TRADE, TOURISM AND INVESTMENT REPORT 2012

Forfás

Contents

Executive Summary

This Forfás report examines Ireland's trade, tourism and investment performance in 2012, which is the most recent year for which full-year data is available. It presents progress towards the targets set out in the Government's Trade, Tourism and Investment Strategy of 2010, *Trading and Investing in a Smart Economy*. The objective of the Strategy was for strong export-led growth and employment creation to 2015.

Progress towards Targets in Trade, Tourism and Investment Strategy

As 2012 marked the half-way point in the Trade, Tourism and Investment Strategy, it is timely to reflect on progress towards achieving the targets set out in the Strategy over the past three years.

The Strategy set specific targets for: gross new jobs in the client companies of IDA Ireland and Enterprise Ireland, and in the tourism sector; a 33 percent increase in exports from Enterprise Ireland clients; the diversification of indigenous exports to new markets; increasing overseas visitor numbers; and securing additional inward investment projects, including sourcing increased numbers of greenfield investment projects from high-growth and emerging markets.

Export-related Jobs

Targets

In terms of employment growth, the Strategy set a target of 135,000 gross new full-time jobs directly associated with exporting, with 75,000 gross new full-time jobs from IDA Ireland clients and 60,000 gross new full-time jobs from Enterprise Ireland clients. Targets for job creation from agency clients are expressed in gross terms in the Strategy. A target of 15,000 new full-time jobs in the tourism sector was also set out.

Progress

There has been good performance to date in gross new full-time jobs created in the client companies of IDA Ireland and Enterprise Ireland.

Client firms of IDA Ireland created 11,790 gross new full-time jobs in 2012. In the first three years of the Strategy there has been an increase of 33,789 gross new full-time jobs. The target of 75,000 jobs by the end of 2015 remains a realistic yet challenging objective; global investment continues to be dampened by a slower than anticipated world recovery and economic risks and international challenges remain. Over the period of the Strategy the total numbers employed by IDA client firms has increased by 14,131 to 152,785 in 2012.

In 2012, 12,861 gross new full-time jobs were created in Enterprise Ireland client companies in 2012. Since the beginning of the Strategy, there has been an increase of 30,130 gross new full-time jobs in EI client firms. Enterprise Ireland is on track to meet the 2015 target of 60,000 jobs, but it will be challenging given the continuing national and international macroeconomic uncertainties facing companies. Over the period of the Strategy to the end of 2012, the total net increase in employment by clients of Enterprise Ireland was 7,645, bringing total employment in these firms to 169,451 people.

The target of 15,000 additional jobs in the tourism sector by the end of 2015 will be challenging given a large decline in net jobs in the tourism sector of -21,977 in 2010; but in 2011 and 2012 there was a positive gain of 7,064 jobs overall. In 2012, positive employment growth is reflected in the CSO Quarterly National Household Survey data for the 'Accommodation and Food Services' sector generally, and the Fáilte Ireland tourism related employment results for 2012. Fáilte Ireland data show a 4,545 net increase in tourism jobs in 2012. In the three years to the end of 2012, the net position for tourism-related jobs was -14,913. It should be noted that it is harder to assess the performance of the tourism sector as employment surveys of the sector examine net jobs only.

Exports from Agency-assisted Indigenous Companies

Targets

A target of a 33 percent increase in exports by Enterprise Ireland assisted firms was set in the Strategy.

Additional targets were also set of increasing the number of exporting firms and increasing the value of exports from existing exporters to established and new markets; no explicit numeric targets were given for these two targets.

Progress

Over the period of the Strategy to the end of 2012, Enterprise Ireland clients' exports have increased by nearly 26 percent, to over €16 billion, the highest exports from EI companies to date, putting it well on track to meeting the 2015 target of a 33 percent increase. Year-on-year exports of Enterprise Ireland clients have increased by 6.7 percent in the three years to the end of 2012. If these growth rates continue the target will be surpassed in 2014; or perhaps as early as the end of 2013. Enterprise Ireland will shortly be developing its 2014-2016 Strategy, which will include updated export targets. There was also an 11 percent increase in the number of Enterprise Ireland firms exporting over the period of the Strategy to the end of 2012, with 270 new High Potential Start Ups supported and the new Potential Exporters Division established to support companies entering overseas markets for the first time. Of particular note is that the export intensity of indigenous agency-assisted firms has risen from 36 percent to 51 percent over the last decade.

Diversification of Export Markets

Targets

Targets were set to diversify indigenous export markets. For food and drink exports the targets were to: increase the share of exports to countries other than the UK from 56 percent to 62 percent; and, to increase the share of exports to Asia from 4.3 percent to 7 percent. For other indigenous exports the target was to increase the share of exports to countries other than the UK from 57 percent to 63 percent of exports.

Progress

Some headway has been made on diversifying the destination markets for indigenous exports. The share of food and drink exports to outside the UK increased strongly in 2010 and 2011 but declined slightly in 2012, as a result of an increase in the value of food and drink exports to the UK. The share of food and drink exports to Asia has been rising consistently over the period of the Strategy, reaching 5.1 percent of exports in 2012.

The share of non-food exports to markets other than the UK has increased over the period of the Strategy to the end of 2012, growing to 66.3 percent in 2011, before declining to 59.5 percent in 2012 (non-food exports to the UK grew 31 percent, reaching €3.1 billion in 2012). There has been strong growth in the value of non-food exports by Enterprise Ireland client companies both to the UK and non-UK markets since the beginning of the Strategy.

Tourism

Targets

Overall, the target for tourism was to increase overseas visitor numbers to 8 million by the end of 2015. By market, the targets were to increase visitor numbers to: 3 million from Continental Europe; 500,000 from new and developing markets; 3.3 million from the UK; and 1.2 million from North America.

Progress

Declining tourist numbers and reduced average spend led to large falls in tourism economic impacts from 2008. However, overseas tourism returned to modest growth in 2011 (+5 percent) and 2012 (+1 percent). Visitor numbers increased from most market areas including Mainland Europe, with North America, and the New & Developing Markets performing quite strongly. Half-year results for 2013 show a 5.4 percent increase in visitor numbers on the same period in 2012, with the average spend per visitor increasing by 3.1 percent.

Investment

Targets

The investment target for IDA Ireland was to secure 780 additional inward investment projects. An additional target was also set for 20 percent of greenfield investment to be sourced in the high growth and emerging economies.

Progress

IDA Ireland secured 144 additional investments in 2012, bringing the total to 418 additional inward investment projects to Ireland since the beginning of the Strategy. Substantial progress has been made towards the target of 780 projects, but this rate of investment must continue over the next three years of the Strategy to achieve the target. Good progress has been made in ramping up to the 20 percent target of greenfield projects from high growth and emerging markets. For 2012, 14 projects were from the high growth and emerging markets. Of these, 9 were greenfield, equal to 14 percent of total greenfield investment.

Overview of World Trade and Investment & Irish Trade, Tourism and Investment Performance

The remainder of the review looks at global trade and investment trends and prospects, and Ireland's overall trade, tourism and investment performance beyond the specific targets set out in the Strategy.

World trade slowing; developed countries emerging from recession; risks to world growth remain

Ireland's overall trade and investment performance is highly dependent on recovery in our main markets. Last year saw global trade increasing by only 1 percent in nominal terms, as world economic recovery was more sluggish than expected. In 2014, advanced economies are forecast to grow by 2 percent; while for emerging economies' growth rate is estimated at 5.1 percent.

Downside risks remain to global recovery: fiscal tightening in the US and other major markets are contributing to uncertainty; banking issues continue in the euro area; and the financial volatility in emerging markets could be exacerbated by debt-related risks.

In terms of goods exports, China is the world's largest exporter of goods, with the United States the largest importer of goods. The Republic of Korea and India continue to rise in the rankings of exporters – the Republic of Korea rose by 5 places since 2008 to become the seventh largest exporter of goods, and India rose by 4 places to nineteenth overall. Over half of world goods exports are demanded by just ten countries. Ireland's export rank for goods has fallen by two places in the last five years, with Qatar and Kuwait having overtaken Ireland. In 2012, Ireland accounted for 0.6 percent of total world exports of goods, down from 0.8 percent in 2008.

Services trade continues to account for about one-fifth of total world trade, with the United States remaining the dominant services exporter. China and Hong Kong are maintaining strong services trade growth rates, as is India. Ireland remains a strong performer in services exports, accounting for half of total Irish exports and a share of 2.7 percent of world services exports in 2012, ranking eleventh highest services exporter overall.

Continued but slowing export growth in goods, strong services growth

Ireland's exports were €182 billion in 2012, split almost evenly between goods and services, an increase of 5.4 percent on 2011. The growth in goods exports slowed to 0.5 percent on the previous year, but growth in services exports was strong at almost 11 percent. The impact of pharmaceutical products coming off patent is having an impact on the goods exports results, with a €1.8 billion fall in the value of pharmaceutical exports in 2012.

Ireland remains a strong performer in services exports, reflecting the growth in new ICT and ecommerce sectors with a number of large foreign firms operating and exporting from Ireland. Ireland is also home to the services operations of many manufacturing firms as well as financial services, leasing and computer services firms. In 2012, for the first time services exports exceeded services imports.

In 2012, the value of exports was at its highest level ever, in nominal terms, but results for the first half of 2013 show a 1.5 percent decline in total exports: goods exports have fallen by 6.4 percent, while services exports increased by a more modest 3.7 percent.

Irish exports: high sectoral concentrations in Pharma & Computer Services

Irish exports overall remain concentrated in a number of sectors. 'Chemicals and pharmaceutical products' accounted for 60 percent of goods exports in 2012 – up from 51 percent in 2008. This share is continuing into 2013. 'Miscellaneous manufactured goods' accounted for 12 percent of goods exports in 2012, most of which are optical goods and medical devices. At 11 percent of goods exports, 'Machinery and Transport Equipment' (which includes 'Computers and Office Machinery') is the next biggest sector. Exports of 'Food and Live Animals' and 'Beverages and Tobacco' together grew their total share to over 10 percent of goods exports in 2012.

Within services exports, 'Computer Services' have grown to 40 percent of total services exports. Data for 2013 indicate a growth in the share of 'Computer Services' in services exports to over 42 percent. Services exports are less concentrated compared to that of goods exports overall.

Irish exports concentrated in small number of markets

Over a third of our goods exports go to two countries: the United States, at 20 percent of goods exports, and the United Kingdom, at nearly 17 percent. This concentration makes Ireland vulnerable to country-specific as well as global shocks, and vulnerable to currency movements. Half of Ireland's services exports go to five destinations: United Kingdom, Germany, United States, France, and Italy.

Largest share of exports from agency-assisted Firms

Over four-fifths (82 percent) of exports from Ireland in 2011 were from companies that are clients of the enterprise agencies, up from 72 percent in 2001. Seventy four percent of exports are attributable to agency-assisted firms that are foreign-owned, and the remaining 8 percent are from indigenous firms. Just under a fifth of exports (19 percent) are from firms that are not assisted by the enterprise agencies, this includes air transport, but data limitations mean that full breakdown of these exports is not possible. The large proportion of exports from foreign-owned firms highlights the importance of foreign direct investment in the Irish economy and the inter-related nature of trade and investment.

Tourism Performance Improving

Declining tourist numbers and reduced average spend have led to large falls in tourism impacts from 2008 to 2011. There were increases in spend and tourism numbers in 2012, both increasing by about 1 percent. Half-year results for 2013 show a 5.4 percent increase in visitors numbers on the previous period in 2012, with the average spend per visitor increasing by 3.1 percent. Visitor numbers from Great Britain continued to fall in 2012, but there were increases in the tourist numbers from other markets.

Investment

Globally direct investment flows fell by 18 percent in 2012, and a further decline is expected in 2013. While inward investment flows to emerging economies increased by 1 percent, investment flows to developed economies fell by 23 percent in 2012. Ireland performed well in 2012 despite these FDI trends, with an increase in overall FDI stock of nearly 15 percent.

Foreign owned firms are estimated by the CSO to employ over 250,000 in Ireland, of which nearly 168,000 are employed by foreign owned affiliate firms that are clients of the enterprise agencies.

FDI into Ireland is still a vital element in our exporting performance. About 85-90 percent of exports from Ireland are attributable to foreign-owned firms. Ireland gained 0.8 percent of the value of world greenfield investments in 2012. Over 60 percent of FDI stock in Ireland is attributable to US investment, but often the investments are made by American-owned companies located in other countries.

Direct investment by Irish firms abroad increasing

CSO data on foreign affiliates shows that Irish firms employed over 246,000 in other countries in 2011 and had a turnover of €73 billion. Over 70 percent of turnover of Irish affiliates abroad was in services.

Outward direct investment (ODI) can be a complementary process to traditional exporting, and can be a more suitable means to gain market share in other countries for some products and services. In-country presence through ODI can help overcome trade barriers where market access is limited, particularly in emerging economies. Ireland's levels of ODI stock are higher than its FDI levels.

Trade & Investment Agreements

Trade and investment agreement negotiations are an important opportunity for increasing exports, growth, and jobs in Ireland. Trade agreements also improve access to imports providing benefits for the competitiveness of enterprises in Ireland and consumers.

The EU now has the competence to negotiate investment agreements on behalf of Member States and in this context Ireland needs to continue to ensure its interests are progressed in trade and investment negotiations given the massive importance of direct investment into Ireland and its interrelationship with trade performance.

Negotiations with the US on the Transatlantic Trade and Investment Partnership (TTIP) commenced in July launched under the Irish presidency of the EU. An ambitious and comprehensive agreement would give economic gains of €119 billion per year for the EU. Of particular interest to Ireland in the negotiations will be the non-tariff barriers in relation to food, chemicals and pharmaceuticals, and health-related products including medical devices.

Japan-EU negotiations began this year also. Ireland's main interests lie in dairy, high tech and specialised manufacturing, and business and financial services. An agreement with Japan could also deliver new opportunities beyond better access for Ireland's existing trade and investment patterns. Investment negotiations between the EU and China are due to commence, but trade negotiations between the EU and China stalled in 2011. The trade agreement with Singapore is likely to come into effect next year; investment negotiations are on-going. Trade talks with Malaysia, Vietnam, and Thailand are continuing.

A free trade agreement with the Republic of Korea came into effect in 2011. While it is probably too early to assess the full impact of the agreement on Ireland, the initial evidence suggests that there have been strong trade gains for Ireland.

The EU and Canada reached political agreement on 18 October 2013 on the main points of a trade agreement (CETA). Under the agreement 99 percent of tariffs will be removed, increasing trading opportunities between Ireland and Canada. The next steps will be for the European Council and the European Parliament to approve the agreement.

Accessibility: Air links and visas

The reinstatement of direct flights to San Francisco in 2014 will be hugely important for Irish trade and investment links. In addition, the DAA has recently signed a twinning agreement with Beijing Capital International Airport to develop links between the two airports; this is an important step in developing direct flights between the two cities.

The planned Common Travel Area Visa for visitors to Ireland and the UK will have a large impact on tourism from the high growth and emerging market. The smaller-scale visa waiver programme for visitors from third countries to the UK with visas to travel to Ireland has already seen a 30 percent increase in visitors from the applicable countries. The multi-entry visa system was extended to China and if extended to other countries it would improve Ireland's attractiveness as a place to do business further.

1. Progress towards Targets in Trade, Tourism and Investment Strategy

The Trade, Tourism and Investment Strategy, "Trading and Investing in a Smart Economy", sets out a number of key targets relating to trade, tourism, and investment to be achieved by the end of 2015. The tables below sets out the progress made in the targets set out in the Trade, Tourism and Investment Strategy. The progress looks at the achievements in the three years to the end of 2012.

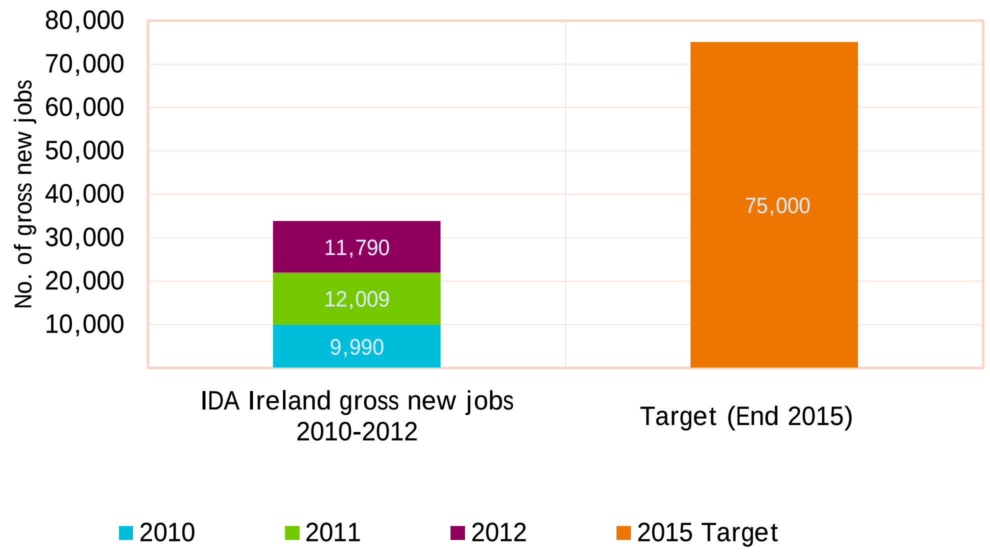
Export-related Jobs

Target: To increase the number of gross *new jobs* directly associated with exporting enterprises by over 150,000 (IDA Ireland: 75,000; Enterprise Ireland 60,000; and Tourism sector: 15,000), in manufacturing, tourism and internationally trading services to 2015, and with the creation of a similar number of new indirect jobs.

IDA Ireland

Target: IDA Ireland to achieve a 75,000 increase in new direct jobs by 2015

- 11,790 gross new full-time direct jobs were created in IDA Ireland client companies in 2012.
- Since the beginning of the Strategy, there has been an increase of 33,789 gross new full-time jobs.
- Progress to the 2015 target has been good, but the target remains challenging given the continued global economic difficulties and risks.

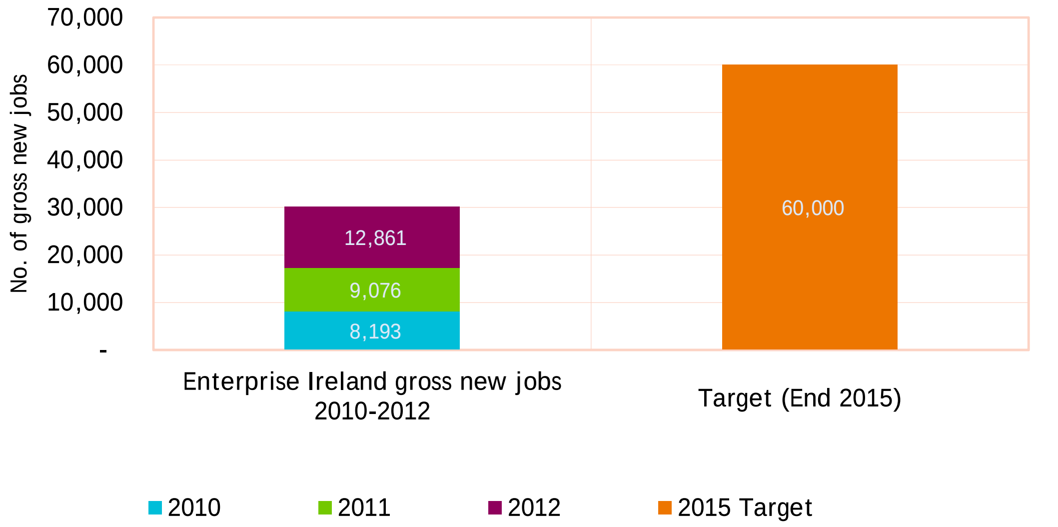


Source: IDA Ireland, and Forfás 'Annual Employment Survey' background data

Enterprise Ireland

Target: Enterprise Ireland to achieve a 60,000 increase in gross new direct jobs by 2015

- 12,861 gross new full-time jobs were created in Enterprise Ireland client companies in 2012.
- Since the beginning of the Strategy, there has been an increase of 30,130 gross new full-time jobs.
- Enterprise Ireland is on track to meet the 2015 target, but it will be challenging given the continuing national and international macroeconomic uncertainties facing clients companies of Enterprise Ireland.

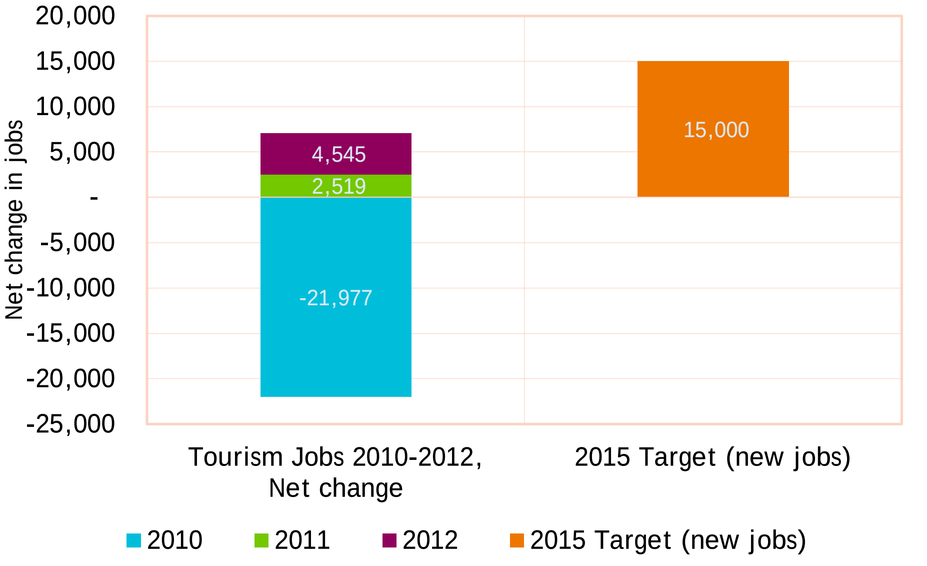


Source: Forfás Annual Employment survey, Enterprise Ireland annual Reports 2010-2012

Tourism sector

Target: The tourism sector to achieve 15,000 increase in new direct jobs by 2015

- It is difficult to assess the jobs performance in this sector, as there is no breakdown of new job losses/gains, so the net figures are used here.
- The sector saw a 4,545 net increase in 2012.
- CSO collects data on new jobs for the wider hospitality and food industry:
  - Based on CSO new jobs data in 'Accommodation and Food Services' there were 15,637 new jobs in 2010 and 16,979 in 2011. This suggests the net tourism jobs data collected by Fáilte Ireland may be an underestimation of the new jobs in the sector.
  - Positive net employment growth is reflected in the CSO Quarterly National Household Survey data for 'Accommodation and Food Services' for 2012.
- It will be challenging to meet these new direct job targets by 2015, but there were good jobs increases in 2011 and 2012, after the huge decline in tourists in 2010.

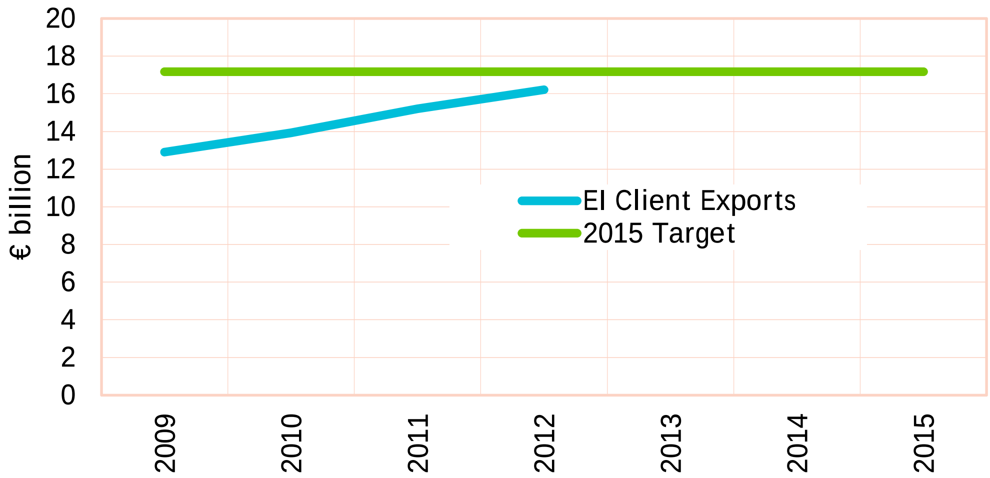


Source: Fáilte Ireland Employment Survey

Exports from Agency-assisted Indigenous Companies

Target: To increase the value of exports of agency-assisted indigenous companies by 33 percent.

- Over the period of the Strategy to the end of 2012, Enterprise Ireland clients' exports have increased by nearly 26 percent.
- Year-on-year exports of Enterprise Ireland clients have increased by 6.7 percent in the three years to the end of 2012.
- If these growth rates continue this target will be surpassed in 2014, or perhaps as early as the end of 2013.
- Enterprise Ireland will shortly be developing its 2014-2016 Strategy, which will include updated export target.



Source: Enterprise Ireland Annual Reports 2009-2012

Target: Increase the number of indigenous exporting firms

- No specific numeric target has been set out for this metric. Based on the responses to the Annual Business Survey of Economic Impact, there was a 4.7 percent increase in the number of Enterprise Ireland clients that were exporting between 2011 and 2012; since the adoption of the Strategy, there has been an 11.3 percent increase.

High Potential Start Ups (HPSUs)

- Enterprise Ireland supported 270 HPSUs between 2010-2012 and is on target to support a further 95 HPSUs in 2013.
- These start-ups are companies that are considered capable of creating 10 jobs or more in Ireland and realising €1 million in sales on international markets within five years of starting up.

Potential Exporters Division

- In 2012 Enterprise Ireland set up its Potential Exporters Division (PED) which is focused on supporting Irish companies that had limited engagement with the agency in terms of growing exports and associated jobs. The division is focused on providing mentoring, business advocate support and financial support to relevant companies.

- During 2013 over 300 significant development engagements will take place with established Irish companies looking to enter overseas markets and targeting growth in exports.
- The division supports individual client companies who are at various stages of preparing to export. Companies engage with PED through workshops and awareness events and are supported in the development of a market plan for their priority target market.

Target: Increase the value of indigenous exports from existing exporters, both to established markets and to markets offering new opportunities.

Established Markets

Exports to our key trading partners have continued to increase; exports to the UK has increased but the overall share has fallen so our dependency on the UK has reduced:

- Exports to the US have increased by 43 percent from €1.09 billion to €1.57 billion.
- Despite the recession in the Eurozone, exports have increased by 21 percent from €2.36 billion in 2009 to €3.17 billion in 2012.
- While UK exports have increased by 14 percent since 2009 the proportion of EI client exports to the UK market has fallen; this is in line with a central tenant of the Strategy to grow exports to existing, key markets, but increase exports to newer markets. In 2009 the UK accounted for 42 percent of total EI clients exports, in 2012 the UK accounts for 38 percent of total EI client exports. This highlights an important cornerstone of the Strategy, which is to continue to increase our exports to our current main markets, while increasing the share of our exports to newer markets.

Markets Offering New Opportunities

There has been a marked increase in exports to newer markets by the client companies of Enterprise Ireland since the adoption of the Strategy.

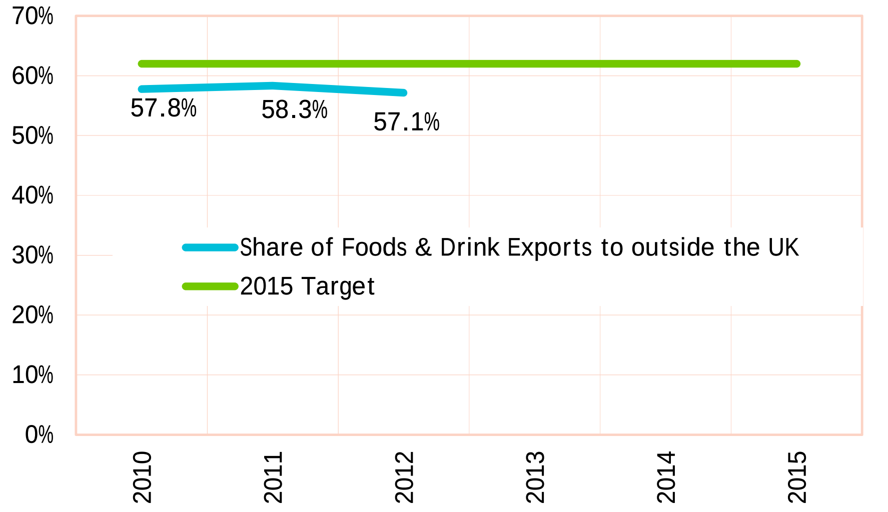
- Exports to Brazil, the Russian Federation, India, China, and South Africa (BRICS) have increased by 69 percent since 2009 from €468.8 million to €792.6 million.
- Exports to the Asia Pacific region have increased by 30 percent since 2009 from €783.4 million to €1,022 million.

Diversification of Export Markets

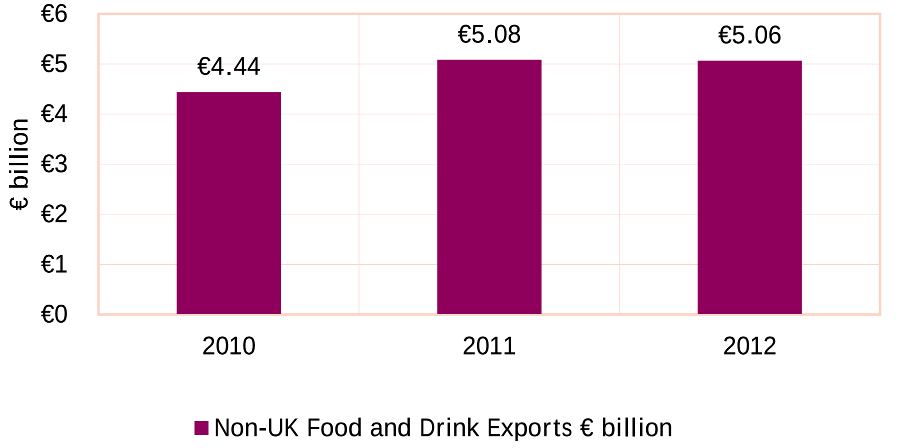
Target: To diversify the destination of indigenous exports over the period to 2015.

Target: Increase share of food and drink exports to countries outside the UK, from 56 percent to 62 percent.

- The rationale for this target is to ensure that while the UK market is maintained as a hugely important destination for Irish food and drink exports that there is also increased diversification to other markets.
- The share to non-UK destinations declined slightly in 2012 to 57.1 percent of food and drink exports, to €5.06 billion. However, this must be viewed in the context of an increase in the value of exports to these markets since 2010 and an increase in the value of exports to the UK in this sector. Food and drink exports to the UK increased by 4.6 percent to €3.8 billion in 2012.
- Overall food and drink exports were over €9 billion in 2012.



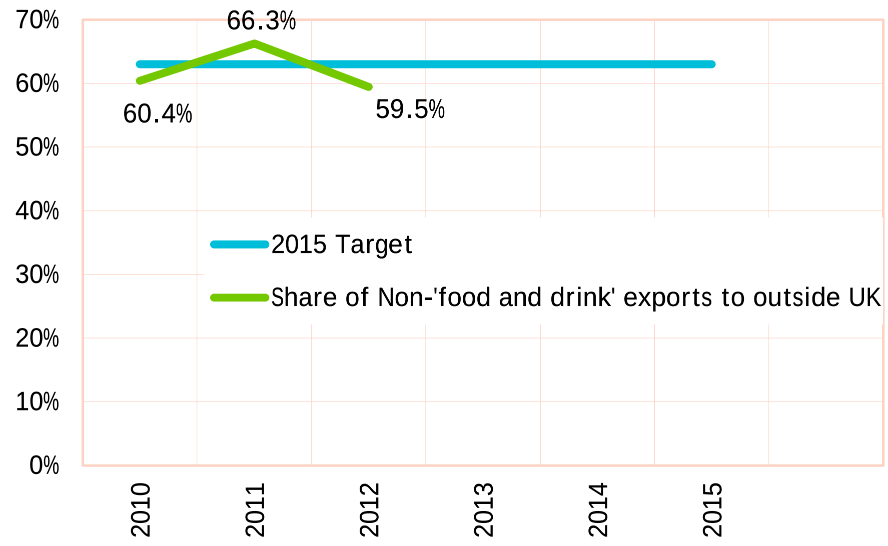
Source: Bord Bia



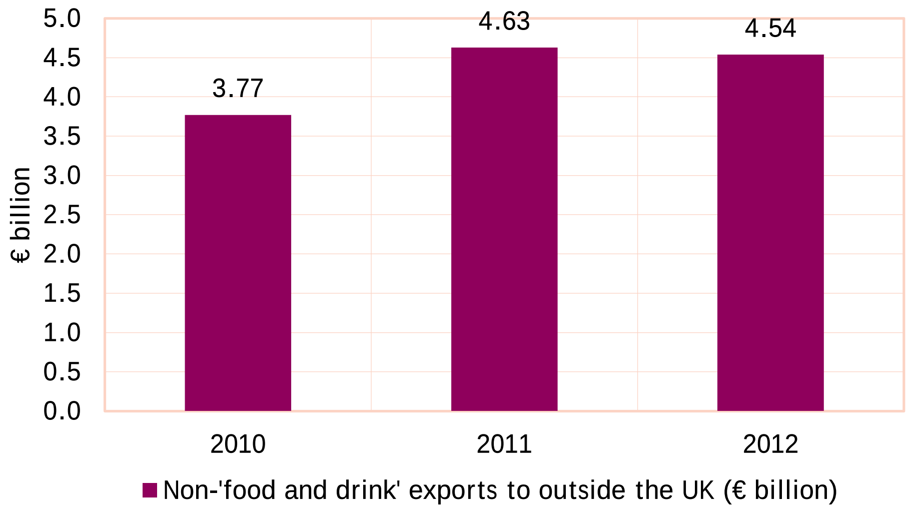
Source: Bord Bia

Target: Increase share of 'other exports' (i.e. non-food related exports) to countries outside the UK, from 57 percent to 63 percent.

- The target share of non-food exports to markets other than the UK has increased over the period of the Strategy.
- In 2012, the share to non-UK markets declined to below the target, having exceeded the target share in 2011. This is a combination of a slight decline (1.9 percent) in the value of exports to non-UK markets of 'other exports', but a large increase in the value in these exports to the UK (31 percent). EI clients exported €3.1 billion of 'other exports' to the UK in 2012.
- There has been strong growth in the value of non-food exports by Enterprise Ireland client companies both to the UK and non-UK markets since the beginning of the Strategy, which is why the share of exports to non-UK markets has fallen.



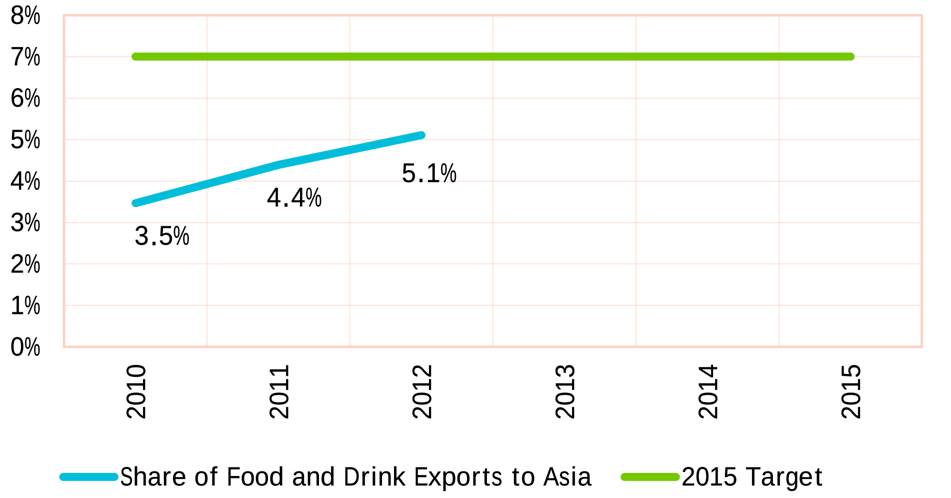
Source: Enterprise Ireland Annual Business Review 2009-2012



Source: Enterprise Ireland Annual Business Review 2009-2012

Target: Increase the share of food and drink exports to Asia, from 4.3 percent to 7 percent.

- As demonstrated in the tables opposite the share of food and drink exports to Asia has made good progress to the 2015 target of 7 percent.
- In 2012, 5.1 percent of foods and drink exports were to the Asian market. There was an 18 percent increase in food and drink exports to Asia in 2012.
- The value of exports to Asia in this sector has also increased over the period of the Strategy.



Source: Bord Bia

Source: Bord Bia

Tourism

Overall Target: To increase overseas visitor numbers to 8 million by 2015.

- Overseas visits increased 1 percent to 6.3 million in 2012

Targets by market:

Increase visitors from Continental Europe to 3 million

- 2.3 million visits in 2012

Increase visitors from new and developing markets to 0.5 million

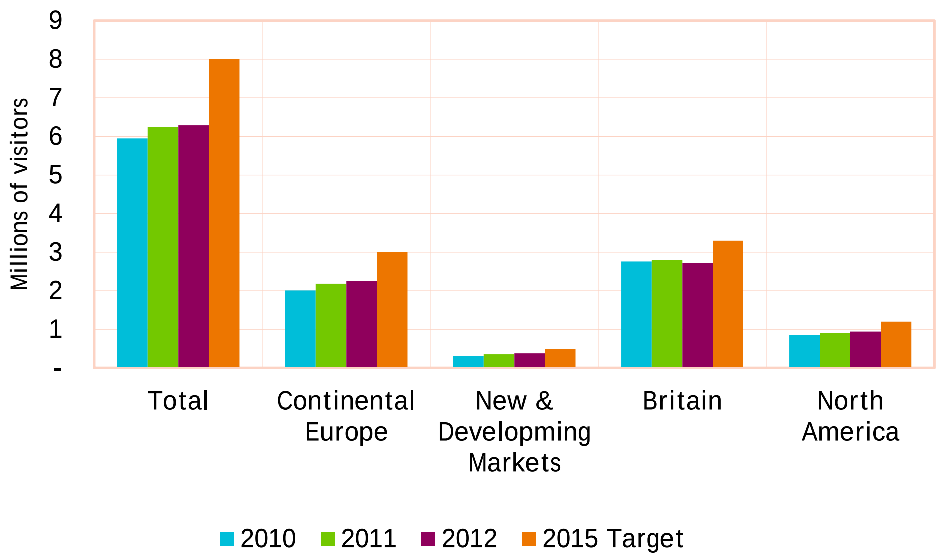
- 0.4 million visits in 2012

Increase visitors from the UK to 3.3 million

- 2.7 million visits in 2012

Increase visitors from North America to 1.2 million

- 0.9 million visits in 2012



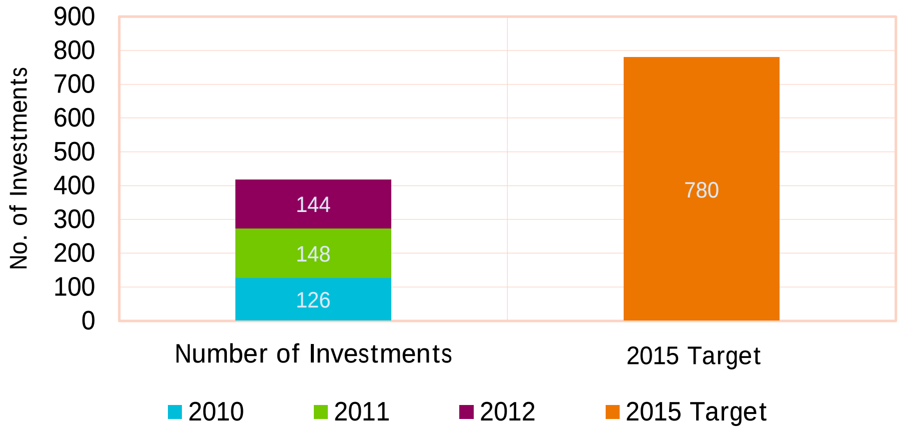
Source: Tourism Ireland

- The targets in the tourism market remain challenging given the slow levels of growth in the sector to date, and the world economic outlook.
- Overall tourism numbers have grown in each source market grouping identified in the Strategy, except for British visitors to Ireland, which saw a decline in 2012.
- Sterling weakness, the London Olympic Games, and an increase in ‘staycations’ by British tourists where contributing factors to the decline of UK visitor numbers.

Investment

Target: To secure an additional 780 inward investment projects through IDA Ireland

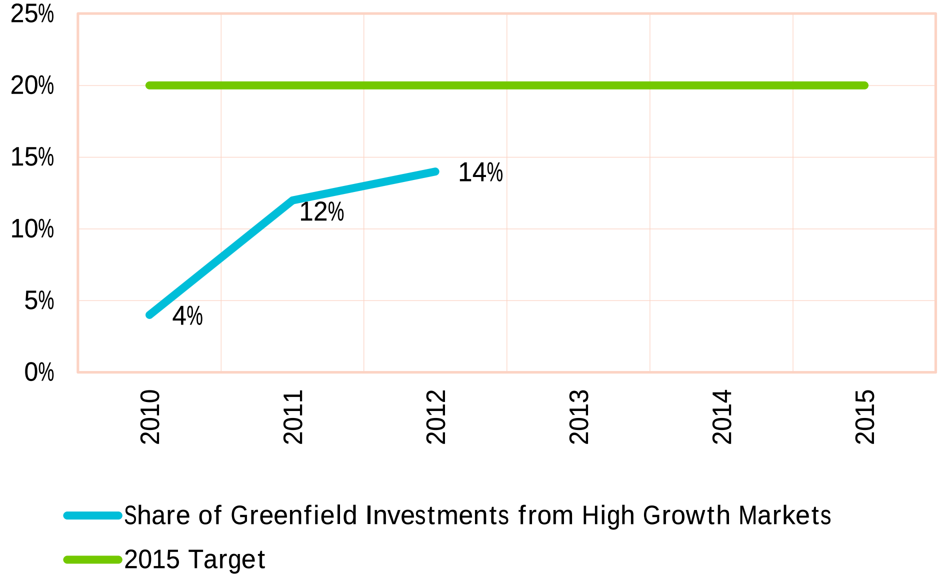
- IDA Ireland secured 144 additional investments in 2012.
- Since 2010, 418 additional inward investment projects have been secured through IDA Ireland.
- Substantial progress has been made towards the target, but this rate of investment must continue over the next three years of the Strategy to meet the target of 780 projects.



Source: IDA Ireland

Target: 20 percent of new greenfield investment projects to come from high-growth and emerging economies.

- For 2012, 14 projects were from the High Growth and Emerging markets. Of these, 9 were greenfield, equal to 14 percent of total greenfield investment.
- Good progress has been made in ramping up to the 20 percent target.



Source: IDA Ireland

Target: IDA Ireland to support deepening the domestic value added of overseas firms in Ireland and to strengthen linkages and collaboration between foreign-owned and indigenous firms.

A Global Sourcing strategy has been agreed and is jointly being implemented by EI and IDA.

2. Global Economy and Outlook

World trade slowing; developed countries emerging from recession; risks to world growth remain	▪ Last year saw global trade increasing by only 1 percent in nominal terms, as world economic recovery is more sluggish than expected. ▪ World GDP growth is forecast at 2.9 percent in 2013, rising to 3.6 percent in 2014. ▪ In 2014, advanced economies are forecast to grow by 2 percent; while emerging economies' growth rate is forecast at 5.1 percent. ▪ Downside risks remain: Fiscal tightening in US and other major markets are contributing to uncertainty; the federal budget negotiations and the issues of the debt ceiling in the US are creating uncertainty also; banking issues continue in the euro area; and the financial volatility in emerging markets could be exacerbated by their high debts.
World goods trade slowing	▪ China is still the world's largest exporter of goods, with the United States the largest importer. ▪ The Republic of Korea and India continue to rise in the rankings of goods trade exporters to seventh and nineteenth place, respectively. ▪ Half of world goods trade are demanded by just ten countries. ▪ Ireland's export rank for goods has fallen by two places in the last five years, having been overtaken by Qatar and Kuwait. In 2012, Ireland accounted for 0.6 percent of total world exports of goods, down from 0.8 percent in 2008.
Services trade strong	▪ Services trade has remained at about a fifth of total world trade for the last decade, with the United States remaining the dominant exporter. ▪ China and Hong Kong maintain strong growth rates; India is also growing fast and moving up the ranks. ▪ Ireland remains a strong performer in services exports, reflecting the sectors of foreign firms operating and exporting from Ireland. Ireland is the eleventh largest exports of services in the world; the same rank as five years ago.
Progress on Trade & Investment Agreements	▪ Bilateral trade agreements negotiated by the EU are an important opportunity for increasing exports, growth, and jobs in Ireland. ▪ Negotiations with the US on the Transatlantic Trade and Investment Partnership (TTIP) commenced in July.

- An ambitious and comprehensive agreement would give estimated economic gains of €119 billion per year for the EU.
- Of particular interest to Ireland in the negotiations will be the non-tariff barriers in relation to food, chemicals and pharmaceuticals, and health-related products including medical devices.
- The EU can now negotiate investment agreements on behalf of Member States; Ireland needs to continue to ensure our interests are progressed in trade and investment negotiations given the massive importance of direct investment into Ireland and its interrelationship with trade performance.

- Japan-EU negotiations began this year also. Ireland's main interests lie in dairy, high-tech and specialised manufacturing, and business and financial services.
- The EU has been mandated to begin negotiations on an investment agreement with China, but trade negotiations between the EU and China have stalled in 2011.
- The trade agreement with Singapore is likely to come into effect next year; investment negotiations are on-going. Trade talks with Malaysia, Vietnam, and Thailand are continuing.
- The EU-Canada trade agreement was agreed on 18 October 2013 that will remove 99 percent of tariffs and give access to a multi-billion dollar public procurement market.

2.1. World Trade Performance & Outlook

Slowing world trade growth

World trade in 2012 is estimated by the WTO at US$23 trillion. World trade remains above pre-crisis levels but growth has slowed considerably. The massive collapse in world trade in 2009 saw a sharp recovery in 2010 and 2011 with growth rates of nearly 20 percent in both of these years, nearly levelling off in 2012 to just under 1 percent in nominal terms (Figure 1). Services trade has remained at about a fifth of total trade for the last decade.

Figure 1 World Trade, US$ trillion, current prices, 2003-2012

Source: WTO, Forfás calculations

World economic recovery but at slow pace

There is global economic recovery as developed economies emerge from recession. Forecasts for developed economies are between 1.2 and 2 percent in 2013 and 2014 (Table 1). The forecast for 2014 is lower than previous forecasts. Reduced forecasts are largely due to weaker demand and slowing growth in emerging markets. While growth forecasts in emerging economies are still strong, at around 5 percent, these have reduced from recent levels. Despite moderate recovery in advanced economies, growth rates in emerging markets have until now mitigated reduced world demand, therefore slower growth in emerging markets will hamper world recovery.

Risks to world growth still loom large. Monetary policy and the uncertainty over the debt ceiling in the US will gain increased market attention, particularly in light of heightened partisan difficulties over the recent federal budget impasse and shutdown. Recent agreements in the US over the Budget and the debt ceiling are short-term in nature. Banking issues keep the euro area exposed, particularly as many euro area banks are still impeded by bad debts. Financial volatility in emerging economies might intensity further, and high debt accrued in recent years in these economies will exacerbate the impact of any financial shocks.[1]

[1] OECD, 'Interim Economic Assessment' 3 September 2013

Table 1 Forecast GDP (Constant prices) Growth rates, selected countries, 2013 and 2014

	2013 Percentage change	2014 Percentage change
World	2.9	3.6
Advanced Economies	1.2	2.0
Emerging & Developing Economies	4.5	5.1
United States	1.6	2.6
Euro Area	-0.4	1.0
United Kingdom	1.4	1.9
China	7.6	7.3

Source: IMF World Economic Outlook, October 2013

2.2. World Trade in Goods

Table 2 below shows the world's top 20 exporters of goods, which account for 70 percent of the goods exports. China remains the largest exporter of goods with over a tenth of global goods exports. Adding Hong Kong and Taipei brings China's total share to 15 percent, with continued strong export growth.

Notable movements in ranking are the continued rise of the Republic of Korea and India over the last half decade. Germany, Italy, the United Kingdom, Canada, Belgium, and Spain all maintain a position in the top 20 but their ranks have fallen.

Ireland's rank has fallen by two places in the last five years. In 2012, Ireland accounted for 0.6 percent of total world exports of goods. Ireland's decline in annual growth shown in the table is likely to be due to exchange rate movements as the data used is reported in US dollars. The table illustrates similar declines in some of the other euro countries.

Table 2 World Rank of Exporters by Country (Goods) 2012, Top 20 and Ireland

Rank 2012	Exporter (Goods)	Goods Exports, 2012 (US$ billion)	Share 2012	Change in Rank since 2008	Annual growth rate, 2008-2012, percentage
1	China	2,048.7	11.1	1	9.4
2	United States	1,545.7	8.4	1	4.7
3	Germany	1,407.1	7.6	-2	-0.7
4	Japan	798.6	4.3	0	0.5
5	Netherlands	655.7	3.6	0	0.7
6	France	568.9	3.1	0	-2.0
7	Korea, Republic of	547.9	3.0	5	6.7
8	Russian Federation	529.3	2.9	2	2.9
9	Italy	500.7	2.7	-2	-2.0
10	Hong Kong, China	492.9	2.7	3	7.4
11	United Kingdom	474.5	2.6	-3	0.1
12	Canada	454.8	2.5	-1	-0.1
13	Belgium	446.5	2.4	-4	-1.4
14	Singapore	408.4	2.2	0	4.8
15	Saudi Arabia, Kingdom of	388.4	2.1	0	5.5
16	Mexico	370.8	2.0	0	6.2
17	United Arab Emirates	350.0	1.9	2	10.0
18	Taipei, Chinese	301.2	1.6	0	4.2

Rank 2012	Exporter (Goods)	Goods Exports, 2012 (US$ billion)	Share 2012	Change in Rank since 2008	Annual growth rate, 2008-2012, percentage
19	India	294.2	1.6	4	10.8
20	Spain	293.9	1.6	-3	1.1
35	Ireland	117.2	0.6	-2	-1.7[2]

Source: WTO, Forfás calculations

World Goods Imports

Turning now to the world's main importers we can see the countries with the highest demand for traded goods as shown in Table 3. Over half of world goods are demanded by just ten countries, with the United States retaining its position of the world's largest importer of goods, with imports of US$2.3 trillion. The US is followed by China, Germany, Japan, and the United Kingdom.

China's growth rate for imports was nearly 13 percent over the five year period to the end of 2012, which despite its recent slowdown is still a considerable growth rate. India was tenth largest importer of goods in 2012, having risen four places in the last five years, with a growth rate of 11 percent.

Ireland's sharp decline in the demand for imported goods since 2008 reflects the huge decline in domestic demand since the beginning of the financial and economic crises.

Table 3 World Rank of Importers by Country (Goods) 2012, Top 20 and Ireland

Rank 2012	Importer (Goods)	Goods Imports, 2012 (US$ billion)	Share 2012	Change in Rank since 2008	Annual growth rate, 2008-2012, percentage
1	United States	2,335.5	12.6	0	1.9
2	China	1,818.4	9.8	1	12.6
3	Germany	1,167.2	6.3	-1	-0.4
4	Japan	885.8	4.8	0	3.8
5	United Kingdom	689.9	3.7	1	1.2
6	France	673.8	3.6	-1	-1.5
7	Netherlands	591.2	3.2	0	0.4
8	Hong Kong, China	553.5	3.0	5	8.9

[2] Ireland's decline in annual growth rate over the period is likely to be due to exchange rate movements as the data used is reported in US dollars; CSO data does not show a decline. The table illustrates similar declines in some of the other euro countries.

Rank 2012	Importer (Goods)	Goods Imports, 2012 (US$ billion)	Share 2012	Change in Rank since 2008	Annual growth rate, 2008-2012, percentage
9	Korea, Republic of	519.6	2.8	1	4.5
10	India	489.7	2.6	4	11.1
11	Italy	486.6	2.6	-3	-3.5
12	Canada	474.9	2.6	0	3.2
13	Belgium	437.2	2.4	-4	-1.6
14	Mexico	380.5	2.0	2	4.6
15	Singapore	379.7	2.0	0	4.4
16	Russian Federation	335.4	1.8	1	3.5
17	Spain	334.8	1.8	-6	-5.6
18	Taipei, Chinese	270.5	1.5	0	3.0
19	Australia	260.9	1.4	2	6.8
20	Thailand	247.6	1.3	5	8.4
48	Ireland	62.8	0.3	-7	-7.0

Source: WTO, Forfás calculations

2.3. World Trade in Services

World Services Exports

Export data for the twenty largest services exporters are shown in Table 4 below. The United States dominates services exports again with over 14 percent of exports; this is over twice the value of exports from the second largest exporter, the United Kingdom.

While China and Hong Kong maintain strong growth rates, India is also growing fast and moving up the ranks. The Republic of Korea and Canada have also increased their position in the top twenty.

Ireland remains a strong performer in services exports, reflecting the sectors of foreign firms operating and exporting from Ireland. Ireland hosts the services operations of many manufacturing firms as well as financial services and computer services firms. In 2012, half of Ireland's exports were in services; for the first time services exports exceeded services imports.

Table 4 World Rank of Exporters by Country (Services), 2012

Rank 2012	Exporter (Services)	Services Exports, 2012 (US$ billion)	Share 2012	Change in Rank since 2008	Annual growth rate, 2008-2012, percentage
1	United States	621.2	14.3	0	4.4
2	United Kingdom	280.0	6.4	0	-0.1
3	Germany	257.2	5.9	0	0.6
4	France	210.7	4.8	0	6.4
5	China	190.4	4.4	0	6.8
6	Japan	142.4	3.3	0	-0.7
7	India	140.7	3.2	3	7.1
8	Spain	135.8	3.1	-1	-1.1
9	Netherlands	131.2	3.0	-1	1.6
10	Hong Kong, China	123.4	2.8	3	7.6
11	Ireland	115.5	2.7	0	3.9
12	Singapore	111.9	2.6	0	3.1
13	Korea, Republic of	109.6	2.5	2	5.2
14	Italy	102.9	2.4	-5	-2.5
15	Belgium	94.7	2.2	-1	1.4

Rank 2012	Exporter (Services)	Services Exports, 2012 (US$ billion)	Share 2012	Change in Rank since 2008	Annual growth rate, 2008-2012, percentage
16	Switzerland	90.2	2.1	0	4.6
17	Canada	77.5	1.8	3	3.8
18	Sweden	76.0	1.7	0	2.3
19	Luxembourg	69.7	1.6	0	0.8
20	Denmark	64.7	1.5	-3	-2.5

Source: WTO, Forfás calculations

World Services Imports

As in goods, the United States remains the world's largest importer of services (see Table 5). As expected the emerging markets China, India, Brazil and the Russian Federation have high shares of import demand, as well as high per annum growth rates. Singapore, Australia and the United Arab Emirates have high growth rates also.

Ireland's high demand for services imports is primarily comprised of the imports of business services, including trade-related services, and royalties and licences.

Table 5 World Rank of Importers by Country (Services), 2012

Rank 2012	Importer (Services)	Services Imports, 2012 (US$ billion)	Share 2011	Change in Rank since 2008	Annual growth rate, 2008-2012, percentage
1	United States	411.1	9.9	0	2.4
2	Germany	293.4	7.1	0	0.1
3	China	280.2	6.7	2	15.4
4	Japan	174.8	4.2	0	1.1
5	United Kingdom	173.9	4.2	-2	-2.9
6	France	172.1	4.1	0	5.3
7	India	127.5	3.1	5	9.8
8	Netherlands	119.2	2.9	0	1.7
9	Singapore	117.7	2.8	5	7.8
10	Ireland	112.1	2.7	-1	0.3
11	Korea, Republic of	107.1	2.6	0	2.9
12	Canada	105.2	2.5	1	4.7

Rank 2012	Importer (Services)	Services Imports, 2012 (US$ billion)	Share 2011	Change in Rank since 2008	Annual growth rate, 2008-2012, percentage
13	Italy	104.7	2.5	-6	-4.5
14	Russian Federation	104.2	2.5	2	9.1
15	Belgium	92.2	2.2	0	2.2
16	Spain	89.2	2.1	-6	-4.0
17	Brazil	77.8	1.9	6	15.0
18	Australia	63.0	1.5	2	7.3
19	United Arab Emirates	63.0	1.5	6	10.2
20	Denmark	57.4	1.4	-3	-1.7

Source: WTO, Forfás calculations

2.4. Breaking barriers to trade, growth and jobs

Trade agreements are a stimulus for economic growth and jobs. The EU has estimated that if all their current free trade talks were agreed there would be a 2.2 percent increase in the EU's GDP and a 1 percent increase in jobs.[3] Trade agreement negotiations are long and arduous processes involving very technical, and often tedious, discussions but the successful conclusion of agreements provide valuable opportunities to exporters to access markets. Trade agreements also improve access to imports providing benefits for the competitiveness of enterprises in Ireland and consumers.

Tariffs act like a tax on the imports of products into a market making the goods more expensive and so reducing the demand for the good. A reduced or zero tariff on a good when exporting to a market reduces the cost of goods so that more will be demanded in the market. Tariffs are also complex to apply and their imposition adds administrative costs to firms as well as the cost of the tariff itself.

Non-tariff barriers are another form of protectionism to make it harder for foreign suppliers to enter a market. These barriers are more difficult to analysis and to quantify the costs but place massive burdens on businesses. Non-tariff barriers also have more relevance for services than tariffs do. Non-tariff barriers include: administrative burdens on trade, such as licences; limits to the amount of a good that can be imported (quotas); standards, and embargos, such as bans on beef etc.

Key EU Bilateral Trade and Investment Agreement Negotiations

Multilateral trade negotiations in the World Trade Organisation have not progressed since 2008 and this has led to an increased focus on bilateral agreements. The European Commission has the competence to negotiate international trade and investment agreements on behalf of all Member States, including Ireland. Since the adoption of the Lisbon Treaty, the EU can also negotiate agreements relating to foreign direct investment.

While the EU is our most important trading market, the share of demand in the rest of the world is growing. Therefore it is important for Ireland that there are institutional frameworks in place to assist in building trade and investment relationships with other markets. Below are synopses of some of the agreements that the EU is negotiating which have particular interest for Ireland.

United States

The level of Ireland's existing economic relationship with the United States in trade and investment cannot be understated. Negotiations for the Transatlantic Trade and Investment Partnership (TTIP) were launched in July 2013. The EU and US concluded a second round of the TTIP negotiations in Brussels in November 2013. A study by the Centre for Economic Policy Research has estimated that an ambitious and comprehensive agreement would give economic gains of €119 billion per year for the EU.[4]

Europe is particularly keen to access the US government procurement market, but there are concerns in some Member States about protecting the EU's cultural and audio-visual services market. Procurement may be a difficult issue to resolve as many procurement rules are established at the state or local level and are not decided at a Federal level with the US. Tariffs between the

[3] European Commission Memo, 'The EU's bilateral trade and investment agreements – where are we?' 8 October 2013

[4] Centre for Economic Policy Research (March 2013) 'Reducing Transatlantic Barriers to Trade and Investment'

EU and US are low already, with the exception of those on agricultural products.[5] The US is concerned with their beef and cereals exports, whereas the EU is interested in increasing market access for dairy.

The reduction or elimination of non-tariff barriers, while maintaining the health and safety of consumers and protecting the environment, will save costs and time for businesses. Of particular interest to Ireland in the negotiations will be the non-tariff barriers in relation to food, chemicals and pharmaceuticals, and health-related products including medical devices.

Services trade, including the mobility of people, will be high on the agenda. The analysis of benefits brought about by an agreement in services trade is hampered by the lack of data, not just in the current datasets but in the definition of how services are measured, as some modes of services trade are not currently captured in trade data; for example, where an office is established in the destination market. Intellectual property rights will also be an important element to any agreement.

Canada

The future trade agreement with Canada will provide large potential benefits. The EU and Canada reached political agreement on 18 October 2013 on the main points of a trade agreement (CETA). Under the agreement 99 percent of tariffs will be removed, increasing trading opportunities between Ireland and Canada. Access will be given to a multi-billion dollar public procurement market. The next steps will be for the European Council and the European Parliament to approve the agreement.

Japan

In April 2013, the EU and Japan began negotiations on a free trade agreement. Working groups have been established on trade in goods, services, investment, competition, government procurement and sustainable development. The European Commission has been clear to Japan that if after one year that Japan is not showing progress on removing certain non-tariff barriers that it will 'pull the plug'.[6] Automobiles, agriculture, and non-tariff barriers will be the main difficulties. For Ireland, the removal of the beef ban, which is likely to happen soon in any case, liberalisation of pork imports, and reduced dairy tariffs are the main interests, including high tech and specialised manufacturing, and business and financial services.

While the Commission calculations show benefits for the EU as a whole there is no breakdown by Member State but Ireland is likely to be in the middle range of beneficiaries. An agreement with Japan could also deliver new opportunities beyond better access for Ireland's existing trade and investment patterns.

[5] Trade-weighted tariffs in the US are 4.5 percent on agricultural products and 2 percent on non-agricultural products; in the EU these tariffs are 9.9 percent on agricultural products and 2.4 percent on non-agricultural products.

[6] DG Trade ' The EU's bilateral trade and investment agreements – where are we?' p2 http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150129.pdf

China

In October 2013, the European Council adopted a mandate to allow the European Commission to begin negotiations with China on an Investment Agreement. Member States are being consulted by the Commission in the Trade Policy Committee on the proposals for negotiations.

Since 2011, negotiations to upgrade the 1985 Trade and Economic Cooperation Agreement have been stalled due to different mandates and expectations by the parties.

Singapore

Negotiations for an EU Free Trade Agreement were concluded at the end of 2012. It is expected that the agreement will come into effect by late 2014. As trade negotiations began before the EU's mandate for investment negotiations, talks on investment are still ongoing. Singapore is also a member of ASEAN.

ASEAN (Association of Southeast Asian Nations)

In addition to Singapore, the EU is also in trade talks with three other members of ASEAN: Malaysia; Vietnam; and Thailand.

Republic of Korea agreement – initial signs of strong gains for Ireland

The free trade agreement between the EU and the Republic of Korea came into effect in July 2011. This agreement was the first of the new types of the 'next generation' agreements that were more ambitious and comprehensive than before.

While it is probably too early to assess the full impact of the agreement on Ireland, the initial evidence suggests that there have been strong trade gains for Ireland. Comparing the exports from Ireland to the Republic of Korea in 2010, the year before the commencement of the FTA, with the exports in 2012, the year after the agreement come into force, there was a total increase in goods exports of 23 percent, to €356 million. The increase shown in services exports over the same period was an astonishing 180 percent increase over the two years to €590 million. In services, over half (57 percent) of Irish exports to the Republic of Korea are in Business Services, these exports are predominately Operational Leasing and Merchanting. Exports to the Republic of Korea from the EU as a whole are also growing strongly.

Regional Trade Blocs & Third Party Trade Agreements

Many of the countries that the EU is engaged in trade and investment agreement negotiations with are already in bilateral negotiations with third parties or in regional trade negotiations to develop closer unions with their neighbouring countries. It is important that the EU successfully concludes negotiations with these countries quickly so as to not disadvantage the EU if the countries in question agree other free trade agreements or enter into regional trading blocs.

3. Irish Trade Performance

Continued but slowing export growth in goods, strong services trade growth	▪ Ireland's exports were €182 billion in 2012, split almost evenly between goods and services, increasing by 5.4 percent on 2011. ▪ The growth in goods exports has slowed to 0.5 percent on the previous year, but growth in services exports was strong at almost 11 percent. The impact of the ending of pharmaceutical patents is impacting on goods exports results – the value of exports in this sector declined by €1.8 billion in 2012. ▪ In 2012, the value of exports was at its highest level ever, in nominal terms, but results for the first half of 2013 show a 1.5 percent decline in total exports: goods exports have fallen by 6.4 percent; and services exports have increased by 3.7 percent. ▪ Net exports have offset some of the decline in GDP in recent years, the first six months of this year has seen a reverse in this trend due to stagnant goods exports.

Irish goods exports - high sectoral concentrations - Pharma & Computer services	▪ Irish exports remain concentrated in a number of sectors.
	▪ Goods exports:
	    ▪ 'Chemicals' accounted for 60 percent of total goods exports in 2012 – up from 51 percent in 2008. This share is continuing into 2013.
	    ▪ 'Miscellaneous manufactured goods', at 12 percent of goods exports in 2012, optical goods and medical devices are included in this export category.
	    ▪ At 11 percent of goods exports, 'Machinery and Transport Equipment' (which includes computers and office machinery) is the next biggest sector.
	    ▪ Exports of 'Food and Live Animals' and 'Beverages and Tobacco' together grew their total share to over 10 percent of goods exports in 2012.
	▪ Services exports have grown to 50 percent of total exports. Within services exports:
	    ▪ 'Computer Services' has grown to 40 percent of services exports. Data for 2013 indicate a growth in the share of computer services in services exports to over 42 percent.

Irish exports concentrated in small number of markets	▪ Over a third of our goods exports go to two countries: the United States, at 20 percent of goods exports, and the United Kingdom, at nearly 17 percent. This concentration makes Ireland vulnerable to country-specific as well as global shocks, and vulnerable to currency movements. ▪ Half Ireland's services exports go to five destinations: United Kingdom, Germany, United States, France, and Italy.

	▪ Switzerland, Japan, Canada, Mexico, Saudi Arabia, the Russian Federation and Israel have the highest growth rates for Irish goods exports out of our main destinations. ▪ The destinations of Irish services exports that are growing fast are Japan, China, Sweden, Australia, India, Canada, Denmark, Norway and Finland.
Largest share of exports from agency-assisted firms	▪ Over four-fifths (82 percent) of exports from Ireland in 2011 were from companies that are clients of the enterprise agencies; up from 72 percent in 2001. ▪ Seventy four percent of exports are attributable to agency-assisted firms that are foreign-owned, and the remaining 8 percent are from indigenous firms. Just under a fifth of exports (19 percent) are from firms that are not assisted by the enterprise agencies. This includes some IFSC-related exports and air transport exports. ▪ The large proportion of exports from foreign-owned firms highlights the importance of foreign direct investment in the Irish economy and the inter-related nature of trade and investment. ▪ The export intensity of indigenous agency-assisted firms has risen from 36 percent to 51 percent in the last decade.

3.1. Continued but slowing export growth

Ireland's exports were €182 billion in 2012, split almost evenly between goods and services. The growth in goods exports has slowed to 0.5 percent on the previous year, but growth in services exports was strong at almost 11 percent (Table 6).[7]

Table 6 Summary of Irish Trade, 2012

	2012	Increase over 2011	Share of Total, 2012
	€ billion	**Percentage change**	**Percent**
Goods Exports	91.7	0.5	50.4
Services Exports	90.3	10.8	49.6
Total Exports	182.0	5.4	
Goods Imports	49.2	1.8	36.1
Services Imports	87.1	4.7	63.9
Total Imports	136.2	3.6	
Net exports (Total)	**45.9**	**11.0**	

Source: Goods data: CSO External Trade; Services data; CSO Balance of Payments, Forfás calculations

In 2012, the value of exports was at its highest level ever, in nominal terms, but results for the first half of 2013 show a 1.5 percent decline in total exports compared with the previous period in 2012: goods exports have fallen by 6.4 percent; and services exports have increased by 3.7 percent. In goods, most sectors have seen some decline in exports, with Chemicals showing a large decline. 'Food and Live Animals' exports have increased over the period. An 11 percent increase in computer services in the first six months of this year has driven the increase in services exports.

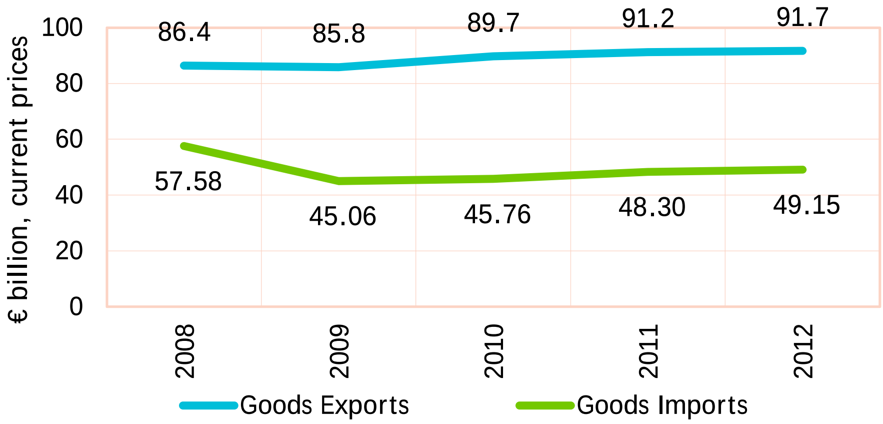
Figure 2 Irish Exports, € billion, current prices, 2003-2012

Source: CSO, External Trade and Balance of Payments data (StatBank)

[7] Goods data – CSO External Trade; Services data – CSO Balance of Payments

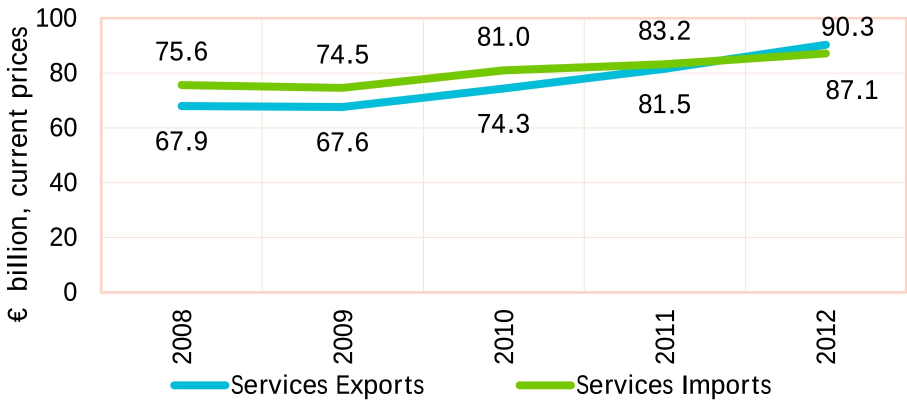
Figure 3 and Figure 4 below show the trends of goods and services exports and imports in the last five years. In 2012, for the first time services exports exceeded services imports creating positive net services exports. The trend in services growth continues to be strong. The first half of 2013 has shown a 5 percent decline in goods exports, compared to the first six months of 2012 (seasonally adjusted); while services exports grew at 4 percent over the same period.

Figure 3 Irish Goods Trade, € billion, current prices, 2008-2012



Source: CSO, External Trade

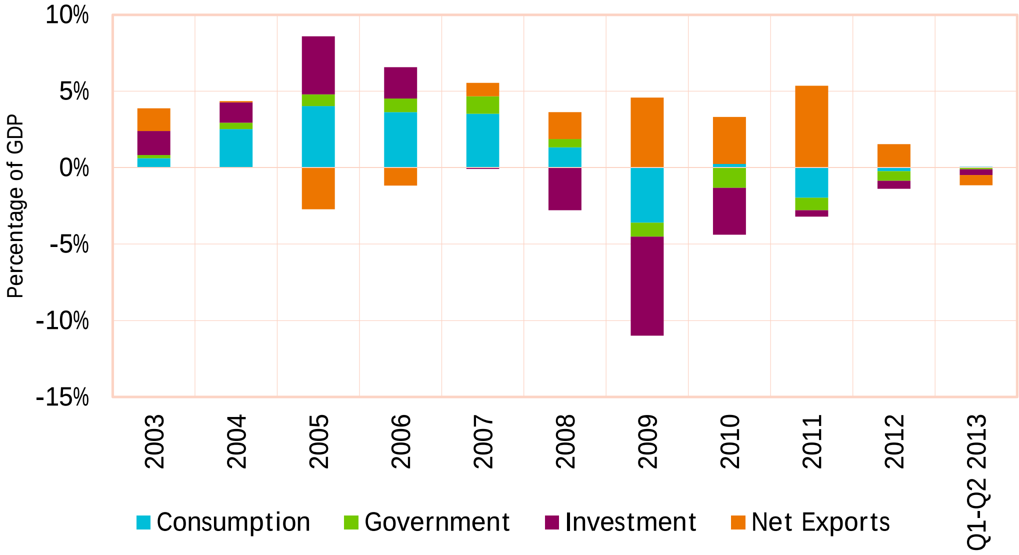
Figure 4 Irish Services Trade, € billion, current prices, 2008-2012



Source: CSO, Balance of Payments

As shown in Figure 5, net exports have been the main positive contribution to GDP since 2009. Net exports have offset some of the decline in GDP since the recent domestic economic difficulties have begun. However, the first six months of this year has seen a reverse in this trend due to stagnant goods exports, with declines in the value of goods exports across all sectors, apart from food exports.

Figure 5 Components of Irish Economic Growth (GDP), 2003- 2013 (Q1-Q2)

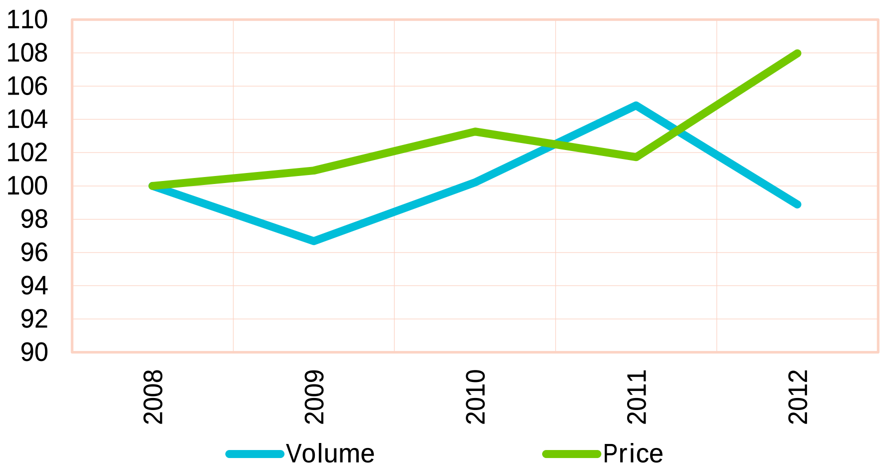


Source: Forfás analysis of CSO National Accounts data

Prices of exports rising again; volumes fell in 2012

In the past number of years rising Irish export results were attributable to increases in the volume of exports, but prices were falling. In 2010 and 2011, volume increases were driving the increase in the total value of goods exports, while the price index for exports remained largely flat. This trend has shifted in 2012, with the trade volume index for exports falling by 6 percent, and the trade price index for exports increasing by 6 percent. This indicates that the total export figure in goods is now being driven by price increases, as volumes declined in 2012. However, the price index of exports, with a base of 100 in 1990, was 105.8 in 2012, still well below its high of 120.9 in 2001.

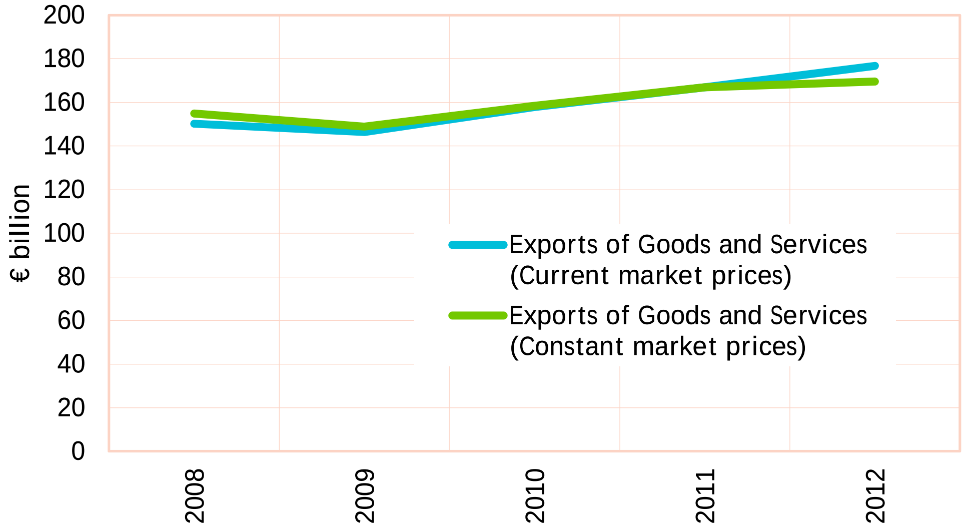
Figure 6 Goods Exports: Volume and Price Indices 2008 to 2012 (2008=100)



Source: CSO External Trade, rebased to 2008 by Forfás

Figure 7 shows the total goods and services exports in current and constant prices, taken from National Accounts data. While this data includes services also, it confirms the trend shown in goods that the overall increase in exports is being driven by price increases.

Figure 7 Total exports goods and services, current and constant prices, € billion, 2008-2012



Source: CSO National Accounts

Box 1 Exports from Agency-assisted firms

Forfás conducts an annual survey of the client companies of the enterprise development agencies, the Annual Business Survey of Economic Impact. Over four-fifths (82 percent) of exports from Ireland in 2011 were from companies that are clients of the enterprise agencies; this has risen from 72 percent of exports in 2001.

Nearly three-quarters (74 percent) of total exports are from foreign-owned agency-assisted firms, with a further 8 percent of exports coming from Irish-owned firms. Almost a fifth of exports (nearly 19 percent) are from firms that are not assisted by the enterprise agencies. This includes some IFSC-related exports and air transport exports.[8]

The high proportion of exports attributable to foreign-owned firms in Ireland underscores the massive contribution of inward FDI to the Irish economy, and illustrates the important relationship between trade and investment.

However, this makes Irish trade performance vulnerable to a number of factors that are outside of traditional trade policy, with the investment environment and international competitiveness taking on greater significance in ensuring export-led growth.

In 2011, exports from indigenous agency-assisted firms grew by nearly 17 percent over the levels in 2010. Among Irish-owned agency-assisted firms, the export intensity (exports as a percentage of total sales) has been increasing. The export intensity of indigenous agency-assisted firms has increased from 36 percent to 51 percent in the last decade; this has been due to a fall in domestic sales as a result the economic crisis, coupled with an increase in exports.

[8] It is not possible to map ABSEI data relating to agency-assisted exports to CSO export data to get a clearer picture of the exports from non-agency assisted firms as different classification systems are used.

3.2. Ireland's Exports: Concentration in Sectors

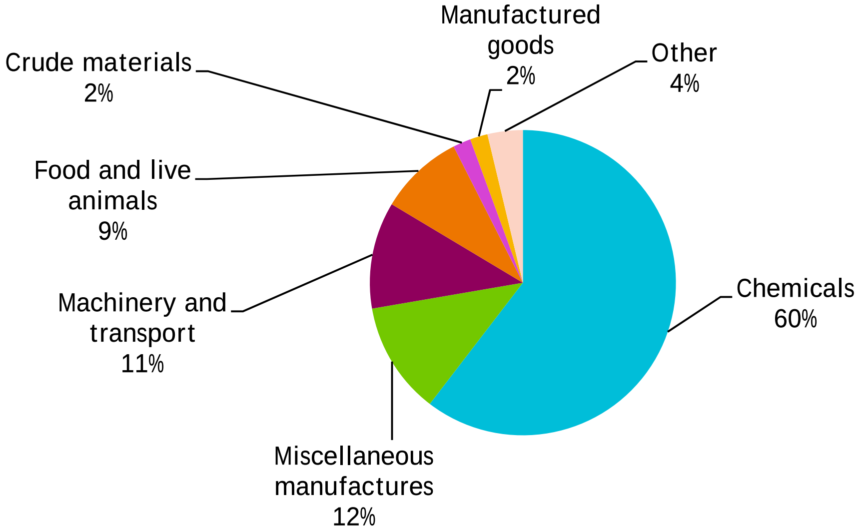
The data below highlight Ireland's reliance on a number of key sectors: primarily, chemicals, including pharmaceuticals, and computer services. While pharmaceuticals have been sheltered from the global downturn, the sector in Ireland is at risk from the ending of many patented products. Both chemicals and computer services firms tend to be dominated by foreign-owned firms which make Ireland vulnerable to changing corporate strategies.

Ireland's Goods Exports Sectors

At 60 percent, Chemicals exports still account for a very large proportion of the value of total goods exports (Figure 8), growing from just over half of goods exports in 2008. Data for 2013 indicate that this share of goods exports is continuing, although there is a slight decline due to falling exports in pharmaceuticals. The Chemicals category of exports from Ireland is largely comprised of pharmaceutical products, some food and beverage flavouring, as well as other chemical products. Pharmaceutical demand is acyclical and has heretofore been a primary reason why Ireland's export performance has been sheltered from the international economic crisis. However, the end of patents on some pharmaceutical products is now beginning to impact on the export results in this vital sector. The value of exports of pharmaceutical products fell by €1.8 billion in 2012.
A rule of thumb in examining trade indicators is that when more than half of exports come from one sector it is considered a concentrated export market[9]; diversification should therefore be considered.

'Miscellaneous manufactured goods', at 12 percent of goods exports in 2012, optical goods and medical devices are included in this export category. At 11 percent of goods exports, 'Machinery and Transport Equipment' (which includes computers and office machinery) is the next biggest sector. The large fall in exports in this sector since 2008 (Figure 9) is the result of the closure of Dell's manufacturing operation in Limerick. The exports of 'Food and Live Animals' and 'Beverages and Tobacco' together made up 10 percent of total goods exports in 2012.

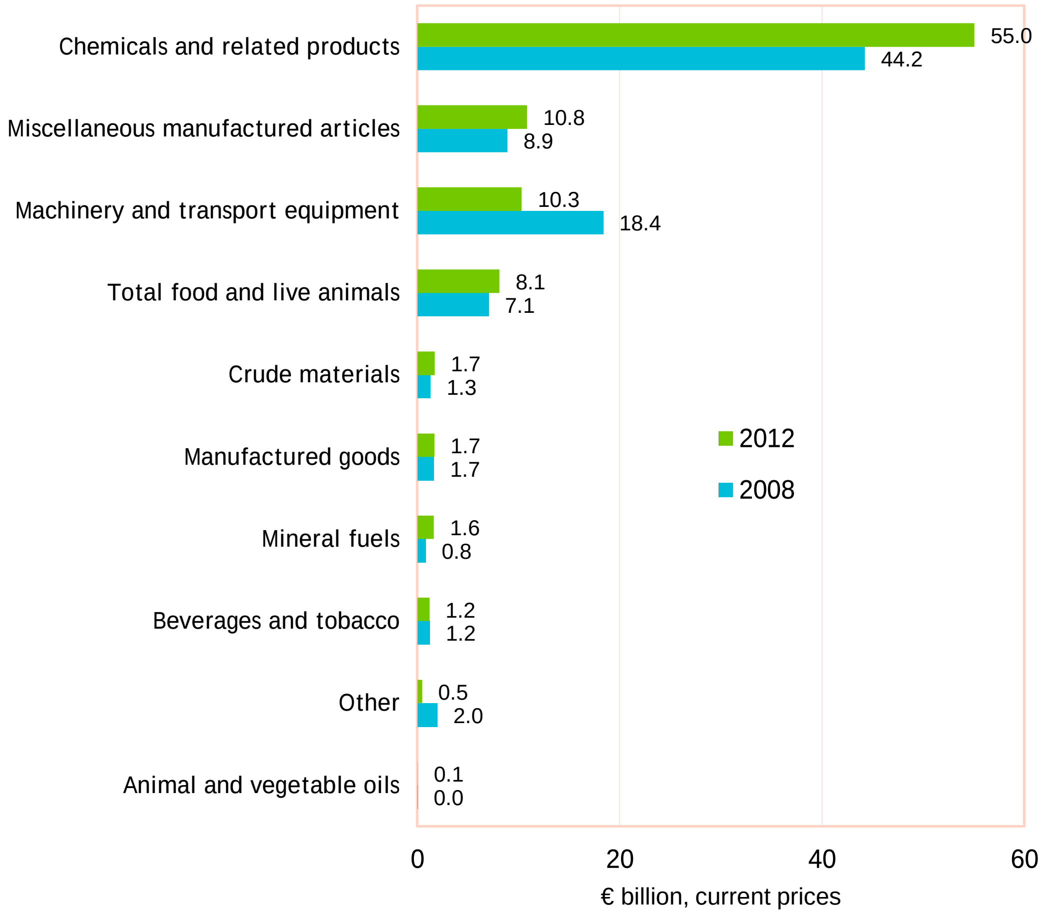
Figure 8 Irish Goods Export Share by Category, 2012



Source: CSO External Trade, Forfás calculation

[9] UNESCAP

Figure 9 Irish Goods Export by Category 2008 and 2012, € billion, current prices



Source: CSO External Trade, Forfás calculations

Box 2 Impact of Pharmaceutical Patents Ending

A recent paper[10] by John FitzGerald in the ESRI has examined the impact that the end of a pharmaceutical patent of a product produced in Ireland has from the perspective of Irish national accounts. Products coming off-patent is a normal part of restructuring of a pharmaceutical company and the patent cliff has been known about for some time.

In the short term the impact is much smaller than might be imagined. The components of national income will be affected, but the impact on national income will be small. In the longer-term job losses are a risk, as production moves to lower-cost locations. The Department of Finance has also released a working paper on this topic[11].

Once a product comes off patent it is likely that the price will be reduced to deter new entrants from making the generic drug. As the product is off-patent the costs of manufacture are reduced as royalties do not need to be paid.

[10] John FitzGerald, ESRI Research Note 'The Effect on Major National Accounting Aggregates of the Ending of Pharmaceutical Patents' October 2013

[11] Shane Enright & Mary Dalton, 'The Impact of the Patent Cliff on Pharm-chem Output in Ireland' Department of Finance Working Paper Series No. 1 2013

Short term impacts

The ESRI note there are two ways in which a pharmaceutical product coming off patent might be treated in the national accounts system, which in turn is dependent on the accounting model used by the firm producing the product that no longer requires a patent:

1. The revenue reduces as the price of the off-patent product is reduced, but the cost of production also reduces as royalty payments are no longer made. So, the value of exports goes down, but the value of imports in the form of royalty payments goes down too. Thus, there is minimised impact on net exports and so GDP and GNP do not change if the price goes down by the same value as the royalty; or

2. The impact of the lost patent is treated as a reduction in profits earned in Ireland. Gross output and exports reduce. The Gross Value Added of the sector will decline by the fall in gross output. The decline in profits would lead to a decline in revenue from corporation tax. The means GDP will not change after the patent ends, but GNP will decline slightly as profits being remitted to parent companies abroad will fall but not as much as the decline in gross output as the amount of tax paid in Ireland has also fallen.

In summation, in the short-term the impact of the end of a drug's patent on national accounts aggregates means that GDP will stay the same and GNP will either remain the same or decline slightly.

The simulations in the Department of Finance paper indicate that there may be a decline of 2 to 4 percent in GDP over a four-year period. The simulations do not take account of substitution effects that are likely to occur.

Longer-term impacts

Potential longer term impacts could be more challenging; intensified by the large share of our exports that are in the pharmaceutical sector. In 2012, 27 percent of total goods exports were Pharmaceutical products.

The manufacture of generic drugs still requires a large investment in infrastructure and approvals for drug production even in the absence of patents. These costs are a barrier to entry to manufacturers but in the longer term firms in lower-cost locations will begin to compete in product markets where patents have ended. These competitors may impact on future jobs in Ireland through FDI. In addition, firms established in Ireland may also move production to other locations resulting in job losses here.

In the longer-term, job losses associated with the closure of plants in Ireland could have a much larger impact on GDP and GNP than the initial impact of a product patent ending.

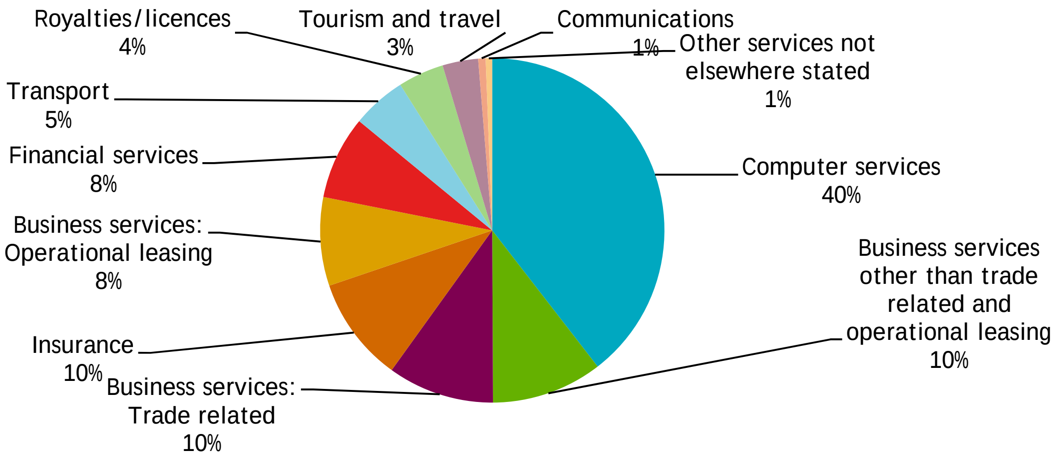
The working paper written by Department of Finance is less pessimistic regarding the longer term impacts as the pharmaceutical sector in Ireland has been engaging in continued investment and the subsidiaries based in Ireland are positioning themselves within their global supply chains. Also, Ireland has been shown how its sectoral mix can change over time to accommodate the shifting investment profile of FDI.

Ireland's Services Exports Sectors

Services exports now make up half of all exports, and have been growing rapidly (see Figure 10 and Figure 11). 'Computer Services' accounted for 40 percent of total services exports from Ireland in 2012. In Ireland, the CSO includes the royalties and licence fees for software in this category. Half-year data for 2013 shows this sector has risen to 42 percent of services exports.

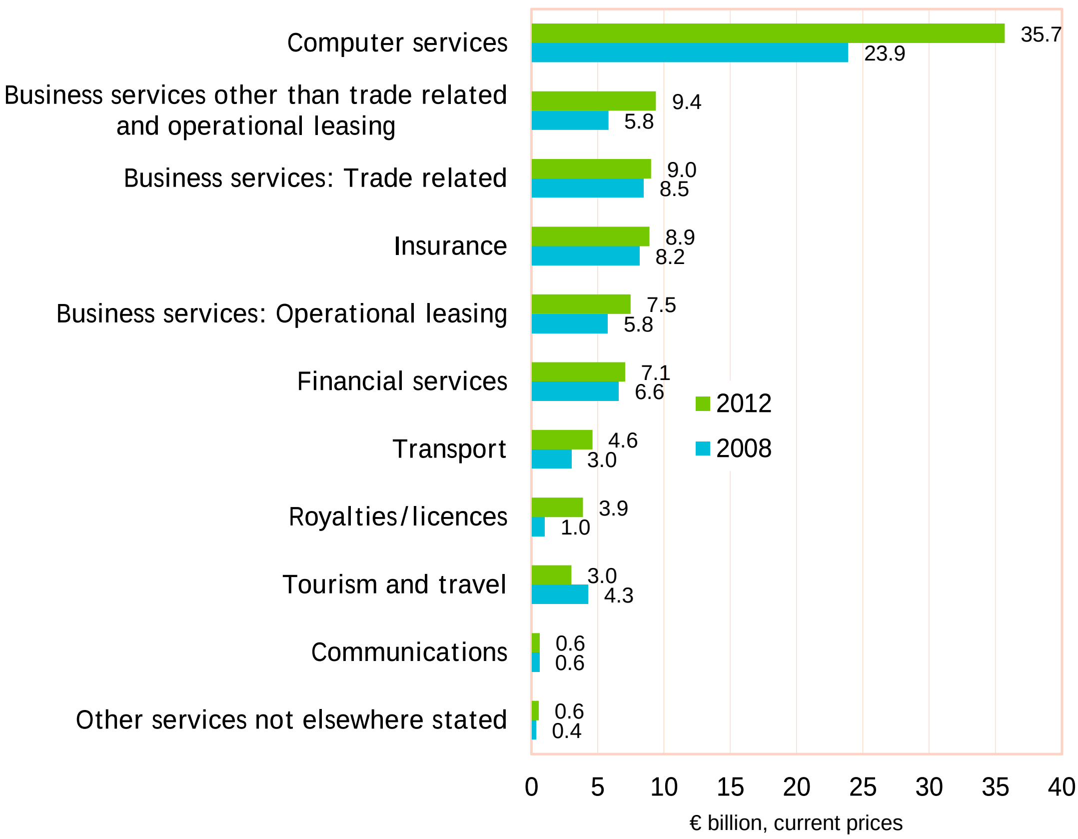
Services exports are more diverse than goods exports, even with 'Computer Services' as the dominant sector, as exports are more evenly spread across sectors.

Figure 10 Irish Services Exports Share by Category, 2012



Source: CSO Balance of Payments, Forfás calculations

Figure 11 Irish Services Exports by Category, € billion, current prices, 2008 and 2012



Source: CSO Balance of Payments, Forfás calculations

3.3. Ireland's Imports

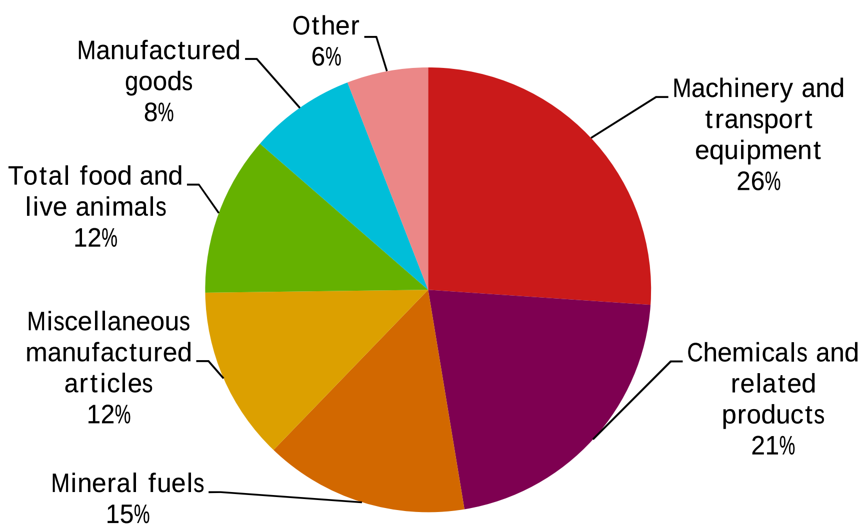
Imports contribute to the competitiveness agenda in a number of ways: they impact on costs, including pay costs through their impact on inflation; productivity and innovation. Sourcing imports in a wider variety of countries can contribute to a number of important policy objectives, including security of supply, reducing currency risk, increasing business relationships, and may even contribute to global development goals, as trade is more effective than aid.

Imports provide an important, dynamic means for growth in enterprises, as they are an important factor in research and development through technology transfer and innovation. For consumers also, technology transfer, through technology adoption is an important spill-over benefit that imports provide to the whole economy. Consider the recent widespread adoption of smartphones in Ireland: for the most part they are an imported product, yet they provide opportunities for the creation of consumer services by Irish software providers through app and game development.

Ireland's Goods Imports Sectors

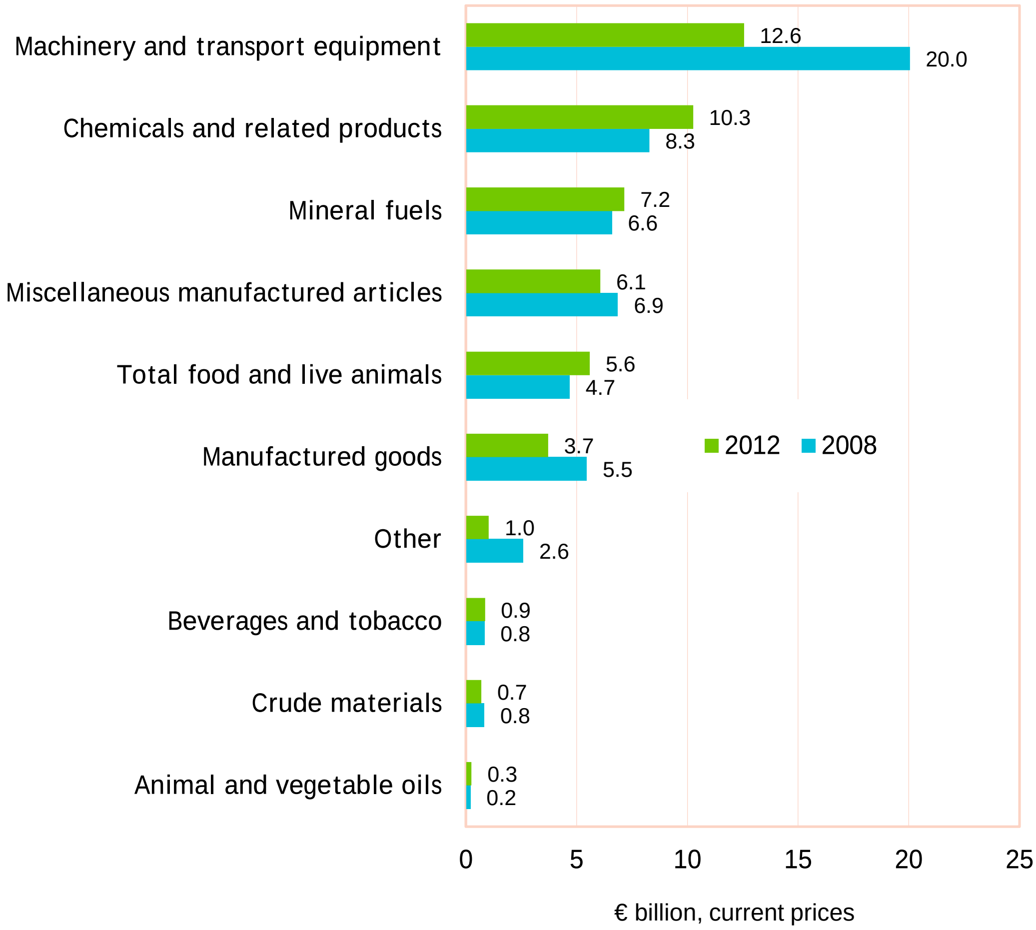
Figure 12 and Figure 13 shows Ireland's goods imports by sector. Goods imports are just over half the value of goods exports. While Chemicals is the largest export category in goods, they are second in goods imports at €10.3 billion, reflecting the international production chains in pharmaceutical products. 'Machinery and Transport Equipment' is the highest category of imports at €12.5 billion; it is this sector that has seen the most dramatic fall in the last five years, primarily driven by the huge fall in demand for consumer products, such as cars.

Figure 12 Irish Goods Imports Share by Category, 2012



Source: CSO External Trade

Figure 13 Irish Goods Imports by Category, € billion, 2008 and 2012



Source: CSO External Trade

Ireland's Services Exports Shares by Category: Markedly Different to Import Shares by Category

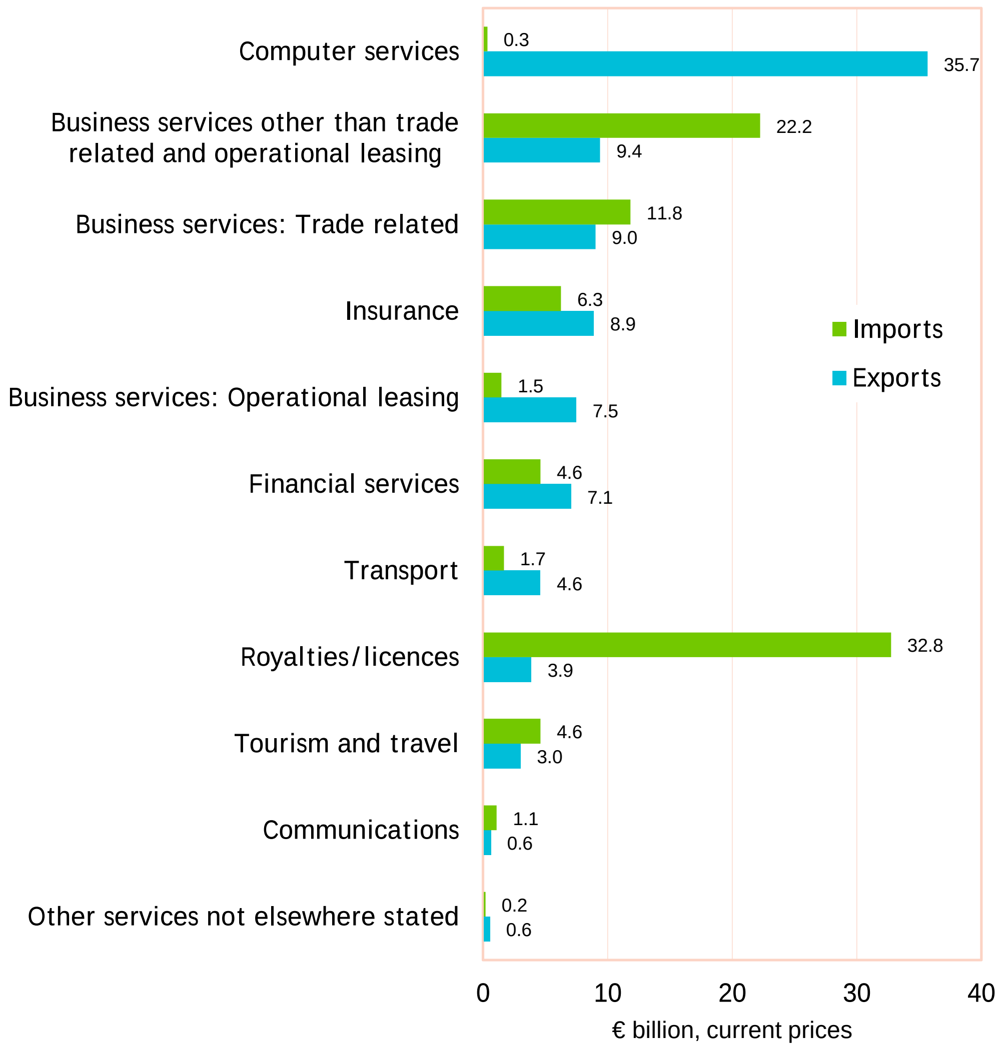
Royalties and Licences

The comparison of services exports and imports depicted in the chart below shows a marked difference between the imports and exports for 'Royalties and Licences'. This category includes fees paid for the use of patents and registered trademarks. This shows a link between Ireland's services imports and goods exports: included in the imports of 'Royalties and Licences' are patents for the production of pharmaceutical products, which form a large part of Ireland's goods exports. Also included in under 'Royalties and Licences' are payments made for franchises and the use of registered trademarks.

To facilitate economic analysis the CSO includes computer software licence fees are included under 'Computer Services' and royalties for music and films are included under 'Other Services'. This is a departure from international standards, in which both of these services are captured under the category of 'Royalties and Licences'. Note also that any computer software that is "embedded in hardware or carried on other physical media"[12] is not included in the services exports, but instead is included in goods exports data.

[12] CSO 'International Trade in Services: Background notes' September 2012

Figure 14 Irish Services Exports and Imports by Category, € billion, 2012



Source: CSO Balance of Payments

3.4. Ireland's Trading Partners: The need to diversify markets

Ireland's exports are concentrated in a small number of destinations. This concentration makes Ireland vulnerable to country-specific as well as global shocks, and vulnerable to currency movements.

The Trade, Tourism and Investment Strategy recognises the importance of maintaining and growing exports to our main trading partners while also realising the potential to increase exports to other Member States, and also to increase exports to new and emerging markets. Among our top twenty destinations for goods exports there are high growth rates to Switzerland, Japan, Canada, Saudi Arabia, the Russian Federation, and Israel, as illustrated in Table 7. Among the top services destinations, there are high growth rates in Ireland's exports to Japan, China, Australia, India, Canada, Denmark, Norway and Finland.

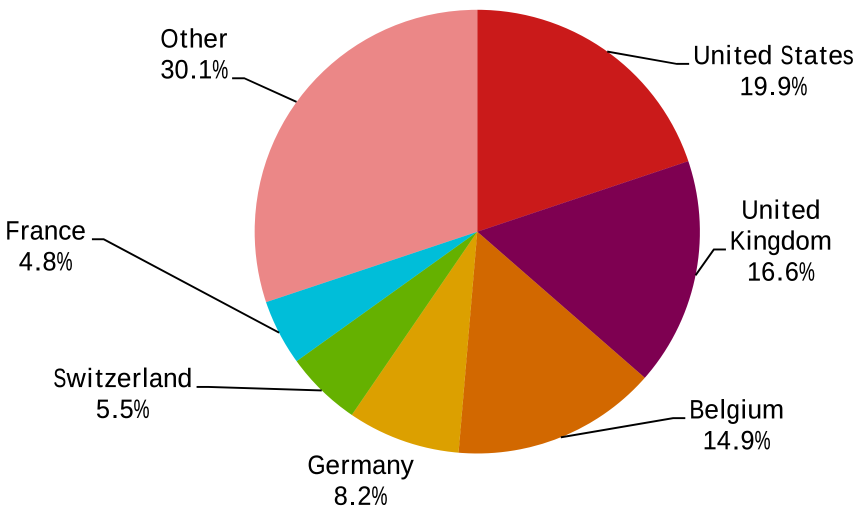
Ireland's Export Destinations

Destinations of Ireland's Goods Exports

Over a third of our goods exports go to two countries: the United States, at 20 percent of goods exports, and the United Kingdom, at nearly 17 percent, as illustrated in Figure 15. Fifty-nine percent of our total goods exports are exported to within the EU; but when the United Kingdom and Belgium are excluded it leaves just under 28 percent going to other EU markets. While Ireland should maintain and grow our exports to our current main partners there is scope to increase our exports in other Member States, and also to increase exports to new and emerging markets.

Fifteen percent of our goods exports go to Belgium; of these, two-thirds are pharmaceutical products. It is likely that from Belgium many of these exports will then be exported to other destinations. However, it is not possible to identify where these destinations are. It may be that there is some value-added production, such as packing or labelling, so it may be that there is more than simply transhipment occurring making it harder to identify the ultimate destination of these pharmaceutical exports from Ireland.

Figure 15 Ireland's main destinations for Irish Goods Exports, percentage share, 2012



Source: CSO, External Trade

Table 7 Ireland's Goods Exports by destination, 2012

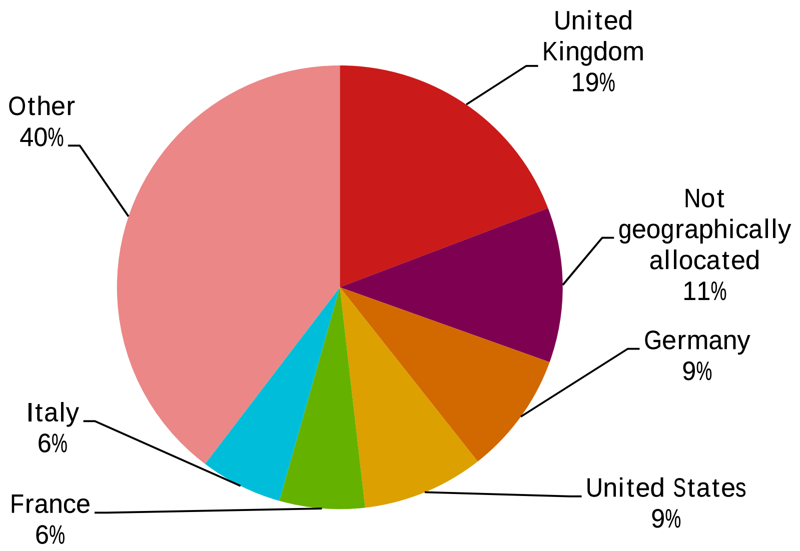
	Destination	2012, € billion	Share of exports 2012, percent	Annual Growth Rate, 2008-2012, percent
1	United States	18.2	19.9	2.2
2	United Kingdom	15.2	16.6	-1.1
3	Belgium	13.6	14.9	2.7
4	Germany	7.5	8.2	5.3
5	Switzerland	5.1	5.5	18.6
6	France	4.4	4.8	-3.4
7	Netherlands	3.3	3.6	2.2
8	Spain	2.8	3.0	-6.2
9	Italy	2.7	2.9	-2.9
10	Japan	2.1	2.3	5.3
11	China	1.6	1.7	-0.7
12	Sweden	0.8	0.9	-2.5
13	Canada	0.8	0.9	18.6
14	Australia	0.7	0.8	-0.8
15	Mexico	0.7	0.7	5.9
16	Poland	0.7	0.7	-2.4
17	Saudi Arabia	0.6	0.7	13.4
18	Russian Federation	0.6	0.7	15.0
19	Hong Kong	0.6	0.7	-4.5
20	Israel	0.6	0.6	29.1
	Other	9.1	10.0	-0.9

Source: CSO, External Trade, Forfás calculations

Destinations of Ireland's Services Exports

Half Ireland's services exports go to five destinations (United Kingdom, Germany, United States, France, and Italy), as depicted in Figure 16 below. The intangibility of services trade means that collecting data is more difficult than for goods trade, so the data is less detailed. The difficulty of getting detailed services trade data is highlighted here, as 11 percent of services exports cannot be attributed to a destination. Table 8 below shows the main destinations of Ireland's services exports; there are high growth rates in Ireland's exports to Japan, China, Australia, India, and Canada.

Figure 16 Destinations of Irish Services Exports, percentage share, 2012



Source: CSO, International Trade in Services (Sept 2012), Forfás calculations

As shown in Table 8 also below, services exports to the UK have grown but their overall share has fallen, yet it still remains the top destination for Irish services exports. However, services exports to the UK are twice the value of services exports to Germany, Ireland's next largest services export market.

There has been a large increase in the exports of services to Japan. Services exports to Japan are mostly Computer Services and Merchanting. Business Services and Operational Leasing are the main types of exports to China, where there have also been high export growth rates for Irish services.

In 2012, almost 8 percent of total services exports were in Merchanting. According to the CSO's services trade methodology:

> *Merchanting consists of sales net of purchases by Irish resident enterprises of foreign goods bought from and sold to non-residents without the goods entering or leaving Ireland. The net profit resulting from these transactions is recorded as a (positive) service export value under merchanting services*[13]

This would suggest that Ireland is being used by many international firms as a service base for its trading operations, including firms that would be associated with manufacturing. In 2014, merchanting will be captured in under goods exports, which will reduce services exports and increase goods exports.

[13] Central Statistics Office *International Trade in Services Background Notes (September 2012)* p6

Table 8 Ireland's Services Exports by destination, 2012

	Destination	€ billion, 2012	Share 2012, percent	Annual growth rate, 2008-2012, percent
1	United Kingdom	17.3	19.2	3.2
2	Not geographically allocated	10.2	11.3	23.7
3	Germany	8.0	8.9	4.8
4	United States	8.0	8.8	14.0
5	France	5.6	6.2	3.7
6	Italy	5.4	6.0	6.5
7	Netherlands	3.9	4.3	8.5
8	Japan	2.7	3.0	23.9
9	Spain	2.7	3.0	7.2
10	China	2.4	2.7	13.9
11	Switzerland	2.1	2.4	7.6
12	Belgium	1.8	2.0	4.8
13	Sweden	1.8	2.0	6.4
14	Australia	1.7	1.8	27.4
15	India	1.4	1.6	35.2
16	Canada	1.2	1.4	22.3
17	Denmark	1.1	1.3	11.1
18	Norway	0.9	1.0	10.4
19	Finland	0.8	0.9	9.4
20	Bermuda	0.8	0.9	-8.9
	Other	10.5	11.6	-2.1

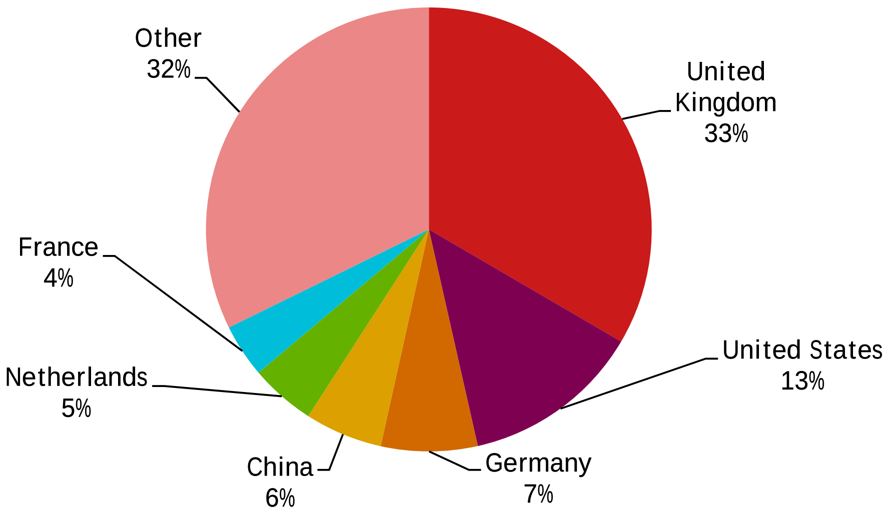
Source: CSO, International Trade in Services (September 2013), Forfás calculations

Origins of Ireland's Imports

Origins of Ireland's Goods Imports

Ireland imports its goods from a very narrow selection of countries. Over half of Irish imports are from three countries (United Kingdom, United States, and Germany). As Ireland's goods imports have fallen significantly in the last number of years there have been declines in the imports of goods from most countries. This leaves Ireland vulnerable to currency movements; and also may mean that competiveness is hampered. As mentioned earlier, sourcing imports in a wider variety of countries will contribute to a number of important policy objectives, including security of supply, reducing currency risk, increasing business relationships, and may even contribute to global development goals, as trade is more effective than aid.

Figure 17 Origins of Ireland's Goods Imports, percentage share, 2012



Source: CSO, External Trade

Table 9 Ireland's Goods Imports by Country of Origin, 2012

	Origin	2012, € billion	Share of imports 2012, percent	Annual Growth Rate, 2008-2012, percent
1	United Kingdom	16.4	33.4	-3.8
2	United States	6.4	13.0	-1.3
3	Germany	3.4	7.0	-7.2
4	China	2.8	5.6	-8.3
5	Netherlands	2.3	4.8	-5.2
6	France	1.9	3.9	-5.5
7	Switzerland	1.0	1.9	16.2
8	Belgium	1.0	1.9	-7.8
9	Norway	0.9	1.9	-7.9

	Origin	2012, € billion	Share of imports 2012, percent	Annual Growth Rate, 2008-2012, percent
10	Italy	0.8	1.6	-12.6
11	Japan	0.7	1.5	-10.5
12	Algeria	0.7	1.5	395.7
13	Nigeria	0.7	1.4	566.9
14	Spain	0.7	1.3	-8.4
15	Brazil	0.5	1.0	24.5
16	Denmark	0.5	0.9	-18.7
17	Poland	0.4	0.8	-4.1
18	Sweden	0.4	0.8	-6.4
19	India	0.4	0.7	8.3
20	Republic of Korea	0.3	0.7	-9.9
	Other	7.0	14.3	-4.0

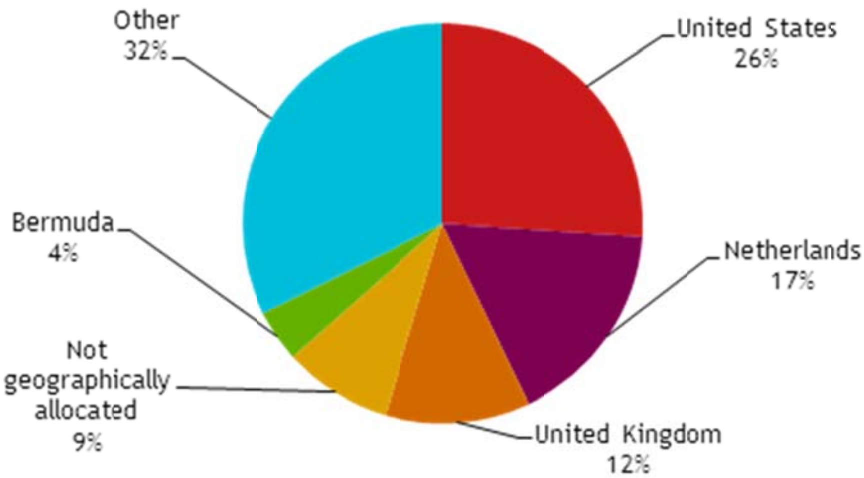
Source: CSO, External Trade, Forfás calculations

The extremely high growth rates in imports from Algeria and Nigeria in the table above are because these imports are starting from a very low base in 2008. The imports from both these countries are primarily consisting of imports of mineral fuels.

Origins of Ireland's Services Imports

Like goods imports, services imports originate from a narrow selection of countries. Over half of services imports are from three countries (United States, Netherlands, and the United Kingdom).

Figure 18 Origins of Ireland's Services Imports, percentage share, 2012



Source: CSO, International Trade in Services (Sept 2012), Forfás calculations

Table 10 Ireland's Services Imports by Country of Origin, 2012

	Origin	€ billion, 2008	€ billion, 2012	Share 2008, percent	Share 2012, percent	Annual growth rate, 2008-2012
1	United States	23.0	22.7	30.4	26.0	-0.4
2	Netherlands	7.3	14.7	9.7	16.9	19.1
3	United Kingdom	11.8	10.2	15.7	11.7	-3.7
4	Not geographically allocated	5.1	7.6	6.8	8.8	10.5
5	Bermuda	2.2	3.7	3.0	4.2	13.2
6	France	3.6	3.2	4.8	3.7	-3.1
7	Germany	3.2	2.9	4.2	3.4	-1.9
8	Italy	2.4	2.5	3.2	2.9	1.2
9	Switzerland	1.4	2.1	1.9	2.4	9.9
10	Belgium	1.5	1.7	2.0	2.0	3.6
11	Spain	2.1	1.6	2.7	1.9	-5.8
12	Japan	0.5	0.9	0.7	1.0	16.3
13	Australia	0.3	0.4	0.4	0.5	7.5
14	Canada	0.3	0.4	0.3	0.5	11.9
15	Portugal	0.6	0.4	0.8	0.4	-9.3
16	Denmark	0.3	0.4	0.4	0.4	2.4
17	Singapore	0.2	0.3	0.2	0.4	16.6
18	Sweden	0.4	0.3	0.6	0.4	-5.9
19	Russian Federation	0.3	0.3	0.3	0.3	0.5
20	Poland	0.3	0.2	0.4	0.3	-7.0
	Other	8.8	10.5	11.6	12.0	4.6

Source: CSO, Balance of Payments, Forfás calculations

4. Tourism

Tourism Performance Improving	▪ Declining tourist numbers and reduced average spend led to large falls in tourism impacts from 2008 to 2011. ▪ There have been increases in spend and tourism numbers in 2012, both increasing by about 1 percent. o Half-year results in 2013, show a 5.4 percent increase in overseas visitors number on the same period in 2012; average spend has increased by 3.1 percent. ▪ Despite a continued decline in visitor numbers from Great Britain in 2012, increases from North America, Mainland Europe and New & Developing Markets, resulted in a 1 percent increase overall in overseas visitor numbers to the Republic of Ireland in 2012.
Accessibility: Air links and visas	▪ Reinstated direct flights to San Francisco in 2014 are hugely important for Irish trade and investment links. ▪ DAA has signed a twinning agreement with Beijing Capital International Airport to develop links between the airports; this is an important step in developing direct flights between the two cities. ▪ The planned Common Travel Area visa for visitors to Ireland and the UK will have a large impact on tourism from the high growth and emerging market. The smaller-scale visa waiver programme in Ireland has already seen a 30 percent increase in visitors from the applicable countries.

4.1. Ireland's Tourism Performance

Visits to Ireland in the early years of the Strategy declined reflecting the world economic crisis and slow levels of growth in the British market. However, visitor numbers returned to growth in 2011 (+5 percent) and 2012 (+1 percent). More than other export sectors, tourism is particularly important from a regional development perspective, as it provides economic stimulus in rural areas, and also provides work opportunities across all skill levels.

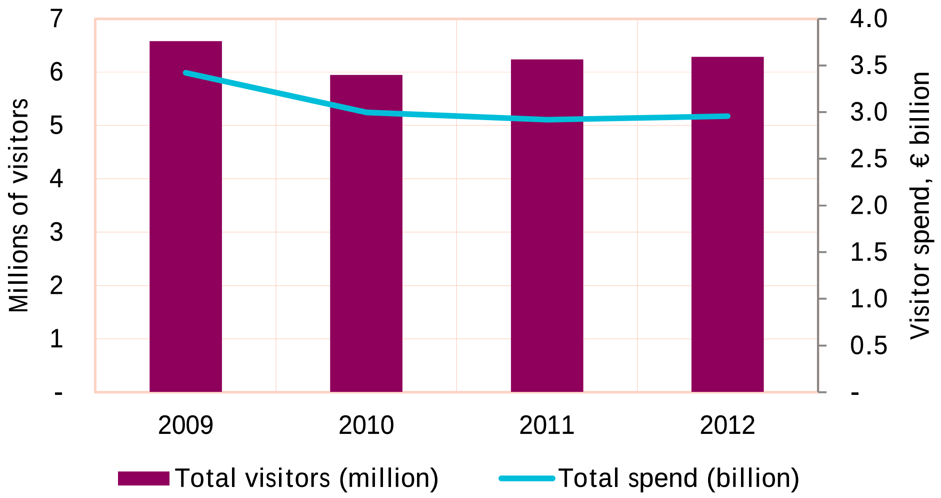
The UN World Tourism Organisation has reported a 5.3 percent increase in global tourism results in the eight months to the end of August 2013; full-year results are expected to show a 4 percent increase.[14] Irish data for the first half of 2013, suggest that visitors numbers are in line with this international upturn, with a 5.4 percent increase in visitors.

Table 11 Number of Visitors to Ireland and Spend, 2009-2012

	2009	2010	2011	2012	Year-on-year change, 2011-2012
Total visitors (million)	6.58	5.95	6.24	6.29	0.7
Total spend (€ billion)	3.42	3.00	2.92	2.96	1.2
Average spend per visitor (€)	520	504	468	470	0.5

Source: Tourism Ireland[15]

Figure 19 Tourism numbers and average spend, 2009-2012



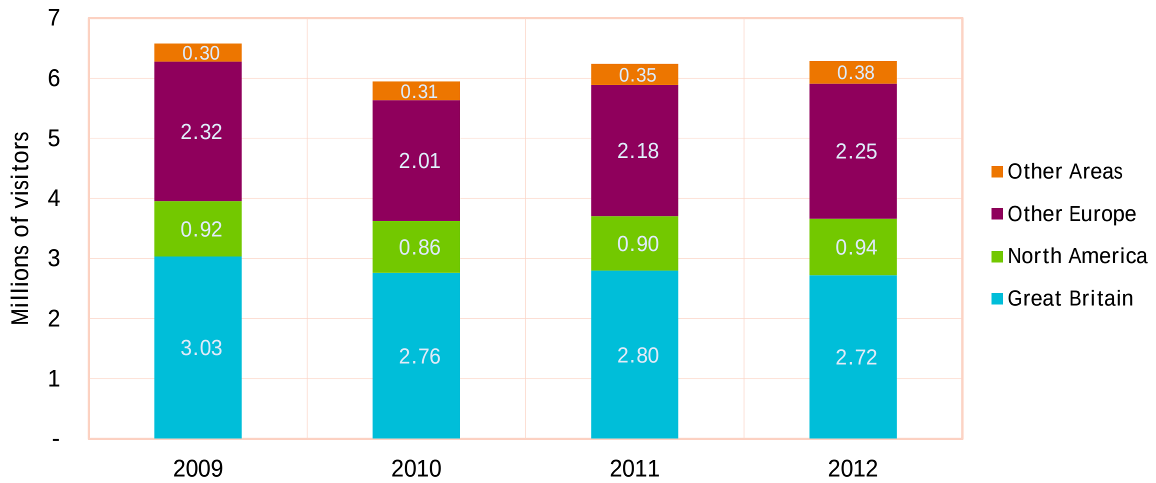
Source: Tourism Ireland

[14] Tourism Ireland 'Situation and Outlook Analysis and Report' October 2013

[15] Tourism Ireland adjusts CSO visitor data to remove the impact of same-day and transit visitors

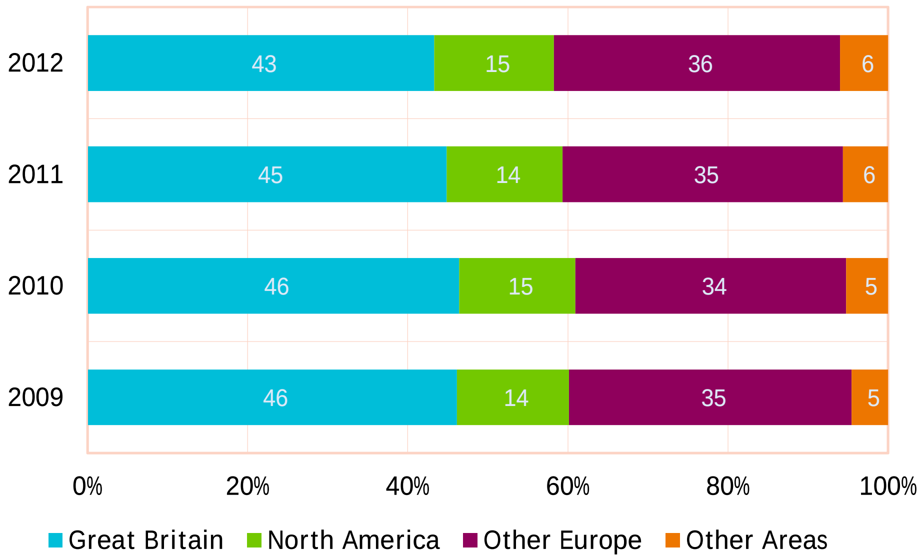
Visitor numbers from Great Britain have fallen dramatically since 2008, and continue to fall in 2012. 'Staycations' and the London Olympics were cited as reasons for the reduced British tourist numbers visiting Ireland. In the past year there have been increases in visitor numbers from other markets, particularly the North American and New and Developing markets, with tourist numbers in 2012 above 2008 levels from these markets.

Figure 20 Origin of Visitors to Ireland (millions of visits), 2009-2012



Source: Tourism Ireland

Figure 21 Origin of Visitors to Ireland (share of visits)



Source: Tourism Ireland

4.2. Accessibility

Air Links – access from Ireland and into Ireland

Transport access to and from Ireland is vital for tourism and enterprise development. More than any other sector tourism is by necessity dependent on good transport links. In order to grow leisure and business travel it is good air connectivity in particular that is essential.

In passenger volume terms Dublin Airport is the most important airport in Ireland. In 2012, 80 percent of air passengers were through Dublin. A fifth of these passengers were business travellers. For the purposes of growing long-haul markets, Dublin Airport is well placed as a gateway to the rest of Ireland. The other Irish airports also have a role in access and regional development.

There has been good progress made by DAA in improving access to long haul markets. Long-haul passengers in Dublin Airport increased by 16 percent in 2012. In 2012, Dublin Airport had 55 airlines flying to 169 destinations. Of these, 31 were scheduled carriers, flying to 150 destinations.

The reinstatement of direct lifts to San Francisco from April 2014, as well as increased daily flights to New York, and a new daily flight to Toronto, are important for the development of our trade and investment links.

Dublin Airport's connections traffic is also growing, largely due to pre-clearance for the US. Sixteen percent of passengers in Dublin Airport are connecting onto another flight; this is important for revenue into the airport but also develops Dublin Airport as a connections hub, which will encourage more flights from long haul destinations.

Ireland's connectivity has improved with the introduction of frequent flights to Abu Dhabi and Dubai with Etihad Airways and Emirates Airline. These destinations offer important onward connections to Africa, India, Southeast Asia and Australia.

However, connectivity to other emerging markets, such as China, is still insufficient and inefficient and current hubbing arrangements by their nature add to passenger and cargo travel times. However, work is onging to develop an airlink between Ireland and China. DAA signed a twinning agreement with Beijing Capital International Airport in July 2013. The cooperation agreement was signed to develop commercial and tourism links between the cities. The agreement enables the two airports to jointly market their offerings to encourage more direct air services between Dublin and Beijing.

Over 30,000 passengers a year travel to Beijing from Dublin connecting via another European or Middle Eastern Airport. Almost the same numbers of passengers travel to Shanghai from Ireland. This demonstrates that there is demand for a direct flight from Ireland. With over 82 new airports being built in China, it is clear this is a growing aviation market. DAA is also building on its airport retail operations, ARI, and has recently opened stores in China.

Visas and access – welcome advancements

Visa are another aspect of access to Ireland that have a large impact on tourism from the high growth and emerging markets, and are also important for business travellers from these countries to Ireland. The progress that has been made on developing a visa system for the Common Travel Area is an extremely welcome advancement in making Ireland a more attractive place for people from the emerging markets to visit and do business. Currently, a Common Travel Area exists between Ireland and the UK, which means that Irish and British citizens can travel freely between both countries. The Department of Justice and Equality is working with the Home Office in the UK on reciprocal visa arrangements between the Common Travel Area that are planned to commence in 2014. This development means that all tourists and business travellers can travel freely between Ireland and the UK on either an Irish or UK visa.

This means that visitors can easily travel to Ireland first and then to the UK. It does not limit the countries under the scheme. In addition, the UK's new visa application process for visitors from China increases the pool of potential visitors to Ireland that can avail of the visa waiver programme, providing a boost to Irish tourism and business sectors.

The Common Travel Area visa builds on the success of the Short-stay Visa Waiver programme that commenced in mid-2011. Under the scheme nationals of 17 countries[16], including China, can travel to Ireland with a UK visit visa. Since the introduction of the scheme, Tourism Ireland has estimated that there has been an increase of over 30 percent in visitors from the countries included in the programme. An extra 6,000 Chinese visitors have come to Ireland under the New Tour Operator programmes. These programmes have demonstrated that making access easier will lead to an increase in visitor numbers.

An extension of the liberalised multi-entry visa system in Ireland to beyond China will be important for frequent business travellers and their families. Multi-entry visas are particularly important for business travellers that may be coming to Ireland frequently for trade and investment purposes. The liberalised system for Chinese visitors will grant multi-entry visas for three years where the applicant has a satisfactory Irish visa history. Two-year multi-entry visas can be granted to applicants with satisfactory Schengen, UK or US visa histories; and one-year multi-entry visas will be granted to applicants with no previous visa history that have been assessed as bona fide travellers. Multi-entry visas reduce the administrative barriers and inconveniences that a business traveller faces, making doing business in Ireland a more attractive proposition.

These developments will help encourage more visitors from emerging markets, and will provide an opportunity for Ireland to attract visitors. This year alone, it is expected that 90 million Chinese citizens will travel overseas. Ireland would need to attract 0.4 percent of these to meet the 2015 target for visitors from new and developing markets.

[16] Eastern Europe: Belarus, Bosnia and Herzegovina, Montenegro, Russian Federation, Serbia, Turkey and Ukraine

Middle East: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates

Other Asian: India, Kazakhstan, Peoples Republic of China1, Uzbekistan

5. Investment

Declining flows of investment globally, with emerging markets capturing larger share	- Globally, overall direct investment flows fell by 18 percent in 2012; more decline is expected in 2013. - Global flows to emerging economies increased by 1 percent; developed economies' inward flows fell by 23 percent in 2012. - China, the Russian Federation and Brazil continue to be main sources of FDI among the emerging markets.
FDI in Ireland: US still the main source of investment	- About 85 to 90 percent of exports from Ireland are attributable to foreign-owned firms. - Ireland gained 0.8 percent of the value of world greenfield investments in 2012. - Over 60 percent of FDI stock in Ireland is attributable to US investment, but often the investments are made by American-owned companies located in other countries. - Investment agreements negotiated will be important in developing our investment relationships, particularly in China.
Direct investment by Irish firms abroad increasing	- Irish firms employed over 246,000 in other countries in 2012 and had a turnover of €73 billion. - Over 70 percent of turnover of Irish affiliates abroad was in services. - Outward direct investment (ODI) can be a complementary process to traditional exporting, and can be a more suitable means to gain market share in other countries for some products and services. ODI has an overall positive impact on the economy. - In-country presence through ODI can help overcome trade barriers where market access is limited, particularly in emerging economies. - Ireland's levels of ODI stock are higher than its FDI levels.

5.1. World Investment

Global foreign direct investment flows have fallen by 18 percent in 2012 after a number of years of recovery. Forecasts for world investment in 2013 predict more decline. International investors are cautious in the face of slow economic recovery and uncertainty over policy directions.[17]

Table 12 and Table 13 show the FDI and Outward Direct Investment (ODI) stocks by country. Stocks indicate the end-of-year positions, whereas flows indicate the movement in a given year. Investments stocks are a better reflection of direct investment performance as they are less prone to large fluctuations. The United States remains the largest source and recipient of direct investment.

Developing economies continue to outstrip developed countries' performance as destinations for FDI: 1 percent growth of inward flows versus a 23 percent decline. China, Russia Federation and Brazil maintain their position as the main sources of FDI among the emerging markets. [18]

Table 12 Main Locations of Foreign Direct Investment in 2012 (Stock)

Rank 2012	Country - Location of FDI Stock	US$ billion 2012	Percentage of world's inward Foreign Direct Investment	Change in Rank Since 2008	Annual Growth rate, 2008-2012, percent
1	United States	3932.0	17.2	0	12.1
2	China, Hong Kong SAR	1422.4	6.2	2	13.0
3	United Kingdom	1321.4	5.8	-1	8.2
4	France	1095.0	4.8	-1	4.9
5	Belgium	1011.0	4.4	0	4.3
6	China	832.9	3.7	6	21.8
7	Germany	716.3	3.1	-1	1.8
8	Brazil	702.2	3.1	7	25.0
9	Singapore	682.4	3.0	2	12.2
10	Switzerland	665.6	2.9	0	10.4
11	Canada	637.0	2.8	-2	9.1
12	Spain	634.5	2.8	-4	1.9
13	Australia	610.5	2.7	1	18.9
14	Netherlands	573.0	2.5	-7	-2.9
15	Russian Federation	508.9	2.2	3	23.9
16	Sweden	376.2	1.6	0	7.8

[17] UNCTAD (2013) World Investment Report 2013, p xii

[18] UNCTAD (2013) World Investment Report 2013, p xii

Rank 2012	Country - Location of FDI Stock	US$ billion 2012	Percentage of world's inward Foreign Direct Investment	Change in Rank Since 2008	Annual Growth rate, 2008-2012, percent
17	British Virgin Islands	362.9	1.6	7	27.0
18	Italy	356.9	1.6	-5	2.1
19	Mexico	315.0	1.4	-2	8.1
20	Ireland	298.1	1.3	0	12.2

Source: UNCTAD, Forfás calculations

Table 13 Main Origins of Outward Direct Investment in 2012 (Stock)

Rank 2012	Country - Origin of ODI Stock	US$ billion 2012	Percentage of world's Outward Direct Investment Stock	Change in Rank Since 2008	Annual Growth rate, 2008-2012, percent
1	United States	5191.12	22.0	0	13.7
2	United Kingdom	1808.17	7.7	0	3.8
3	Germany	1547.19	6.6	0	3.9
4	France	1496.80	6.3	0	4.2
5	China, Hong Kong SAR	1309.85	5.6	1	11.1
6	Switzerland	1129.38	4.8	2	11.8
7	Japan	1054.93	4.5	2	11.6
8	Belgium	1037.78	4.4	-1	6.3
9	Netherlands	975.55	4.1	-4	2.3
10	Canada	715.05	3.0	1	8.1
11	Spain	627.21	2.7	-1	1.5
12	Italy	565.08	2.4	0	6.3
13	China	509.00	2.2	6	29.0
14	British Virgin Islands	433.59	1.8	1	15.3
15	Australia	424.45	1.8	1	15.2
16	Russian Federation	413.16	1.8	1	19.1
17	Sweden	406.85	1.7	-4	5.9
18	Singapore	401.43	1.7	-4	12.5
19	Ireland	357.63	1.5	1	20.6
20	Brazil	232.85	1.0	3	10.6

Source: UNCTAD, Forfás calculations

5.2. Direct Investment in Ireland - Linking trade and investment

Ireland is still performing well as a recipient of direct investment from abroad. However, FDI stock as a measure of direct investment includes equity investment and intra-company loans, and therefore may not adequately reflect the performance of Ireland in attracting greenfield investment projects. Ireland is continuing to perform well in terms of attracting greenfield FDI projects relative to our size, gaining 0.8 percent of the value of world greenfield investments in 2012[19]. IDA Ireland attracted 144 additional investment projects in 2012.

The predominance of exports that are attributable to foreign-owned firms based in Ireland has been highlighted above in relation to agency-assisted firms. Looking at total exports, including non-agency assisted, around 85-90 percent of exports from Ireland are likely to be by foreign-owned firms.

Production processes are increasingly international. Currently, about 60 percent of total world trade comprises intermediate goods and services that are used at different points in the production of final goods and services. These global supply chains mean that the impact of any decline in demand for final goods and services is multiplied throughout the global trade system.[20] Coordination of global supply chains are typically coordinated by trans-national corporations with trading taking place between affiliate partners, contractors and other suppliers.[21]

As highlighted earlier, the trade and investment agreements being negotiated by the EU will be increasingly important for the development of economic relationships. Now that the EU can negotiate investment agreements also, this has implications for Ireland's trade performance as well as investment performance. This highlights the importance of the EU successfully concluding comprehensive and ambitious agreements with its negotiating partners.

Origin of FDI into Ireland - sixty percent from American companies

Data from the Bureau of Economic Analysis (BEA) shows that US FDI stock in Ireland reached US$204 billion in 2012.[22] Yet, examining the location of investors in the chart below (Figure 22) shows US FDI stock in Ireland at just €12 billion. These investment data significantly underestimate the value of US investment in Ireland because, in line with international statistical conventions, 'direct investment stocks and flows are geographically attributed on the basis of country of location of immediate ownership of the direct investment enterprise rather than that of the ultimate beneficial owner'[23]. Correspondingly, reported levels of investment from the Netherlands, Luxembourg, and off-shore locations in Central America are high; it is likely that a large proportion of these investments are from American affiliates based in these countries. Using the BEA figures indicates that just over 60 percent of FDI stock in Ireland is from American-owned companies.

[19] bid p206

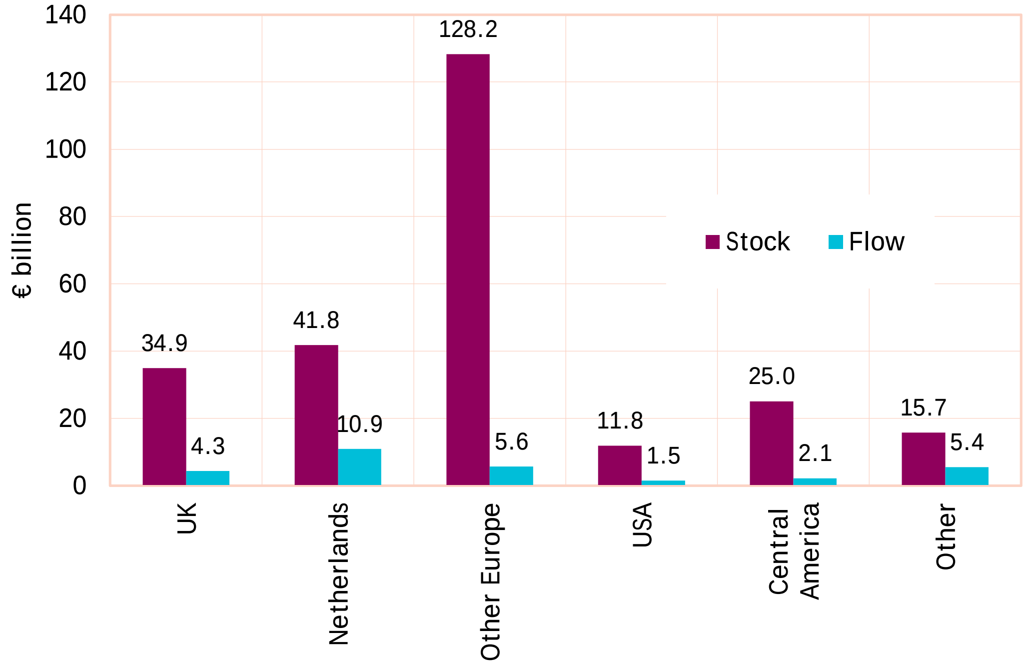
[20] UNCTAD (2013) World Investment Report 2013, p xxi

[21] UNCTAD (2013) World Investment Report 2013, p xxii

[22] BEA (2013) 'Survey of Current Business' p40, Table 1.2.

[23] CSO (2011) *Foreign Direct Investment 2010* p14

Figure 22 Ireland's FDI stock and flow by location of investor, € billion, 2012

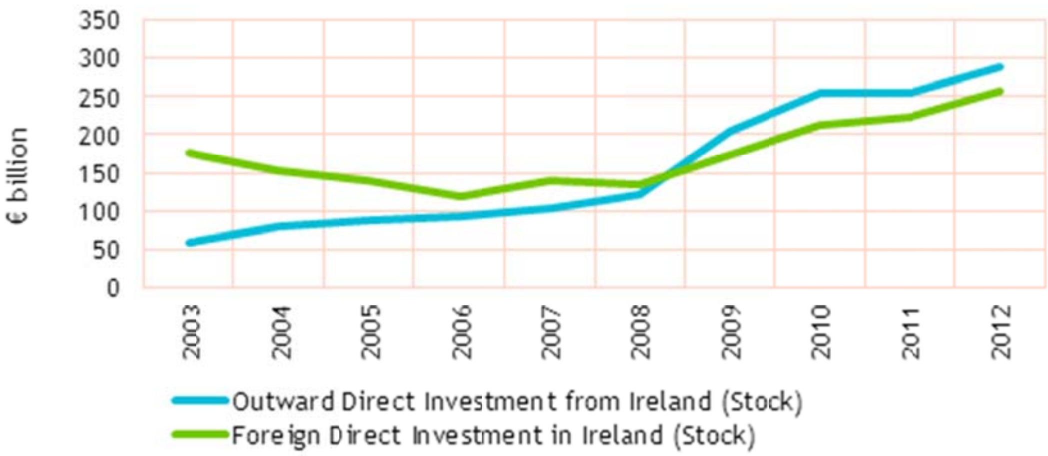


Source: CSO, Foreign Direct Investment 2012

5.3. Irish Investment Abroad

Since 2009, direct investment from Ireland has been larger than investment into Ireland (Figure 23). Some of the outward direct investment may be foreign-owned companies based in Ireland investing in affiliate firms abroad. However, recent data on Outward Foreign Affiliate Statistics released by the CSO (Figure 24 and Figure 25) indicate that there is substantial economic activity undertaken by affiliates of Irish-owned firms in other countries, this dataset examines the activity of Irish-owned multinationals abroad.

Figure 23 Outward and Foreign Direct Investment from and into Ireland (Stock), € billion, current prices, 2003-2012



Source: CSO, Foreign Direct Investment 2012

Irish companies abroad

In 2011, affiliates of Irish companies[24] abroad employed over 246,000 people and had a turnover of €73 billion. By comparison this is over 60 percent higher than the number of people employed full-time by foreign-owned firms in Ireland. The wider foreign-owned sector in Ireland employs over 250,000 people in Ireland.

Just over 70 percent of turnover in Irish-owned affiliates was in services firms, with distribution activities accounting for over half of services turnover. As shown in Figure 24 and Figure 25 below the United Kingdom and United States are the most important locations for Irish-owned affiliates. Unlike direct investment data, these data refer to firms that are ultimately owned by a company resident in Ireland.

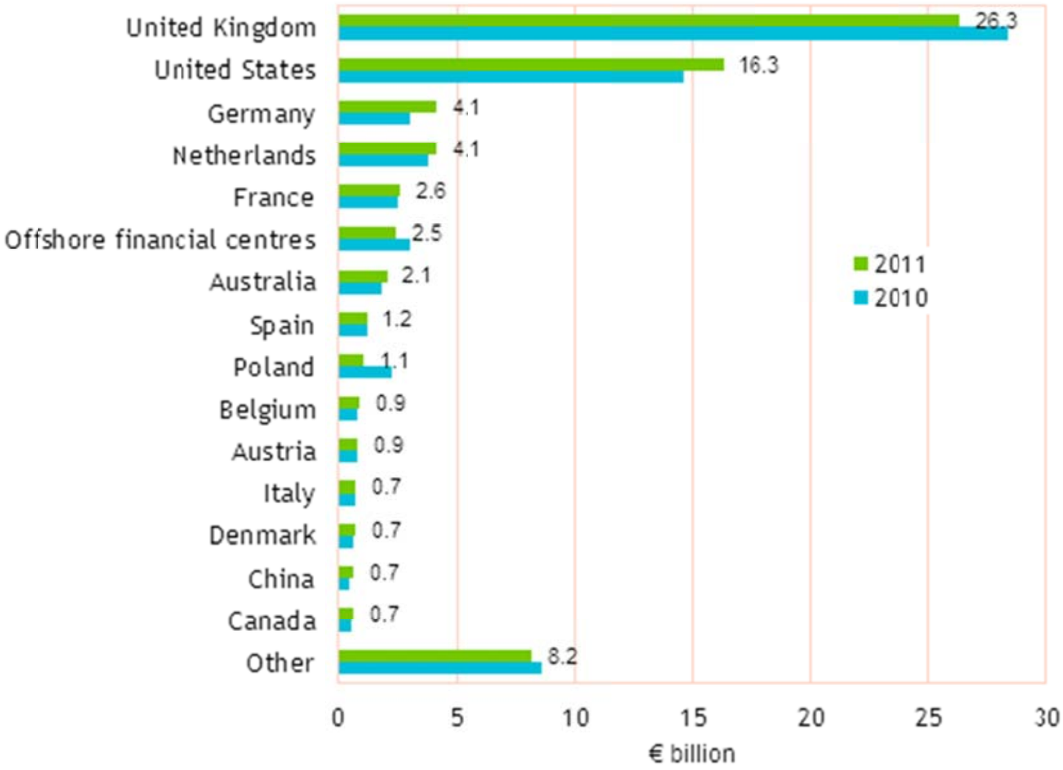
Establishing an affiliate in another market is an important means to internationalise. It provides a vital method for gaining market share in other countries and is a complementary process to traditional forms of exporting of goods and services. Some products and services are not suited to traditional means of exporting, making in-country presence through direct investment a better channel to sell products in foreign markets. For example, food products are often not suited to shipping processes.

In addition, in-country presence through greenfield investment, joint-venture, or acquisition can help overcome many trade barriers where market access is limited, particularly in emerging economies. Previous work on outward direct investment by Forfás has found that ODI has an overall

[24] Note that this data refers to affiliates in which the 'ultimate controlling institution' is resident in Ireland. Holding companies have been excluded from the CSO analysis.

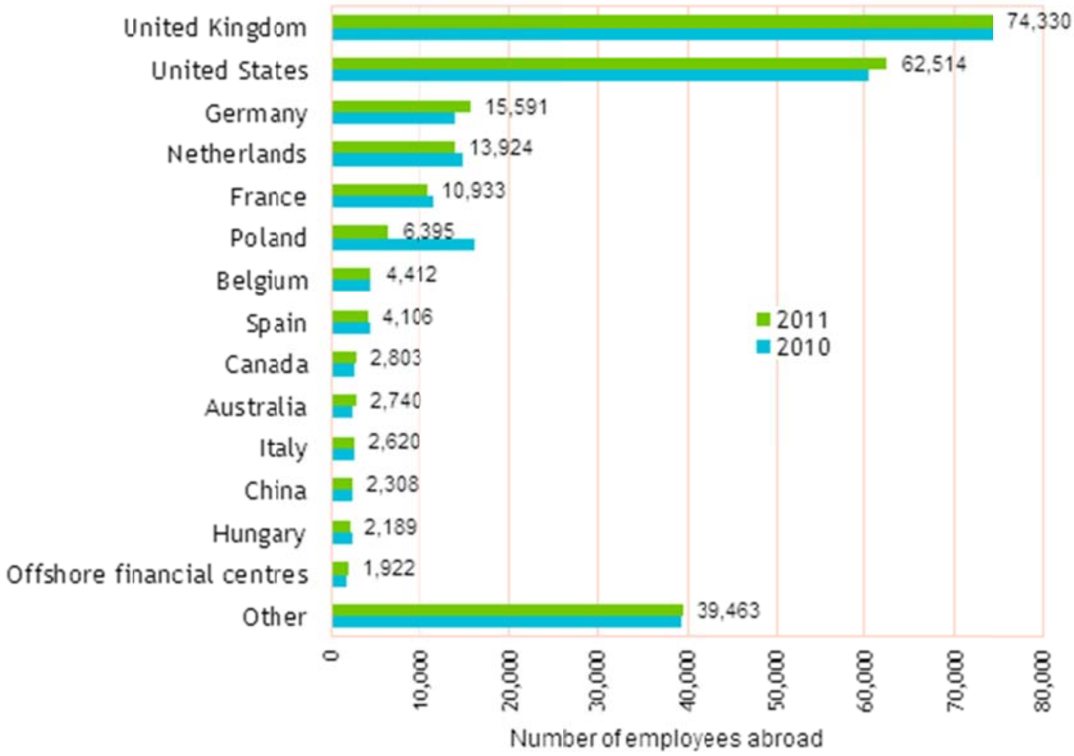
positive impact on the economy. State support for firms engaging in outward direct investment is limited by State Aid Rules.

Figure 24 Turnover of Irish-owned affiliate firms abroad by location, € billion, 2010-2011



Source: CSO Outward Foreign Affiliate Statistics 2011

Figure 25 Number of Employees in Irish-owned affiliate firms abroad by location, 2010-2011



Source: CSO Outward Foreign Affiliate Statistics 2011

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