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UNDERSTANDING THE DRIVERS OF FOREIGN DIRECT **INVESTMENT FROM THE UNITED STATES**

Implications for Northern Ireland Executive Summary

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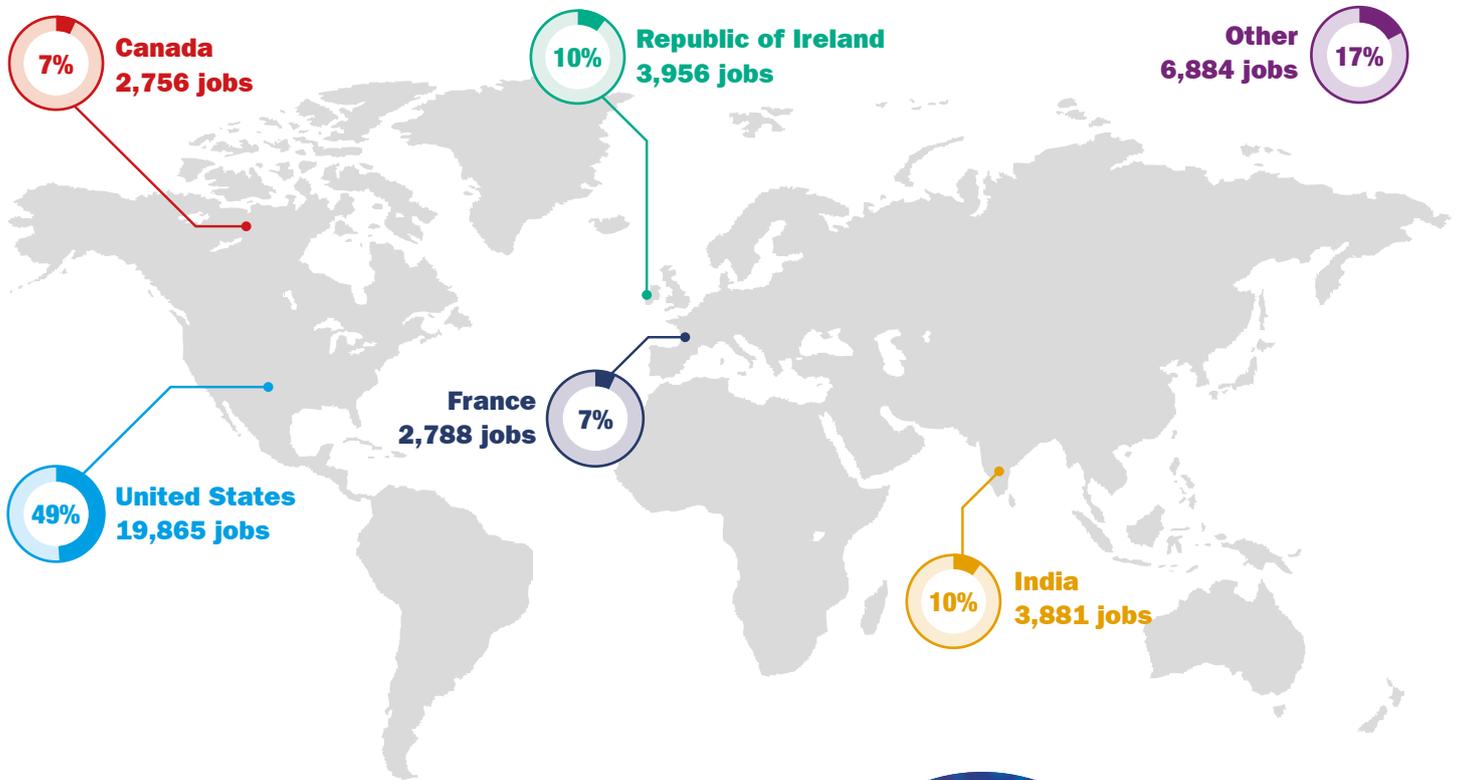


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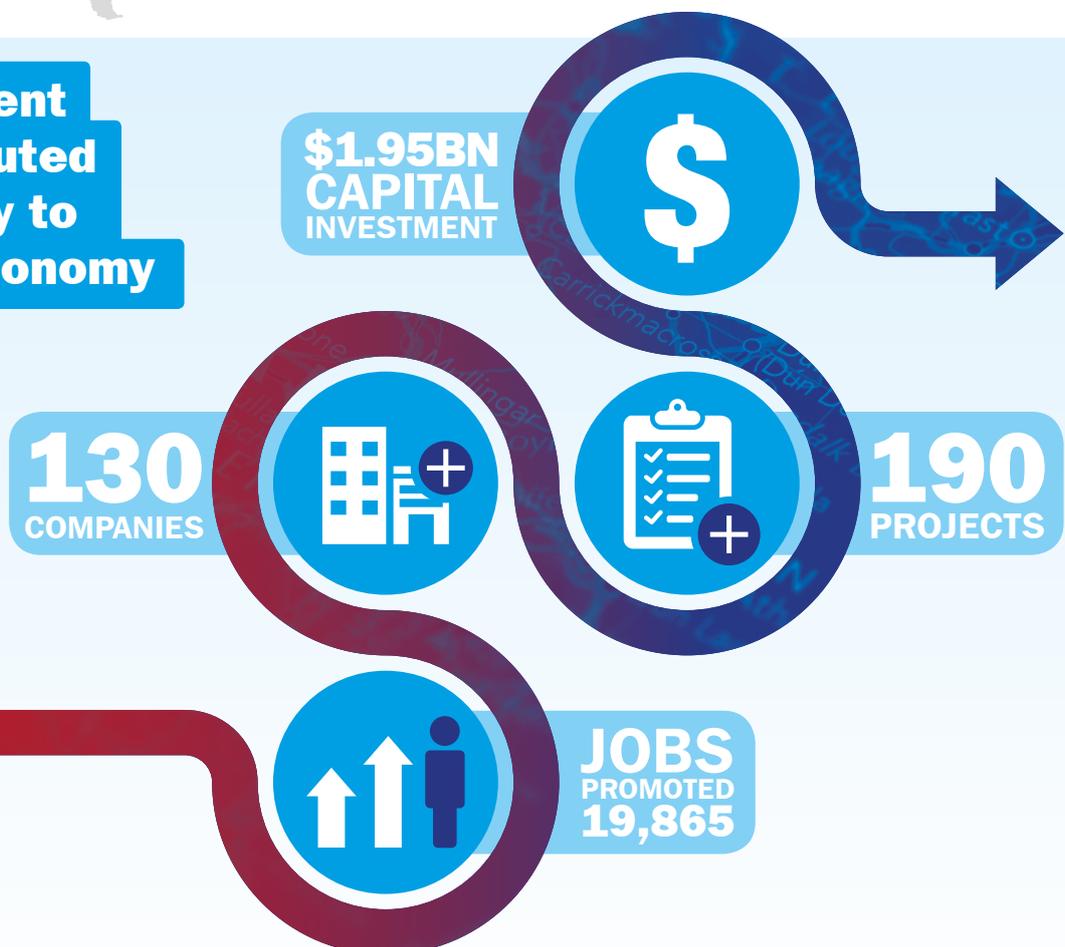


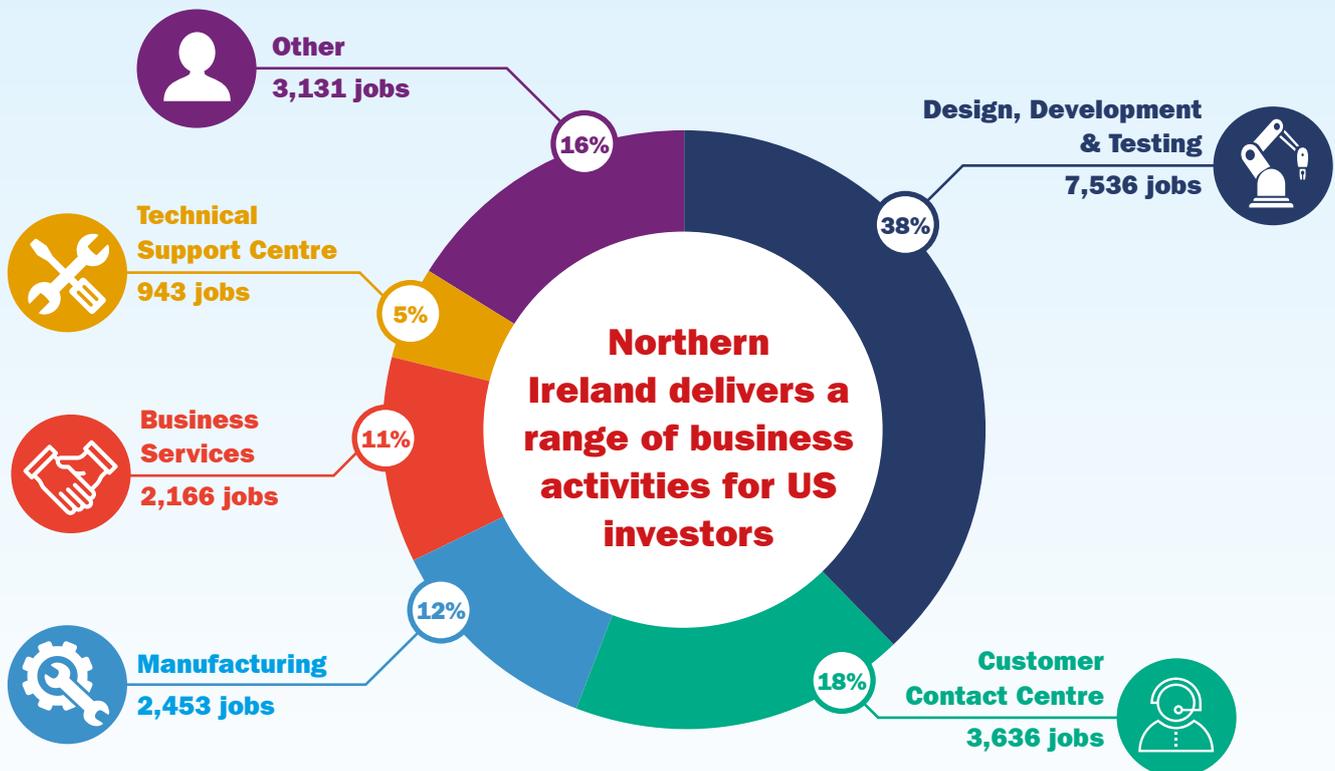
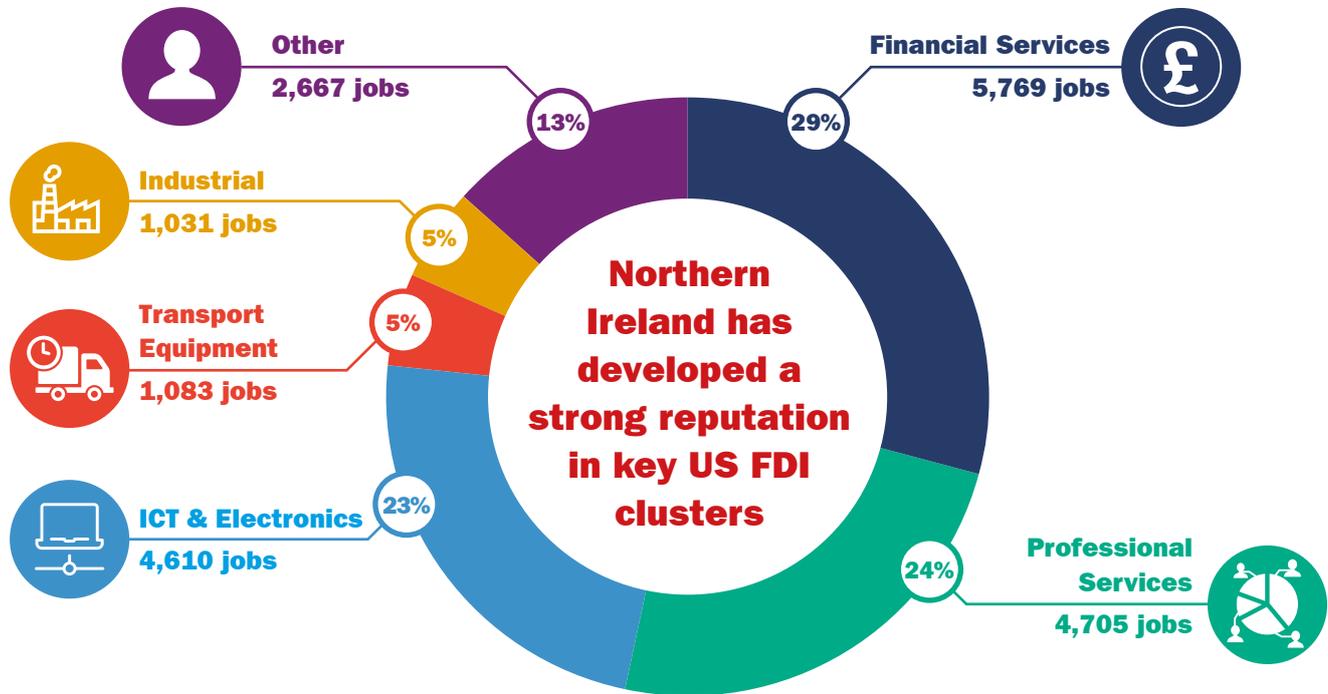
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The US is the main source of international investment into Northern Ireland

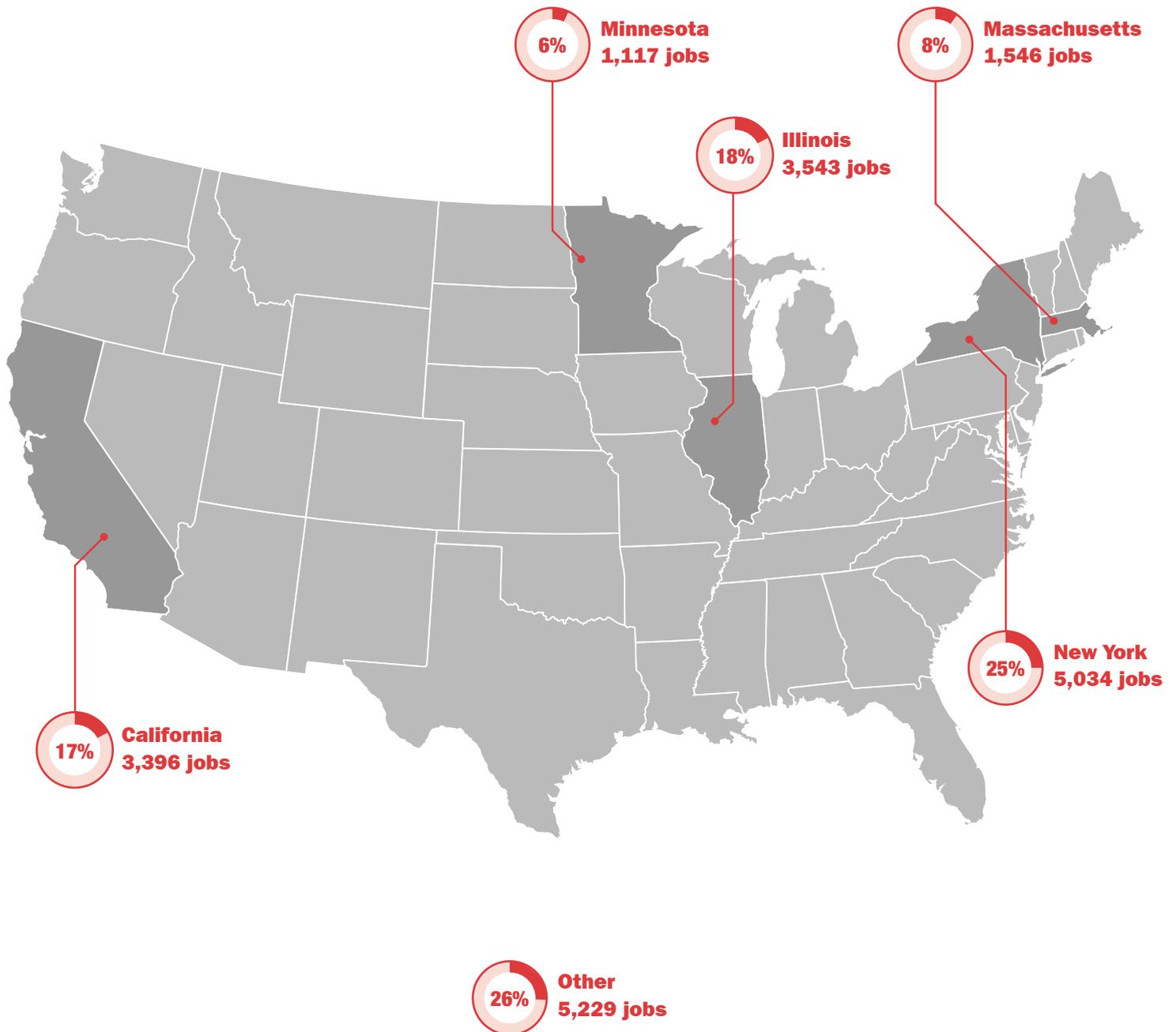


US investment has contributed significantly to the local economy

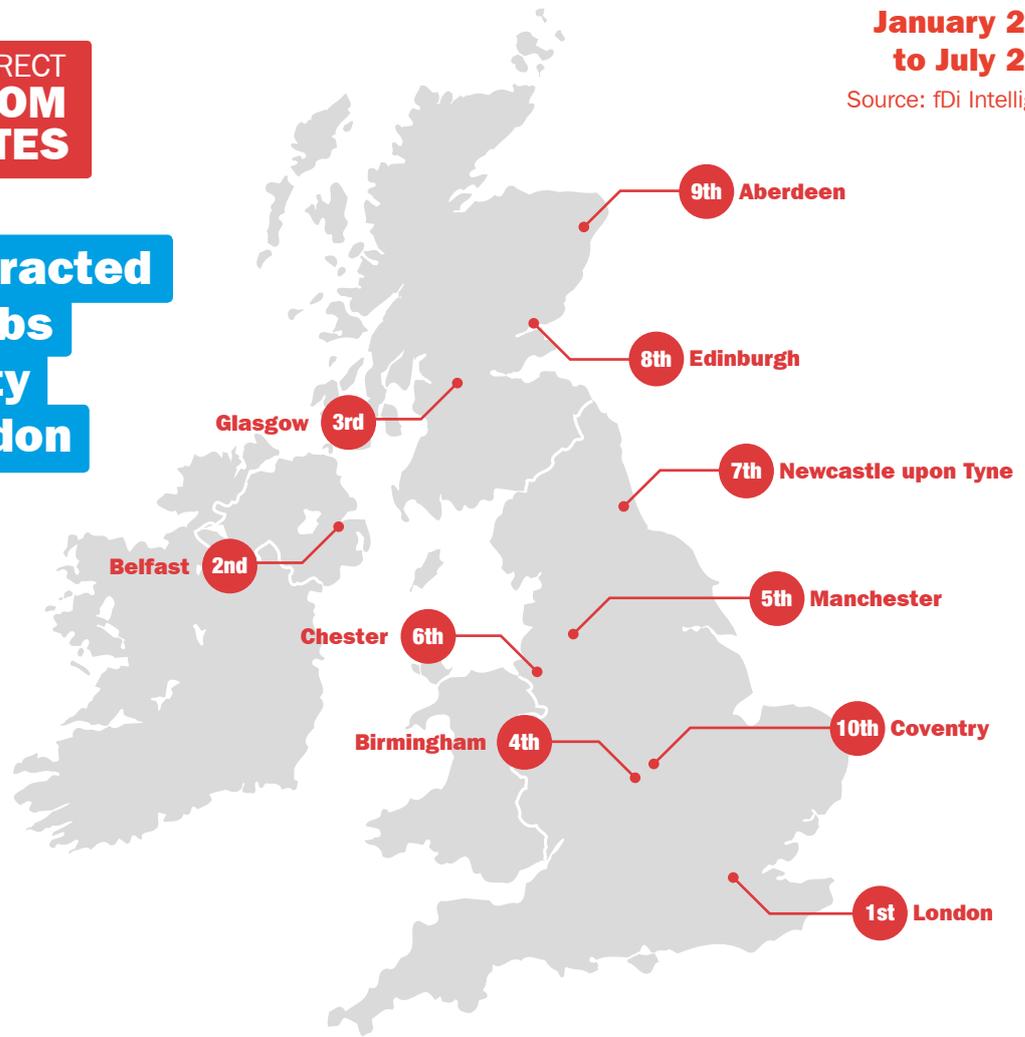




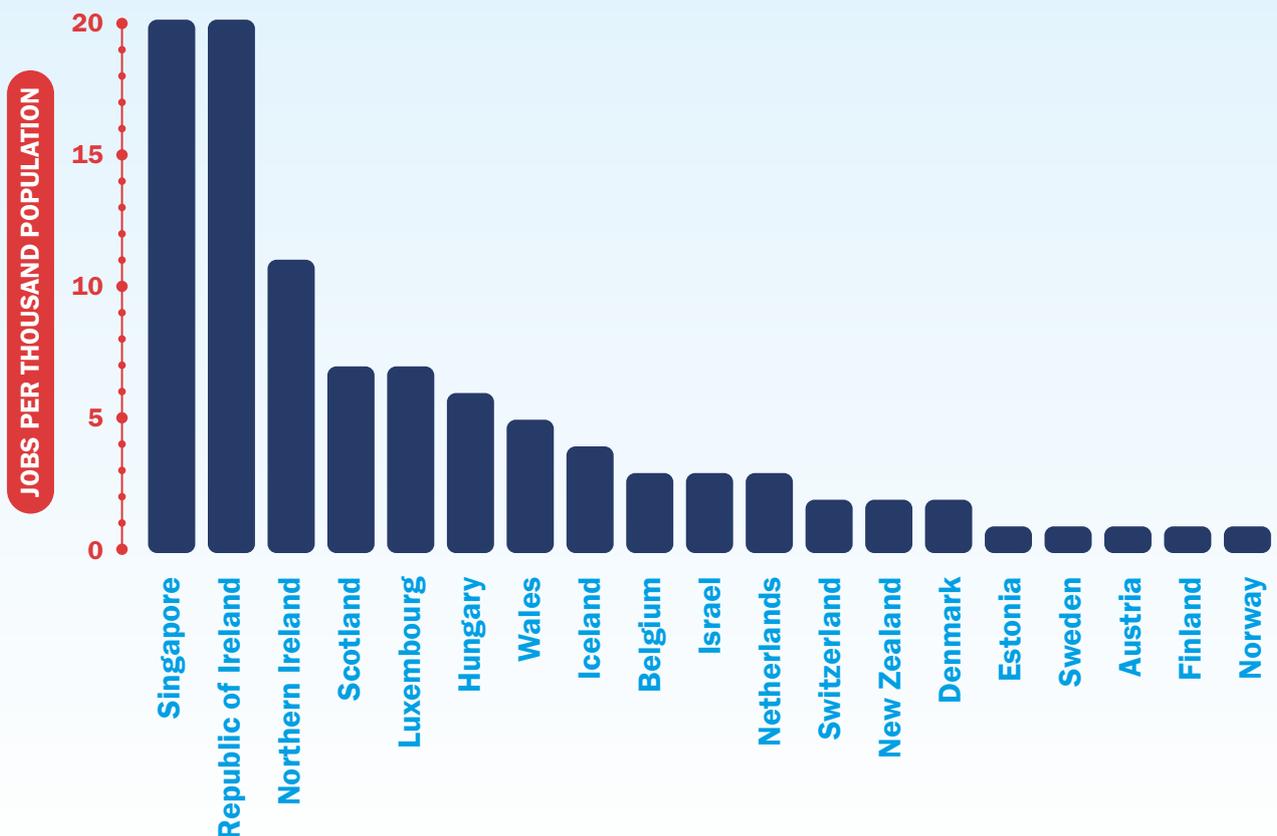
Most US investors locating in NI are from a small number of states



Belfast has attracted more US FDI jobs than any UK city outside of London



Northern Ireland is more successful at attracting US FDI jobs than most other small economies



KEY FINDINGS

Introduction

The US is central to the success of NI's efforts to attract FDI. With competing in global markets a core part of the draft Industrial Strategy, and the NI Executive having committed to reduce the rate of Corporation Tax to 12.5%, it is now timely and relevant to carry out a specific study focusing on the largest source market for FDI into NI.

This research reviews the key drivers that have attracted FDI from the US in recent years. The focus of the research has been on three drivers in particular – market access, talent and corporate tax rates. It provides a comprehensive desk-based assessment alongside consultations with experts, IPAs and business representatives in the US during September to December 2015.

The Executive Summary sits alongside two detailed reports. All supporting analysis and information is outlined in the accompanying reports. The research has been supported by a UK-US Fulbright Scholarship. Special thanks are extended to Professor Richard Torrisi of Sawyer Business School, Suffolk University in Boston for acting as host.

Track Record

NI offers a unique location for US investors in being both a part of the UK and physically located on the island of Ireland. The US has strong cultural and business linkages with both the UK and ROI which, alongside sharing the same language and quick travel connections, means that NI is viewed as a relatively easy and risk-free location for US investors to locate.

Invest NI's offices in the US are focused in the main source hubs of tradable services FDI. New York, Boston, Chicago, San Francisco and Texas account for one-half of US tradable services FDI, and Invest NI has a presence in each of these with the exception of Texas. US manufacturing FDI is much more widely dispersed across states such as Michigan, Ohio, Connecticut and Pennsylvania.

NI has established itself as a leading location for US tradable services FDI. Belfast has attracted more US investment in tradable services sectors than any UK city other than London, whilst Derry~Londonderry also ranks in the top ten. NI's success has been evident across many activities: design, development & testing; R&D; technical support centres; customer contact centres; and shared services centres.

Success amongst US manufacturing investors has been more narrowly focused. This is a much more diverse sector than tradable services with fewer truly mobile opportunities available. Much of NI's manufacturing investment from the US has been in industrial and business machines, particularly concentrated on shared services centres and R&D projects.

KEY FINDINGS

Drivers of US Outward FDI

Investor decisions are not based on a long linear list of factors, but rather those which are most important for the project.

Businesses will shortlist locations based on key “deal breakers”, and then consider other wider factors which then sway decisions.

A reduced rate of Corporation Tax can get NI onto the shortlist of US investors where it previously has not been able to, whilst more generally can help to sway decisions as part of a pro-business environment.

A core FDI proposition needs to be based on skills, market access, government support, pro-business environment and existing clusters.

Other factors which influence different activities include costs (manufacturing), language skills (customer contact centres, shared services, technical support), universities/innovation (R&D, design, development & testing, technical support) and quality of life (headquarters).

The key differentiators behind the location decisions of US investors have been tax rates, labour costs and financial assistance.

With many developed locations offering similar levels of skills, infrastructure and market access, the most successful locations for US FDI have been able to offer attractive packages which allow investors to increase profits and/or reduce costs.

The ROI has been the most successful European location at attracting US FDI once size is taken into account.

A straightforward and low tax rate of 12.5% is a key incentive for US investors, supported by the broadest FDI proposition of any European location.

Tax is therefore very important as a driver of US FDI, but is not enough in itself and needs to be complemented by a much broader proposition.

Market Access

The UK and EU markets offer a large and wealthy group of consumers for US businesses.

Sales & marketing is the main activity that US firms invest in overseas, and access to markets is therefore important.

The UK is often the first market that US investors will seek to access as a familiar and relatively risk-free location, before then moving onto other European markets.

US investors typically use host countries as an export base for the wider region.

Just 20% of US investments in the UK serve the domestic economy, falling to less than 10% for economies such as NI and ROI with small domestic markets. The impact of an EU exit on US market-seeking FDI to the UK will partly be determined by the future access that the UK has to the EU single market.

Free Trade Agreements can help to support increased FDI between countries.

The EU and US have been negotiating a Transatlantic Trade and Investment Partnership to improve access and reduce red tape, although the current status of this is unclear. Once it leaves the EU, the UK will be able to negotiate an FTA with the US which could help to support increased FDI between the two countries.

KEY FINDINGS

Talent

Talent is central to the proposition of any location seeking to attract US investment.

Whilst US firms have access to graduates from many of the best universities in the world, the level of competition that exists for this talent makes it difficult and expensive for firms to recruit and retain skilled employees. US firms seek to address this by exploiting highly skilled and less costly talent on offer elsewhere.

Skills shortages are evident in the US labour market, particularly for the most skilled job roles. Around one-third of US employers find it difficult to fill jobs, whereas only 10-15% of employers in the UK and ROI have the same difficulties. US recruitment difficulties have been most apparent for engineers, IT/computer specialists, scientists, managers & executives and skilled technicians.

US investors seek locations which can address their skills needs at lower costs.

Domestic salaries for FDI job roles are higher than any country other than Switzerland, and costs are therefore a key driver of US FDI. NI has some of the most competitive labour costs in Western Europe with a high standard of skills available. But countries such as Estonia, Czech Republic, Latvia and Costa Rica can still offer much lower costs alongside a relatively strong skills base.

Corporation Tax

The US rate of Corporation Tax is the highest in the OECD. This makes the US an uncompetitive place for American companies to locate their profitable activities, and provides a strong rationale for investors to look at countries with much lower tax rates. A 12.5% tax rate in NI would position it as one of the lowest tax locations for US investors alongside the ROI.

The US tax system allows MNEs to retain profits overseas in lower tax locations.

The US is one of very few OECD countries that still retains a worldwide tax system, although it also includes elements of a territorial system as taxes do not have to be paid until repatriated. US firms can also lower their tax burden by inverting their corporate residence, with the ROI being the most popular location of choice.

The OECD BEPS project is aimed at ensuring that international profits are consistent with the location of economic activity. BEPS has the potential to encourage US MNEs to move more of their activities to locations with lower tax rates to meet these tax rules. The ROI has highlighted some challenges, but also reinforced that its proposition has always centred on substance and it is well positioned to compete for any relocations as a result.

There is widespread agreement in the US that the tax system is in need of reform.

Many options have been put forward including lowering the tax rate, broadening the tax base and/or moving to a full territorial system. The US election results make the prospect of tax reform closer than before, but addressing the reduction in tax receipts from a lower rate remains a key issue. A rate in the range of 20-25% seems likely, which makes the US more competitive but remains above other lower tax locations.

KEY FINDINGS

Implications

NI is well positioned to build on its current success with a 12.5% rate of Corporation Tax. Even without a lower tax rate, NI has become a leading location for US tradable services FDI. Adding low tax to what is already a strong proposition can only enhance this success further, and can potentially help to support greater levels of manufacturing FDI where success has not been as widespread. It is important that NI retains a broad proposition with lower tax not seen as a replacement for other factors such as market access or government support.

There are a number of uncertainties which may impact on the competitiveness of NI for US FDI. US investors are likely to benefit from a lower corporate tax rate domestically, FDI competitors have been reducing their rates and the OECD is seeking to address the misalignment of profits and activities. It is also uncertain how a UK exit from the EU will impact on market access and whether a UK-US trade agreement could be made. However, regardless of what scenarios play out across each of these, a lower corporate tax rate will make NI more competitive for FDI than would otherwise be the case.

Marketing will be needed to increase the awareness of NI as a lower tax FDI location. Whilst NI benefits from its unique position as a part of the UK on the island of Ireland, it also means there is less awareness of it as a discrete investment location than the UK or ROI. Invest NI has to be very proactive in selling NI to US investors, and this is something which a successfully marketed low tax strategy could help to address.

Northern Ireland could benefit from an overarching FDI strategy to support the work of Invest NI. The Department for Business, Enterprise and Innovation in the Republic of Ireland published an FDI policy statement in 2014 which outlines its policy objectives and sets out how government as a whole can support IDA Ireland to deliver on these. Something similar for NI could ensure a more joined-up and strategic approach to competing for FDI going forward.



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ABBREVIATIONS:

BEPS	Base Erosion and Profit Shifting
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
IPA	Investment Promotion Agency
NI	Northern Ireland
MNE	Multinational Enterprise
OECD	Organisation for Economic Cooperation and Development
R&D	Research and Development
ROI	Republic of Ireland
TTIP	Transatlantic Trade & Investment Partnership
UK	United Kingdom
US	United States

FURTHER INFORMATION:

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Full report is available on the [DfE website](#)



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