarters are the least popular, with training centres, R&D and supply chain and logistics in between. The data also shows a fairly broad regional spread; some investors are considering more than one location.

When asked about Ireland's medium-term attractiveness, 66% of respondents said they think this will improve during the coming three years, compared to 46% a year ago. Optimism is particularly buoyant in the Pharmaceuticals & Chemicals and Global Business Services sectors, among big organisations and those already established here.

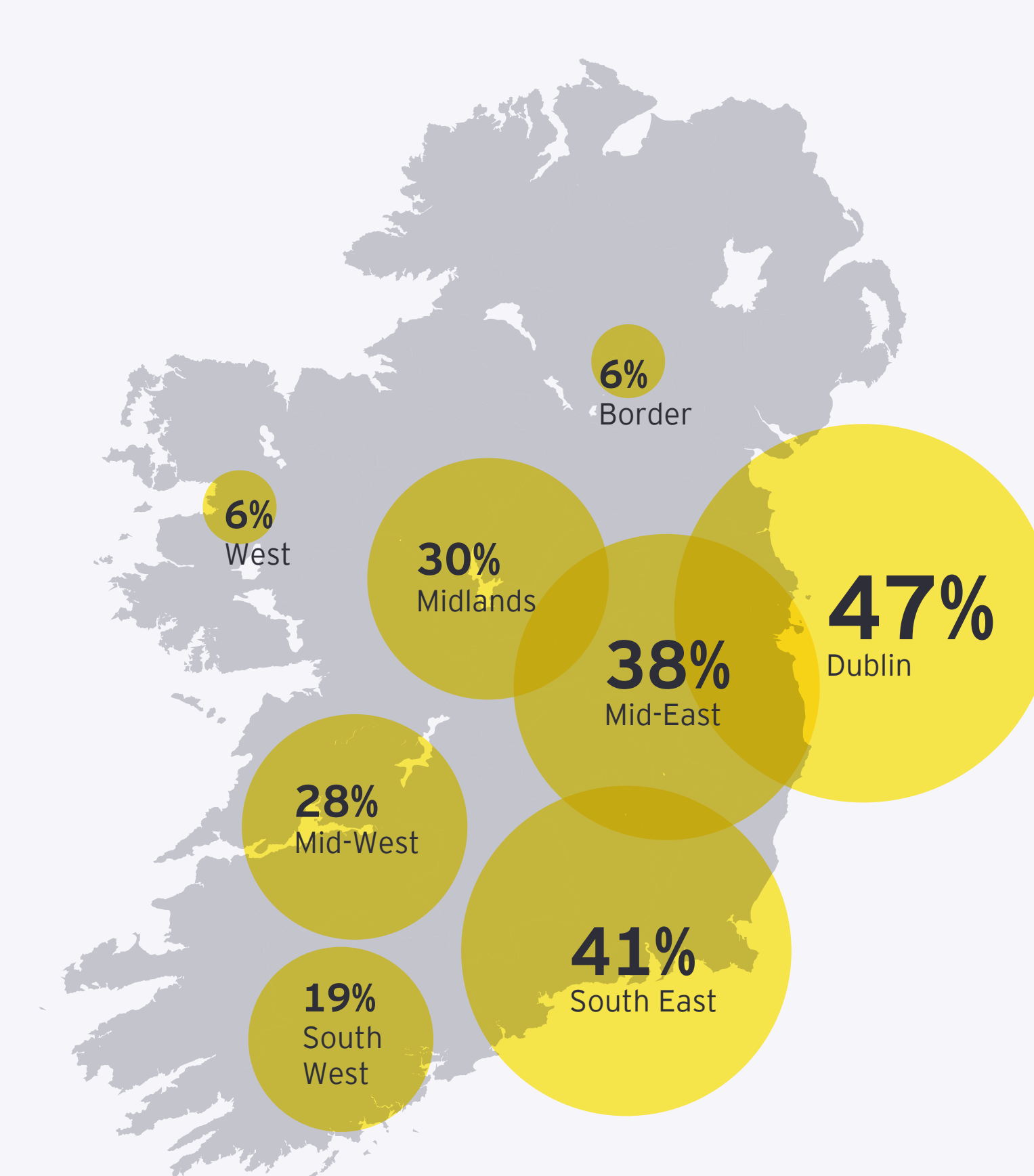
Does your company have plans to establish or expand operations in Ireland over the next year?



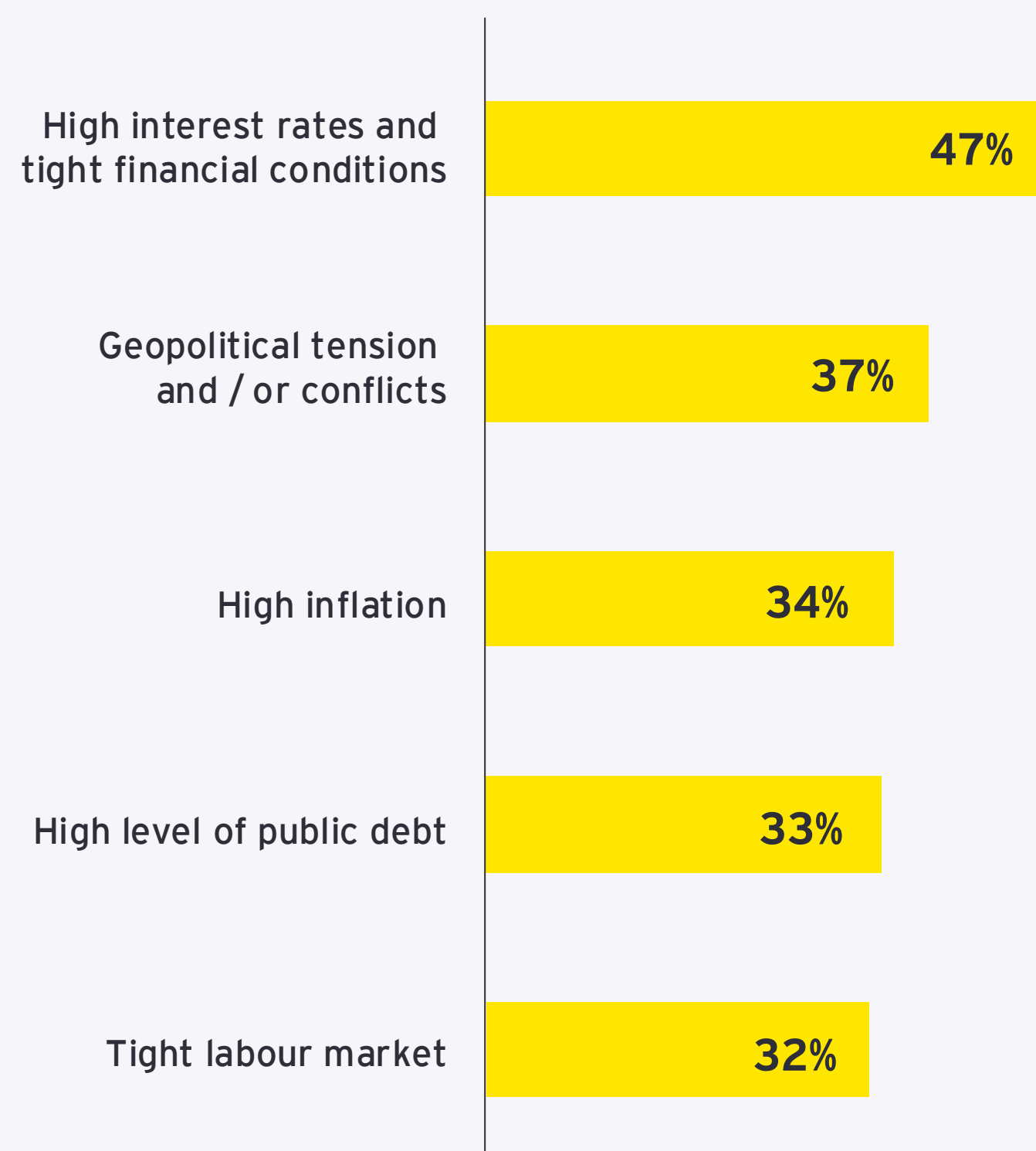
How do you expect Ireland's attractiveness to evolve over the next three years?



In which part of Ireland are you planning to establish or expand operations?



What are the main risks affecting Ireland's attractiveness over the next three years? (Rank up to 3)



Risks to Ireland's future attractiveness

According to our survey, tight financing conditions, geopolitical tensions, high inflation and public debt, and labour shortages are the top risks for Ireland.

As a member of the Euro area and a globally integrated country, Ireland is a 'taker' when it comes to monetary policy and has high exposure to external shocks. Faced with Brexit, COVID-19, war in Ukraine and conflict in the Middle East in recent years, the economy has proven remarkably resilient owing to good management by successive governments. After a period of elevation, inflation is tracking lower and with the European Central Bank starting to cut interest rates, EY is forecasting reasonably solid growth and job creation for the years ahead. However, international investors are concerned about labour constraints and the vulnerability of the Irish economy and public finances to increasing trade protectionism around the world.

Policy-wise, boosting the labour force, improving competitiveness and productivity, and fiscal sustainability all have a role to play in reassuring overseas companies that Ireland is a location where they can successfully implement their projects.

“

The turning interest rate cycle bodes well for an uplift in international investment. While geopolitical and electoral uncertainty is a headwind, businesses are undertaking digital and sustainable transformation programmes and exploring AI technology. To attract the drivers of next-generation economic growth, Ireland should leverage its traditional strengths, hone its new capabilities, and stay agile.



Dr. Loretta O'Sullivan

Partner and Chief Economist,
EY Ireland

Domestic priorities 04



Doubling down on home-grown policies

Ireland's domestic direction of travel is right but continued progress is needed

While many factors are external and outside of Ireland's control, there is much the country can do on its own. Decisions relating to healthcare, education, and infrastructure among others are within the national remit and affect people's daily lives. They also matter for businesses, with respondents to our survey saying that domestic policy should focus on improving the skills of the workforce, geographically rebalancing the economy, and investing in transport, energy, and connectivity to increase Ireland's FDI pulling power.

Skills

Labour is an area in which Ireland typically excels - some 90% of international investors think the country is very or somewhat attractive when it comes to the quality of education, access to talent and staff productivity - so it is noteworthy that skills are top of mind. It speaks to the fact that organisations' needs are evolving and will continue to do so as digitalisation

and sustainability become part of their DNA, highlighting the importance of a skills system that is flexible and responsive, and policies that promote training and lifelong learning.

Skills featured again when we asked what would enable businesses to invest more in R&D here; 59% said the availability of a suitably skilled workforce. The provision of appropriate Exchequer supports to the further and higher education sector is key to this. There is scope too for Research Ireland, the new body responsible for funding research and innovation excellence across all disciplines, to strengthen engagement with enterprise and to help grow Ireland's international offering and reputation as a great place to undertake R&D.

Regions

Achieving more balanced regional outcomes is a long-standing domestic policy objective and one that international investors support. Dublin accounted for 47% of the FDI projects announced in 2023, meaning more than half are going to the rest of the country. Businesses planning to establish new or expand existing operations in Ireland in the next 12 months are thinking along similar lines, with some eyeing up more than one region. This points to an ongoing appetite for investment in locations outside the capital.

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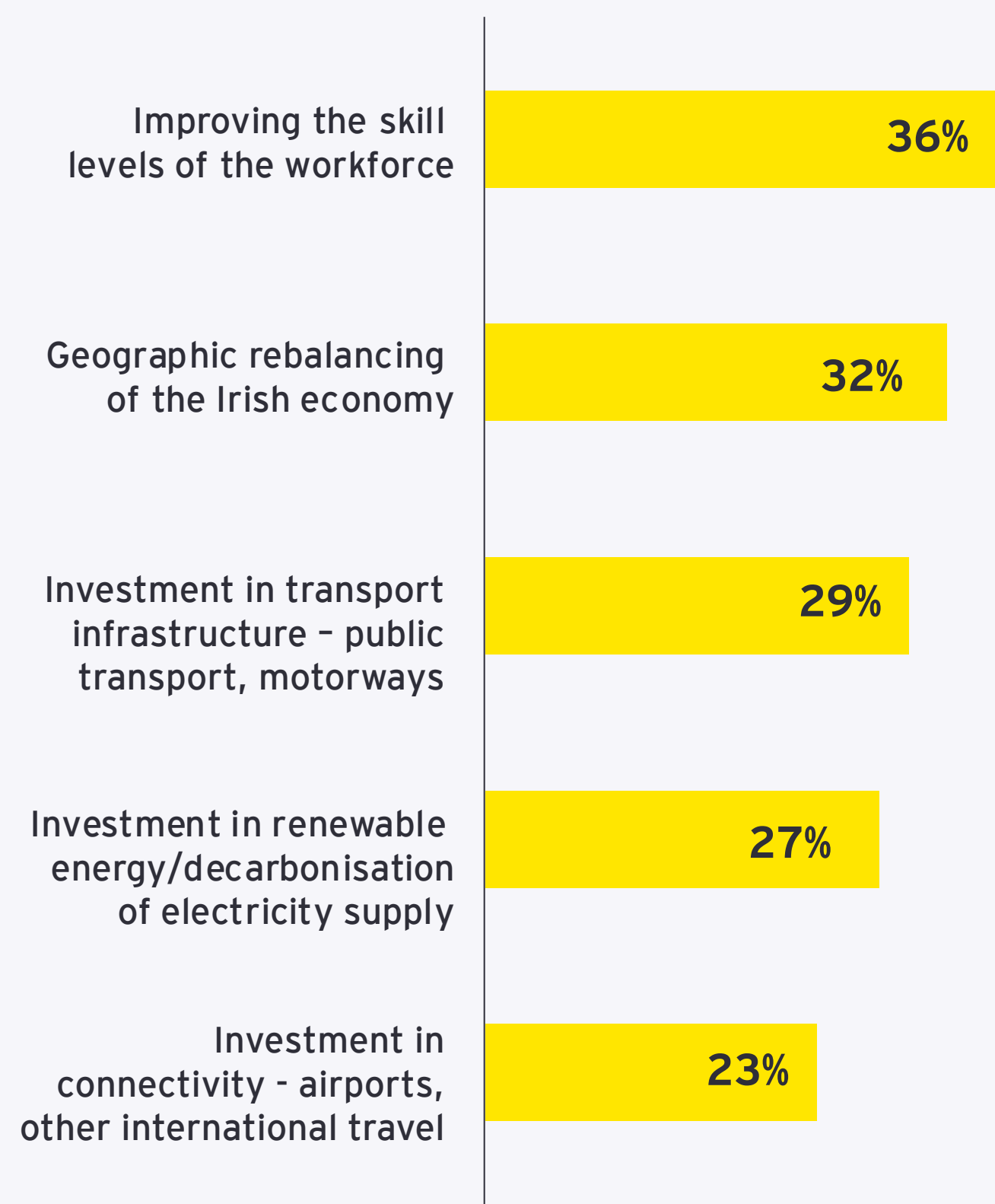
Building on our highly respected education system, Ireland should actively promote and support lifelong learning and training initiatives. Doing so will enable our people to upskill and reskill, boost productivity and allow the country to move even further up the FDI value chain.



Feargal De Freine

Assurance Partner and
Head of FDI, EY Ireland

Which of the following areas should be domestic policy priorities to improve Ireland's attractiveness in the future?



The IDA's regionalised strategies are valuable instruments in promoting diversification. These include sponsoring clusters to support transformation, spillovers and linkages, liaising with client companies and stakeholders to facilitate remote working, and a regional property programme. Universities are also beacons of attraction for regional FDI and Ireland has several top 500 institutions to its name. Building up the recently established and broadly spread Technological Universities will be important over the coming years, providing opportunities for research collaborations and employment paths for graduates with regional enterprises.

Infrastructure

Public investment in infrastructure creates an enabling environment, lowering business costs and increasing competitiveness. Hence, it is not surprising to see international investors referencing it in our study. Delivering on the National Development Plan and getting the Planning and Development Bill enacted will be crucial for Ireland in the period ahead. These will make the country as a whole and regional locations more attractive for FDI, position Ireland to seize the opportunities provided by the green and digital transitions, and improve the quality of life for everyone living and working here.

“

Effectively implementing Ireland's ambitious renewable energy plans and progressive decarbonisation policies can support the growth of the FDI base into the future. A fit-for-purpose planning system is also needed to minimise delays and facilitate the upgrading of our energy, water and other infrastructure at scale and speed.



Shane MacSweeney

Partner and EY Ireland Head of Strategy and Transactions; EY Global and EMEA Infrastructure Leader

Global competitiveness

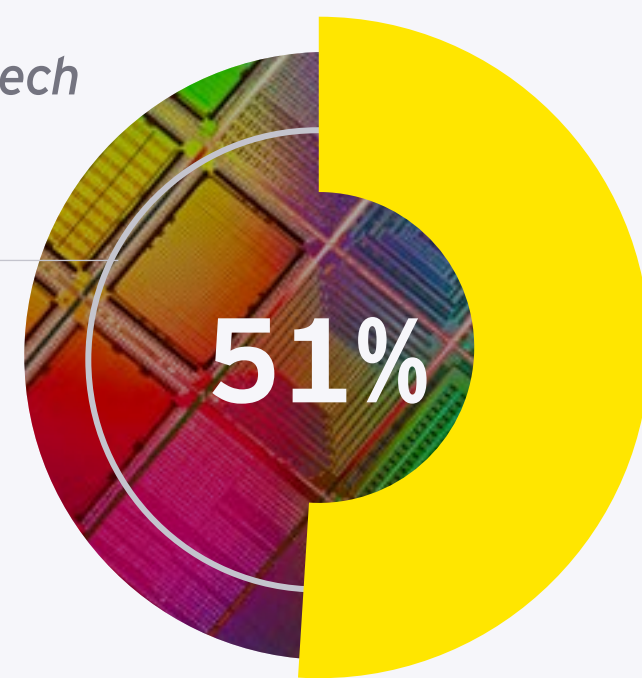
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Agility in the face of intense global competition

Ireland's tax regime and incentives offering must stay very competitive

Where should Ireland concentrate its efforts in order to maintain its competitive position in the global economy?

Support high-tech industries and innovation

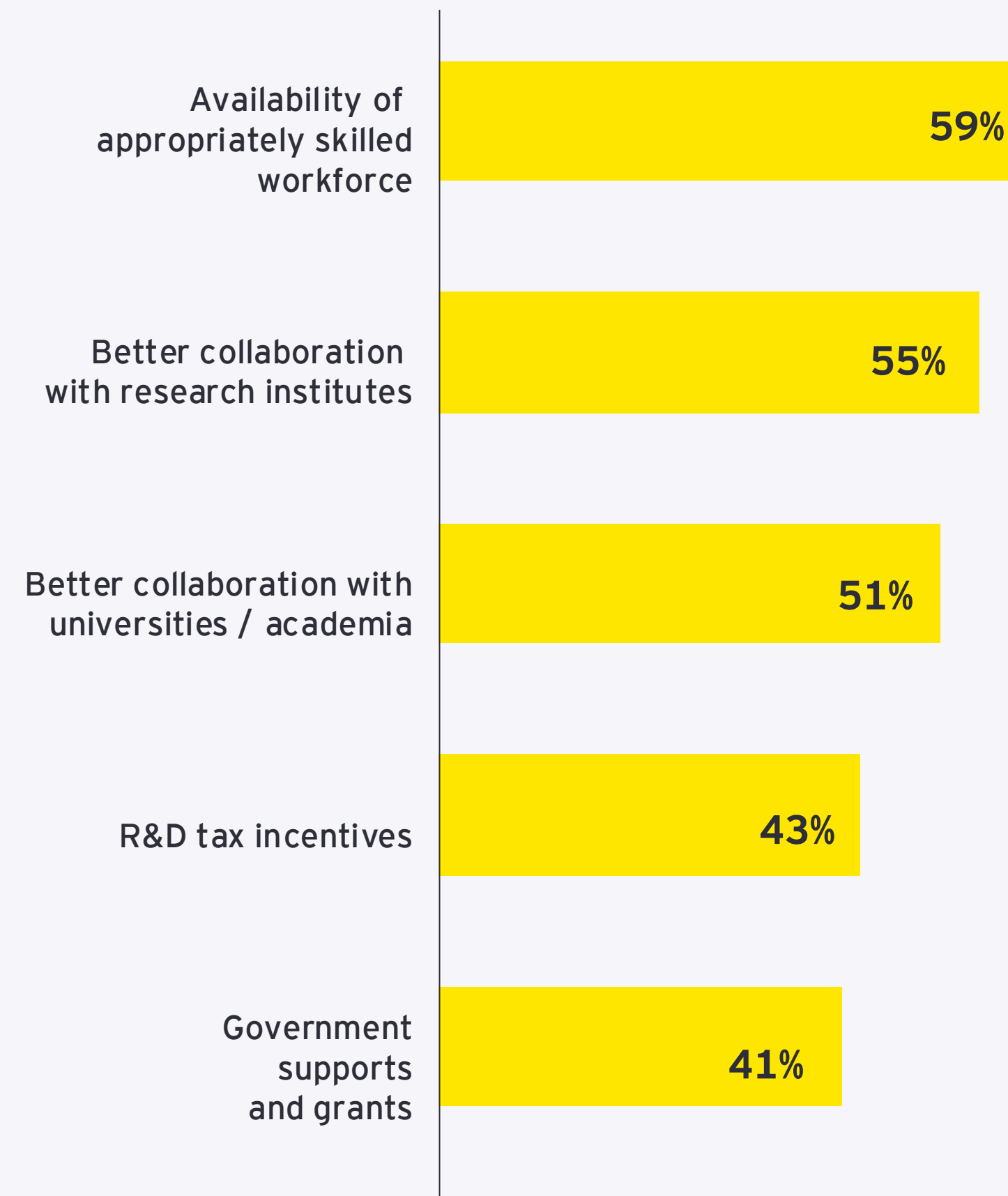


The global FDI landscape is changing and becoming more challenging. Deteriorating relations between large trading blocs, rising economic populism, the re-configuration of global supply chains as efficiency-security trade-offs are re-evaluated, and the re-emergence of domestic industrial policy all make for increasing complexity. Simultaneously, the OECD BEPS process is altering the international tax environment.

This backdrop prompted us to seek investors' views on where Ireland should concentrate its efforts to maintain its competitiveness on the world stage. With 51% recommending supporting high-tech industries and innovation, we subsequently asked what would enable businesses to invest more in R&D here. While an appropriately skilled workforce and better collaboration with research institutes and universities take precedence, R&D tax incentives and government supports and grants feature too.



What would enable you to invest more in R&D in Ireland?



Tax-related considerations for Ireland

Research, development and innovation form the largest part of the IDA's grant funding programme and Ireland's R&D tax credit has undergone substantial improvement since its introduction in 2004. The latest modification to the credit - an increase from 25% to 30% - and the quick pace of its implementation are very welcome. Yet, one in four respondents to our survey said Ireland performs worse than other regions when it comes to the availability of tax incentives. This gives pause for thought; it shows how competition for FDI has intensified and suggests a need for further enhancement.

Some finetuning of the country's corporation tax regime may be in order as well. This follows from the implementation of Pillar Two of the OECD agreement at the start of 2024. With more than 145 jurisdictions including Ireland committing to levying a minimum 15% tax on companies with over €750 million in global turnover, the international playing field for the rate of corporation tax has been levelled somewhat. Nonetheless, there are things that Ireland could do to reassert its historic attractiveness in this area, such as the introduction of a dividend exemption, a branch exemption, and a more competitive interest deduction regime.

Consideration might also be given to the tax treatment of senior executives' compensation packages, the rationale being that these draw top-tier talent and act as national champions, helping to win intra-multinational company projects for Ireland.

“

Major strides have been made to improve Ireland's R&D tax credit and it is commendable how quickly recent enhancements to this have been implemented. But given the extent to which other jurisdictions are upping the ante, our ability to successfully compete for R&D into the future means our tax offering and innovation incentives will need to be ultra-competitive.



Ian Collins

Tax Partner and Head of Innovation Incentives, EY Ireland

“

Stability, transparency, and predictability are extremely important in a world that is rapidly changing. Getting the tax, legal and regulatory environment right will demonstrate to overseas companies that Ireland is a location where they can invest with confidence and create long-term value.



Graham Reid

Partner and Head of Tax and Law,
EY Ireland

Global shift towards subsidies

A relatively new, but significant, feature of the global FDI landscape is the rise in policy interventions in support of geopolitical and strategic industry-related objectives. The Inflation Reduction Act and the CHIPS and Science Act in the US and the Net-Zero Industrial Act in Europe are examples.

Countries' responses to this change in the environment are continuing to evolve. In this context, it is important for Ireland to evaluate how it can most effectively compete in terms of its grant, incentives and tax credit regimes.

At the same time, advocating for rules-based world trade and investment that promotes openness, competitiveness, and multilateralism should remain a focus for Irish policymakers in European and international fora, as these are key for global economic prosperity.





Investment intentions

06

Purposefully seizing emerging opportunities

As a digital front-runner Ireland should capitalise on its AI credentials

Small and open, Ireland is very sensitive to the outlook for the world economy. The IMF is forecasting steady global growth for 2024 and 2025 and now that inflation is moving towards the 2% target, the European Central Bank has started to cut interest rates, with the US Federal Reserve and Bank of England expected to follow suit in the coming months.

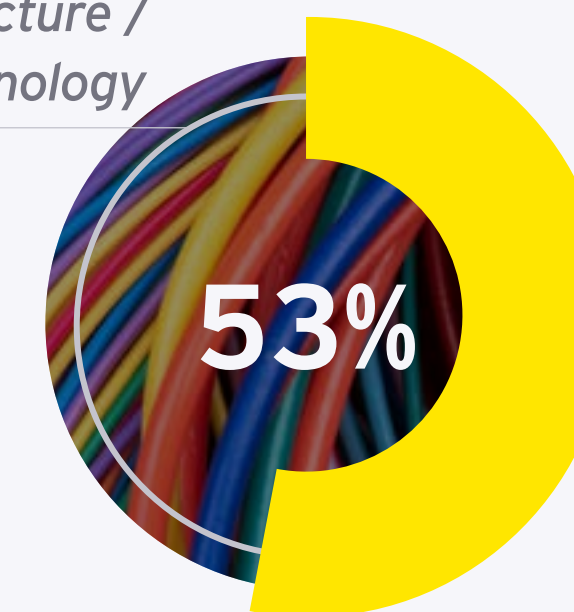
As the cost of borrowing is a key driver of business spending, the turning interest rate cycle bodes well for international investment. Uncertainty, be it geopolitical or electoral, is a concern however and may interfere with investment plans. That said, organisations are keen to harness the transformative power of new technologies, with respondents to our survey prioritising investment in digital infrastructure, cybersecurity, and artificial intelligence.

Ireland's reputation as a safe and secure location underpinned by transparent and responsive public institutions has always been of consequence in attracting FDI. It is likely to become more so amid increasing fragmentation elsewhere. It is telling that just 15% of investors consider political instability to be a risk for the country over the next three years, compared to 33% for Europe as a whole.

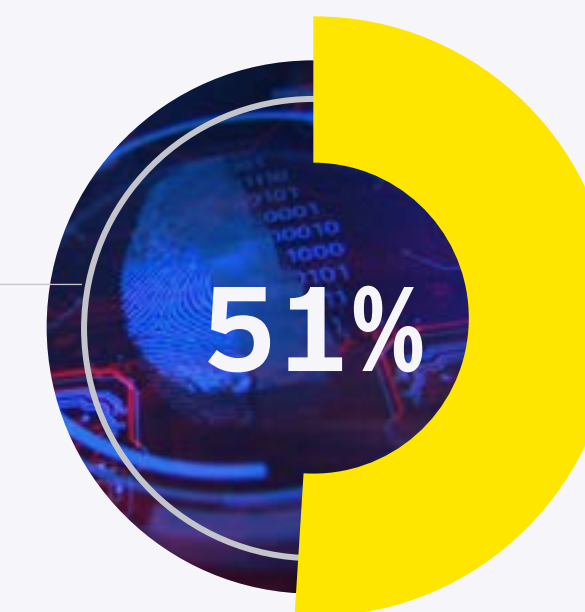
Ireland is also regarded favourably when it comes to technology and is seen as having very good AI credentials, including opportunities to invest in start-ups, a supportive policy framework, a strong ecosystem, and an AI-ready workforce.

Over the next three years, in which of these areas do you intend to make investments?

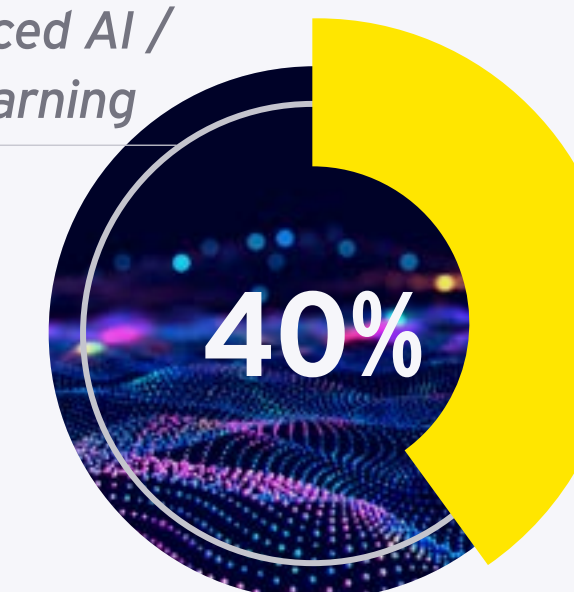
*IT infrastructure /
digital technology*



Cybersecurity



*AI / Advanced AI /
Machine learning*



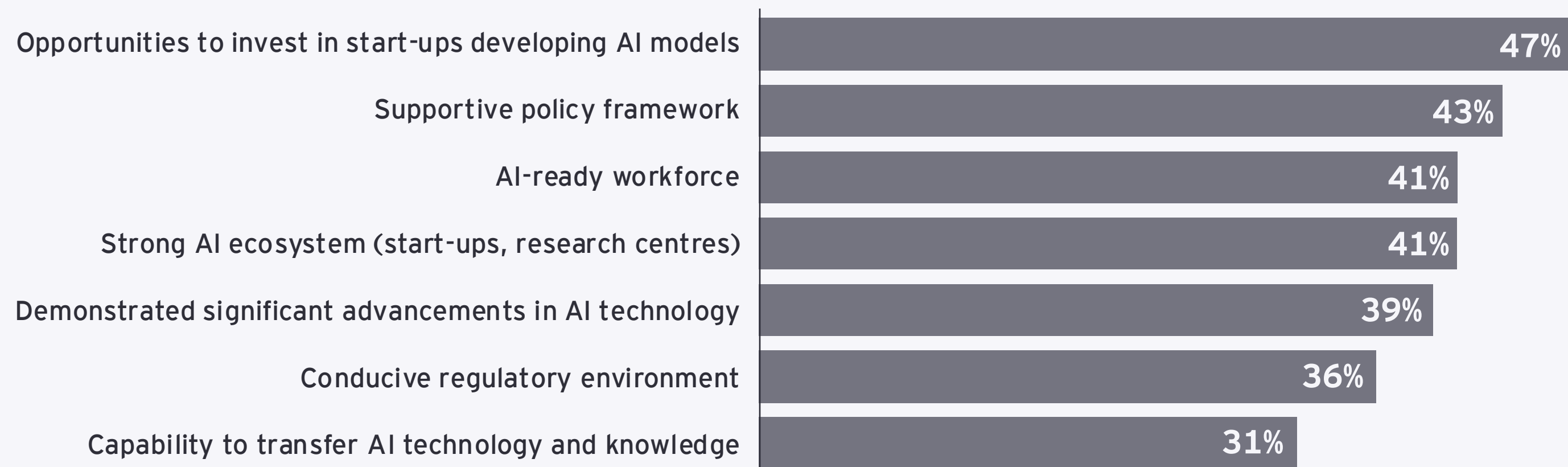
The promise of AI

From data analysis to operational efficiency, automation of routine tasks to enhanced customer service through personalisation, generative AI has multiple applications and is set to revolutionise business models in many sectors. For the broader economy, there is scope for AI to unlock a new era of innovation, albeit the overall impact on productivity will depend, inter alia, on how widely it is diffused and the extent to which it enhances as opposed to replaces labour.

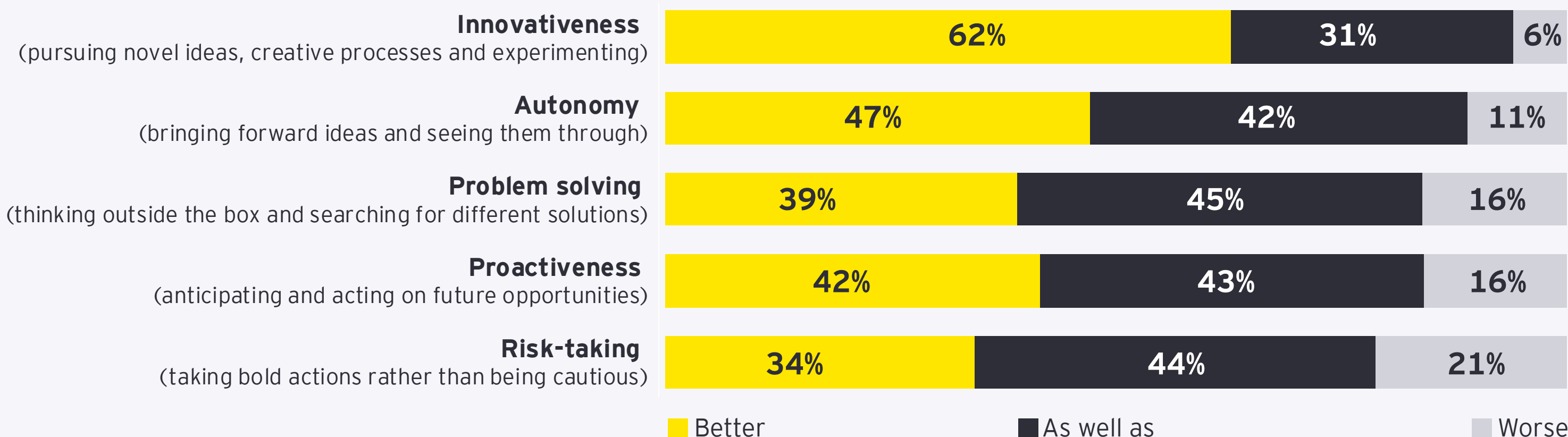
Encouragingly, the vast majority of in situ multinational companies rate their Irish workforce better or as well as other countries in areas such as innovativeness, autonomy, problem solving and proactiveness. These attributes are indicative of an entrepreneurial mindset and human intelligence. Continuing to cultivate them will enable AI to augment labour, adding to Ireland’s existing talent proposition.

As highlighted by the National Competitiveness and Productivity Council, the AI landscape is rapidly evolving and early adopters stand to gain significant economic, strategic, and competitive advantages. Our research finds that AI would help 38% of international investors expand their mandate here, reinforcing the point that huge potential exists which Ireland is well placed to capitalise on.

Considering the advancements in AI, particularly the emergence of generative AI, which of the following factors contribute to making Ireland an attractive investment destination?



Compared to other countries, how does your workforce in Ireland perform with regard to the following entrepreneurial-related factors?





The adoption of AI must, of course, be done in a responsible way. In this context, the guardrails provided by the EU's Artificial Intelligence Act are welcome. Along with the safe use of AI, Brussels has pioneered new regulatory initiatives covering carbon disclosure, supply chain due diligence and data protection in recent times. But, in so far as it stifles experimentation and compliance is costly, this expanding framework is a concern for FDI into Europe. With overregulation emerging as the top risk to the region's attractiveness in **EY's Europe-wide survey**, the Irish authorities should be mindful of striking the right balance between protection and innovation as they work to implement the AI Act at national level.

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Ireland is a hub for organisations that specialise in technology, cyber, digital and AI, with our ability to communicate, collaborate and be creative differentiating us from other locations for AI. Strong leadership and focus at the highest levels of policymaking is also essential for the realisation of Ireland's AI strategy.



Eoin O'Reilly

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#FDI #Investment #ForeignInvestment

Methodology

EY's Attractiveness Survey analyses Ireland's appeal as an investment destination using a two-step approach:

- ▶ Our evaluation of FDI projects is based on the EY European Investment Monitor (EIM). This EY proprietary database enables us to track projects announced in 2023 across 44 countries including Ireland.
- ▶ We explore investor sentiment via an online survey of international decision-makers. Field research for this was conducted by FT Longitude in February and March 2024 based on a representative panel of 150 respondents.

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