74. Foreign Direct Investment – disadvantages of

1. Data Response Question

Despite its problems, Ireland was still among the world's ten biggest recipients of FDI as a proportion of GDP. The very predictability of Ireland's regime adds to its appeal; companies have no reason to fear that taxes will suddenly shoot up.

Without the presence of those foreign companies the Irish recession would have been even worse. The IDA calculates that between them they employ 270,000 people, pay out €17 billion a year in wages, generate exports worth €122 billion and contribute €2.8 billion in corporation tax. Moreover, the people who work for these companies are paying income tax, buying goods in local shops, making regular mortgage payments and are drawing no unemployment benefit. Despite the low tax rate on corporate profits (12.5%), the government gets the equivalent of 2.6% of GDP from that source, the same as the EU average.

It was not just the tax rate that attracted PayPal. Rob Skinner of PayPal says the Dublin office provides a base for the group's operations throughout Europe, the Middle East and Africa. "Ireland has people who speak many languages, allowing us to deal with customers across Europe," he explains.

The Gilt Groupe, an online fashion retailer, established an operation in Ireland in 2011. Michelle Peluso, its chief executive, describes Ireland as "a really exciting market. It doesn't matter if you have low costs and a good office if you don't have the right talent. The quality score of staff in Ireland is high and there is real talent in maths and science." Being in a different time zone from the country's American headquarters allows work to continue around the clock; the company's American team can arrive at work in the morning and find that the Irish staff have dealt with yesterday's problem overnight. *Source: Adapted from The Economist, 22nd February 2014*

1.1 Why might FDI be a source of unemployment in Ireland?

1.2 Governments often have to spend significantly in the form of tax incentives to attract FDI. Why might some people argue that the financial costs of attracting FDI outweigh the advantages?

1.3 FDI should result in an increase in competition between firms which will result in an increase in consumer welfare in the short run. What are the potential long-run implications?

1.4 In a globalised world FDI is said to be "footloose" – what does this mean and why can FDI be described as such?

1.5 The Irish Government will expect to share in the profits made by the foreign investor in Ireland – why might they be disappointed to find they don't get as much as they had hoped for?

1.6 One of the consequences of an increase in FDI could be an increase in Aggregate Demand – with reference to the extract what might the impact of this be on a) Inflation? (show on the diagram below)

b) Interest rates, exchange rates and the current account of the balance of payments?

c) FDI is often criticised for the exploitation of workers and the environment. Explain how this might be the case.