ACT II FOR IRELAND

EFFECTS OF A BOOMING ECONOMY LEAD TO A SHIFT IN FOCUS

By Rebecca Patrick

Until the early 1990s, much of what people knew about Ireland centered on its lush landscapes and jovial St. Patrick's Day celebrations. At that time, a new government came into power and led such a resurgence in the economy that Ireland became known worldwide as the "Celtic Tiger" for its rapid growth.

What was one of Europe's poorer countries now was one of its richest and most attractive for foreign business. Among those lured: leading Indiana companies Eli Lilly and the Cook Group, both of which set up operations there.

Despite the economic boom leveling off a few years ago, the nation has held a steady place atop the list of desirable destinations for several industries; most notably, the technology, biotech and pharmaceutical sectors. With other countries taking note of Ireland's efforts, the question is: What can Ireland do to maintain its status?

Irishman David White, an international tax consultant with Eli Lilly for the last nine years who relocated to the company's Indianapolis headquarters in January, witnessed Ireland's rise and offers *BizVoice®* some background on his homeland and discusses how the government is again repositioning itself to foreign business.

BizVoice®: Where are the centers of business found in Ireland?

David White: "First of all, Ireland is actually split into two; the larger Republic, consisting of 26 counties with a population of four million (which was home to the economic revitalization) and Northern Ireland, the six counties with a million people that is part of Great Britain.

"Speaking then on the Republic, there are five main hubs – one in particular – in which industries are located. The main location is Dublin, in which approximately two of the four million people live within 50 miles of the city. All of the major industries would be there. The other locations for industry would be Cork, Limerick, Galway and Waterford."

BV: How dire was Ireland's economic situation before the turnaround? What actions led to the dramatic improvements?

White: "In the 1980s and to when it peaked in 1991, Ireland had an unemployment rate of 19%. The main reason for that was Ireland had a very high corporation tax rate, which you call the income tax here, of over 40% (except for the manufacturing sector, which was at 10% since 1980). The government was deemed to be overspending and not attracting enough foreign investment through a competitive market. That changed through the 1990s, by cutting the amount of public spending through decreasing government size and agencies, having moderate wage increases and promoting competition.

"Then, the government (Fianna Fail) looked at the rest of the industries (outside of manufacturing) and lowered the rate for all sectors down to 12.5%. All of this has driven the unemployment rate from 19% in 1991 to approximately 4.5% today. Now, since the mid-90s, we have had the same government, which has recently been re-elected again. So it's been a very stable government that has been able to deliver a consistent message – that has been very important."

BV: So this was basically driven by a new government that wanted to bring Ireland into the global marketplace?

White: "Yes, the government recognized that a high corporation tax and very little in the way of subsidies and grants did not generate a lot of employment and activity in the country. So we looked at the whole model of how we should try to position ourselves. That's when we started with our physical workforce as our biggest selling point."

BV: What is it about Ireland's workforce that makes it so appealing to American companies?

White: "Simply, Ireland has one of the highest educated workforces in Europe. I think it's 37%, at this time, of the population that will go on to third level education – what you would call college – to get a degree of some sort. College education is free in Ireland, so it does encourage a lot of people to do this, which does then drive a more highly educated workforce.

Leading Economic Standings for Ireland

- The 2007 Index of Economic Freedom, compiled by *The Wall Street Journal* and The Heritage Foundation, ranked Ireland seventh out of 157 countries and stated "Ireland has one of the world's most pro-business environments, especially for foreign businesses and foreign investment" and that "Ireland's policy framework promotes an open and competitive business environment."
- The "IMD World Competitiveness Yearbook 2007" ranks Ireland's education system fifth out of 60 countries surveyed for meeting the needs of a competitive economy.
- Between 1999 and 2004, GDP growth rates in Ireland grew faster than any of the OECD (Organization for Economic Cooperation and Development) member countries, which include most of Europe, the U.S., Canada and Japan.
- According to the Economist Intelligence Unit Business Environment Rankings, Ireland will remain one of the most attractive business locations in the world throughout the 2007-2011 period. Ireland ranks 10th out of 82 countries.
- Ireland's unemployment rate of 4.4% is the fifth lowest within the European Union's 25 countries (through 2006).
- Current official forecasts are for 5.4% GDP growth in 2007, well above the expected European Union zone average of 2.2%.

Resource: Irish Development Agency at www.idaireland.com

"The Irish attitude should also be deemed very beneficial. We have the view that things can be done; it's a very positive attitude. We are a people who are very pro-business and very pro enjoying life. And obviously, we are English-speaking and besides the U.K., the rest of Europe would not be."

BV: How would you characterize the business and economic activity right now in Ireland?

White: "It's going very well. A lot of multi-nationals are basing themselves there and have been over the last 30 years."

BV: Ireland experienced such a surge in economic prosperity. What have been the implications of that?

David White says a stable government and highly educated workforce have helped Ireland in attracting business investment.

White: "With the amount of spending increasing and the amount of unemployment decreasing, it has meant that the cost of living has increased a lot. Cost is probably the one downside with any country that goes from a low-spend, weak gross domestic product (GDP) to what is now a very strong GDP."

BV: Is there any other business or workforce component that the country is working to improve?

White: "Our (transportation) infrastructure, which is somewhat behind where it should be. There is a lot more congestion in Ireland/Dublin than you would see in some other places throughout Europe. Indianapolis and Indiana have no traffic congestion like what you would see in Dublin!

"It's been a huge focus in Ireland the last six years; we spent a lot of money on our infrastructure and the idea is that that will be the case again soon. There is still a catch-up there, so the location a company chooses in Ireland would be important."

BV: What is the government's current strategy about attracting foreign direct investment?

White: "There are many measures. One is that they have the Irish Development Agency (IDA); it's a separate department within the government that has job creation as its main focus. They do a lot of traveling throughout the world, visiting multi-nationals, seminars, etc. and basically trying to generate as much business as they can to come to Ireland. They do this through the tax rate, by offering them subsidies and grants that can be substantial. Also by demonstrating what Ireland has achieved through high productivity and cost efficiencies from where it has been in the past to where it is now.

"Since Ireland is not a low-cost country anymore, the government strategy has shifted to really try to get the upper level of the supply chain, to go for the higher educated workforce and moving away from the high labor intensity sectors. The government is really interested in getting into the R&D (research and development) sector. They feel that – along with the technology, medical and pharmaceutical industries – is one sector that would be a good fit for Ireland, given its highly trained workforce.

"But if you wanted somebody to put two pieces of plastic together, then Ireland is probably not the area you would be going to in the future. We recognize that those jobs are going to the low-cost regions in India, Eastern Europe and wherever. So Ireland is adapting and trying to change itself, to try and pitch itself as a different market."

2006 Corporate Tax Rates for Selected Countries

Cyprus 10%
Ireland 12.5%
Latvia 15%
Lithuania 15%
Hungary 16%
Poland 19%
Luxembourg 22%
Austria 25%
Portugal 25%
Czech Republic 26%
Sweden 28%
Netherlands 29.6%
Denmark 30%
United Kingdom 30%
Belgium 33.99%
Malta 35%
France 34.43%
Spain 35%
Germany 38.6%
U.S. 39.5%

Source: Deloitte & Touche, September 2006

INFORMATION LINK

Resource: David White at white_david_j@lilly.com