A New Economic Model

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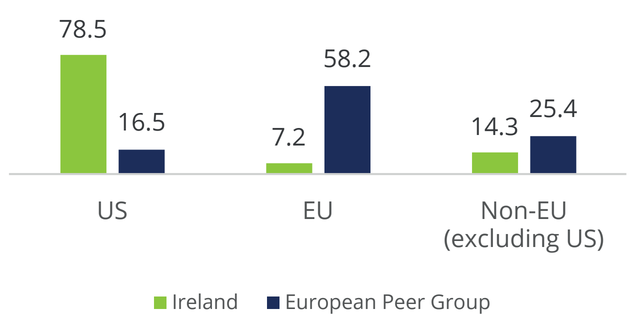
What Does the New Economic Model mean for – Foreign Direct Investment?

De-Risking Foreign Direct Investment: A Smart FDI Model

The development of the NEM started with the ICTU bi-annual delegate conference in 2023. It was intended to focus on the domestic sectors in the Republic and Northern Ireland. However, since then there has been unforeseen instability and uncertainty, arising from US trade and taxation policy, which puts the Republic's foreign direct investment (FDI) model at risk. This note will be developed in the future. However, there are key starting points to any progressive analysis of FDI.

Foreign Multi - National Investment by Country of Origin: 2022 (% of Total Foreign Investment)



We are all familiar with Ireland's over-reliance on a handful of US multinationals for corporate tax revenue. What is less appreciated – and more difficult to resolve – is the Irish economy's over-reliance on US multi-nationals for investment. 80 percent of foreign investment at enterprise level comes from the US. Among our EU peer group, the US makes up less than 20 percent. Nearly 60 percent of investment into other EU small open economies comes from other EU countries. Going forward we need to spread our international economic relationships to a number of countries (investment, trade, supply chains) and reduce our reliance on US capital and markets - much in the same way we, over time, reduced our reliance on UK markets and capital. This is all the more important as we could be entering into a lengthy period of US policy uncertainty and caprice. This is what we mean by de-risking our relationship with US capital.

While seeking to attract foreign investment from a range of countries, including the US, we need to attract companies that are committed to the principles of the New Economic Model's *'Good Companies'*: decarbonisation, collective bargaining, work-life balance, re-investment and in-work training.

And while we seek to attract 'Good Company' investment, we must also seek to deepen that investment by increasing domestic participation in the supply chains of multi-nationals here. Only 10 percent of materials and services sourced by foreign multi-nationals in the Republic are domestically sourced.

We must pursue strategies that both broaden and deepen foreign direct investment. In this respect we are advantaged by the experience of our public agencies; in particular, IDA Ireland. We can also build on the skill-base of our workforce which is one of the highest in the EU.

All this emphasises the need to pursue the related goals in the New Economic Model: repairing our infrastructural deficits, and privileging education, R&D and new skills acquisition.

But it also shows the need for a strong domestic economy to generate more investment, increase exports in high-value added sectors and promote job quality. In other small open European economies, 77 percent of all business investment is generated domestically; in Ireland, that figure is 35 percent. This shows the risk that Ireland faces in a de-globalising world.

We are often told that small open economies are necessarily reliant on foreign investment. Yes, but there's a small reliance and a big reliance. Ireland is the latter.

- Total multi-national investment in Ireland made up 8 percent of national income (GNI*)
- Total multi-national investment in other EU small open economies made up 2.4 percent of GDP

The key point is that being a small open economy does not necessarily require a high level of multi-national investment to prosper, just smart investment.

The New Economic Model offers a strategic framework within which we can achieve these ambitious goals, including a smart FDI model. This will be developed in the following months.