

Speech by Liam Connellan, Director General, Confederation of Irish Industry at CII North West Regional Meeting at the Sligo Park Hotel at 1 p.m. on Thursday, 15 March 1984.

---

THE IMPORTANCE OF THE CONTRIBUTION OF FOREIGN INVESTMENT TO IRISH ECONOMIC DEVELOPMENT

The policy of successive Irish Governments to encourage the setting up of new overseas firms in this country has been remarkably successful by any standards. A total of 800 foreign owned manufacturing firms now operate in Ireland and account directly for about 80,000 or 40% of total manufacturing employment. The success of the IDA promotional strategy is the envy of many countries and has resulted in the establishment of similar organisations in other countries.

The additional output from these new firms has been the primary reason why total Irish manufacturing output has expanded faster than that in any other EEC country over the last twenty years. These new firms have brought with them access to the most modern technology, and access to foreign markets which established firms would have had great difficulty in penetrating. The decision of successive Governments to encourage enthusiastically the introduction of these firms was one which demonstrated a maturity and willingness to adapt to change. It was also a recognition that Ireland's interests were served best by being in the forefront of technological development and of the most rapidly growing industrial sectors. Foreign investment provided a means whereby a breakthrough could be made in modernising our industrial sector, while simultaneously dismantling high tariff protection from established traditional industries.

The process of introducing further new overseas investment and technology will remain a desirable and necessary part of our industrial strategy over the coming decades.

Most of these new overseas firms are managed and operated successfully by Irish people. These firms now account for over half total industrial recruitment of graduates and other third level award holders. These young, highly qualified, professional staff can understand and adapt new technologies. More importantly, they have the capacity to develop them further. This evolutionary process enables subsidiary companies in Ireland to develop a dynamism "from within" which complements the continuing flow of new ideas from their parent companies abroad. These companies also purchase many hundreds of millions of pounds of components and services from local Irish manufacturing firms.

The recent Telesis Report stressed the importance of stimulating the further development of business functions such as product and process development, and marketing, based on highly skilled personnel.

Some commentators claim that not enough new technology firms are setting up in Ireland. They seem to ignore the impact of the international recession and the intense international competition for new investment projects. There are complaints that the firms which come to Ireland are not big enough or that the skill levels required are not high enough. Again these comments ignore the degree of international competition for projects and the fact that the process of skill development in companies is a gradual one. The increase in skill required is demonstrated by the fact that recruitment of new graduates by Irish industry increased by over 20% in 1982, although total manufacturing employment declined by 11,000.

During recent weeks, concern has been expressed about the repatriation of profits to other countries by foreign firms operating in Ireland. I would like to make a number of points on this issue. Foreign owned manufacturers produce about £6,000 million worth in their Irish plants. The determination of profits on these sales depends on the charges made by the parent company for research and development, and marketing expenses, carried out abroad by the parent company itself. For example, a 5% annual charge would amount to £300 million. It is a vital condition for companies deciding to invest in any country, that they be free to transfer profits arising from these investments elsewhere, if they so desire. That was how the investment funds flowed to Ireland in the first instance. The challenge is to create conditions which make Ireland the most attractive location for the next project. The same considerations are as relevant to Irish owned firms as to foreign investors. The profitability of the average firm quoted on the Irish Stock Exchange yielded a return on investment of only 7% last year, well below the cost of borrowed funds. There is little point in complaining if additional investment projects are not undertaken. We must try harder to create favourable conditions.

These are the realities of survival and growth in a small open economy which competes freely for investment with the other nations of the industrialised world.

Protectionism does not offer a feasible alternative. It is a two edged weapon, and Ireland now exports £7,000 million of products which compete successfully in the process of international specialisation, as each country seeks to find the market niches in which it can perform best.

We must have confidence in our ability to build on the achievements of recent years. Let us concentrate our efforts on measures which will increase the output and profitability of existing firms, whether Irish owned or foreign owned, so that they will find it more attractive to expand in Ireland than elsewhere.

END