



Half-Year Trade and Investment Brief

June 2002

A Report by Forfás to the Trade Advisory Forum and the Foreign Earnings Committee

The National Policy and Advisory Board for Enterprise, Trade, Science, Technology and Innovation.

Half-Year Trade and Investment Brief

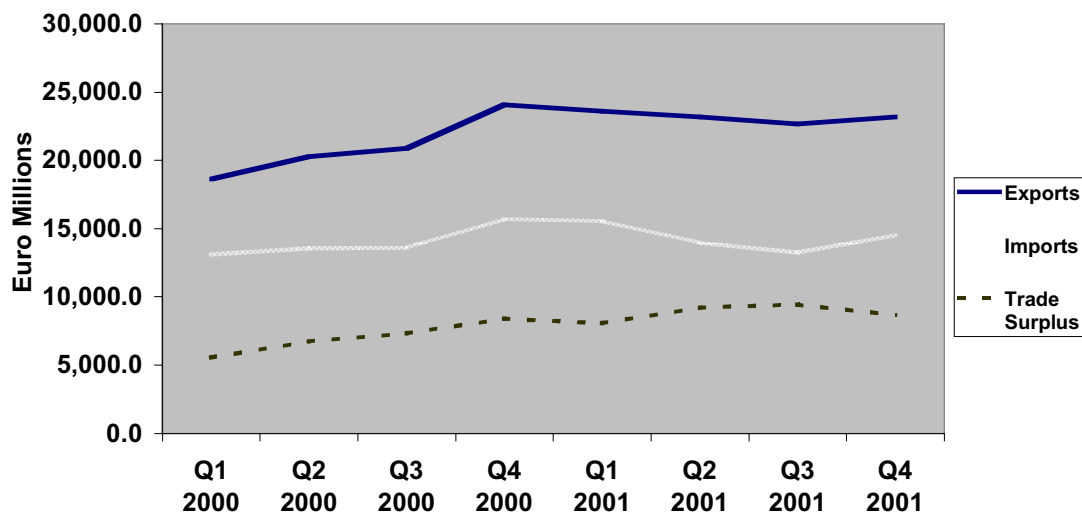
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Executive Summary

- Global economic conditions provided a highly unfavourable backdrop to Irish trade and enterprise policy in 2001, reflecting the impact of the global collapse in investment in ICT goods and services, weaker consumer demand in Ireland's main trading partners and the impact on global trade and investment flows of the events of September 11. According to WTO estimates, the value of world trade in merchandise goods in 2001 dipped to \$6 trillion, down by 4% in value terms (and by 1.5% in volume terms) compared with 2000.
- Despite the sharp downturn in global trade, the value of Irish merchandise exports grew by 10% in 2001 to reach €92.2 billion. While this was impressive by global standards, the growth rate for the year as a whole masks a dramatic slowdown in Irish export growth over the course of 2001, from growth of 24% in the first quarter (in value terms) to a decline of 4% in the final quarter.
- The volume of Irish goods imports declined in 2001 (by 1%) — for the first time in 20 years - reflecting the fall in export growth (Irish manufactured exports rely on imported inputs and raw materials), as well as the steady slowdown in Irish consumer and business demand as the year progressed.
- Ireland's surplus in merchandise trade reached an all-time high of €35.3 billion in 2001, up from €28.0 billion in 2000. This equates to around 31% of Irish GDP — a higher goods trade surplus (as a % of national output) than any other country in the industrialised world.
- The impact of the global ICT downturn was clearly evident in Ireland's export performance in the office machinery (including computers), electrical machinery (including semiconductors) and telecoms and sound equipment sectors, all of which suffered as the year progressed.
- China acceded to the World Trade Organisation in 2001. This will have significant longer-term implications for the global trading system and Irish trade and investment flows (see box on page 9).
- According to WTO estimates, the value of global services trade slipped in 2001 by 1.5% to \$1.4 trillion (just under 20% of total world trade) — the first year-on-year decline in world service exports since 1983.
- Going against the global trend, the value of Irish service exports increased by 23% in 2001 to reach €22.6 billion (21% of total Irish exports), with the growth rate maintaining a steady momentum throughout the year. At €38.9 billion, however, service imports were almost twice the level of service exports.
- The large and widening services trade deficit is, to a large degree, a mirror image of the growing surpluses in merchandise trade, as there is a direct link between the many high-technology goods exports and payments by Irish-based companies for overseas royalties/licences and other service imports.
- According to UN estimates, global foreign direct investment (FDI) inflows in 2001 fell by 40% to \$760 billion from \$1.3 trillion in 2000, mainly as a result of the rapid slowdown in global economic growth and the consequent sharp fall-off in cross-border mergers and acquisitions. FDI flows to developed countries fell even faster, falling by almost 50% from \$1 trillion in 2000 to \$0.5 trillion last year.
- In line with the trend in other developed countries, total inward FDI flows into Ireland fell rapidly in 2001, to €10.9 billion from €26.2 billion in 2000. In contrast, outward FDI flows from Ireland continued to grow, to €6.0 billion for the 2001 as a whole, up from €4.3 billion in 2000 and €4.0 billion in 1999. Outflows of FDI exceeded inflows of FDI in the fourth quarter of 2001 (by €2.6 billion) — for the first time since quarterly FDI records were first published in 1998.

Section 1 Irish Merchandise Trade

Chart 1.1 Irish Merchandise Trade



Source: CSO, *External Trade Statistics*.

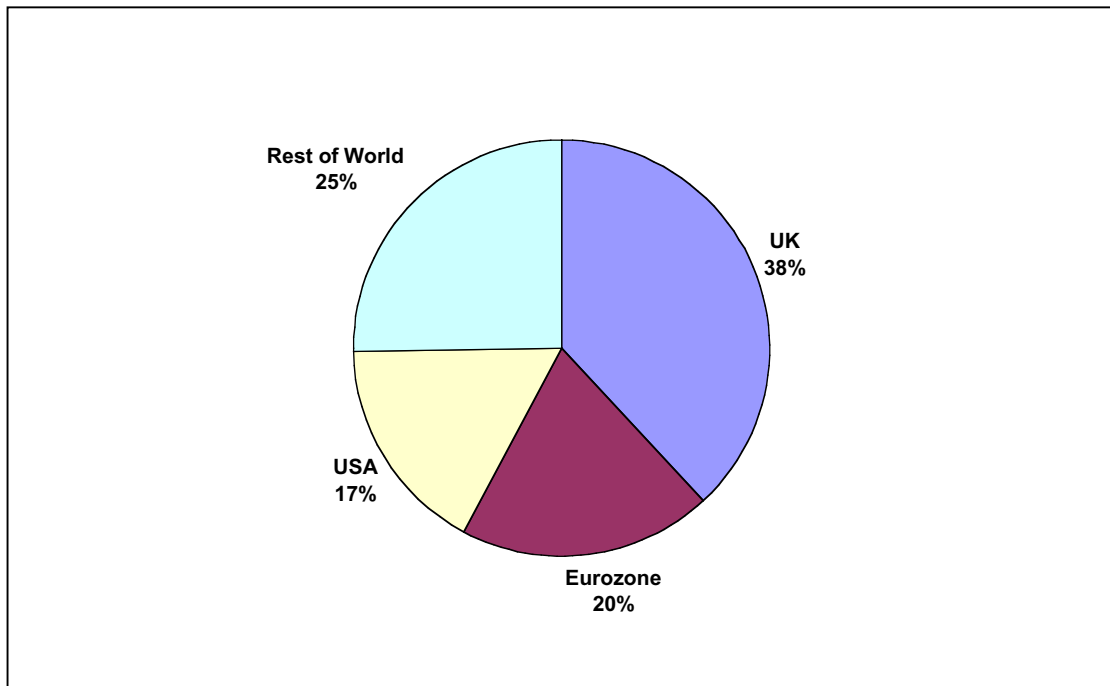
- Global economic conditions proved highly unfavourable to Irish export growth in 2001, reflecting the impact of the global collapse in investment in ICT goods and services, weaker consumer demand in Ireland's main trading partners and the impact on global trade and investment flows of the events of September 11. According to WTO estimates, the value of world trade in merchandise goods dipped by 4% in value terms (and by 1.5% in volume terms) in 2001 to \$6 trillion. This compared with volume growth of 12% in 2000. All three merchandise product groups — agricultural products, mining products and manufactures — suffered.
- Growth in Irish goods trade decelerated sharply in 2000-2001, in line with global trends (chart 1.1). Following an increase of 24% in 2000, the value of Irish goods exports grew by 10% in 2001 to reach €92.2 billion. While this was impressive by global standards, the growth rate for the year as a whole masks a dramatic slowdown in Irish export growth over the course of 2001, from growth of 24% in the first quarter to a decline of 4% in the final quarter.
- According to WTO data, Ireland was the 19th largest exporter of merchandise goods in the world in 2001, up from 22nd in 2000 and ahead of much larger economies such as Sweden, Australia, India and Brazil.
- Import growth decelerated even more sharply than that of exports, with the 2001 import bill rising by just 2% to total €57.2 billion, down from growth of 24% in 2000. As with exports, the value of imports declined steadily over the course of the year, reflecting weakening domestic consumer and investment demand and the reduced input requirements of the Irish manufactured exports. At €14.5 billion, the value of imports in the final quarter of 2001 was 7% below imports in the same period of 2000.
- Ireland's surplus in merchandise trade reached an all-time high of €35.3 billion in 2001, up from €28.0 billion in 2000. This equates to around 31% of Irish GDP — a higher goods trade surplus (as a % of national output) than any other country in the industrialised world. The rise in the goods surplus was, however, more than offset by the rise in the deficit in services trade and higher profit repatriations by foreign-owned multinationals (Section 2), resulting in a deterioration in Ireland's deficit on the current account of Ireland's balance of payments from €615 million in 2000 to €1.1 billion in 2001.

Table 1.1 Irish Merchandise Exports by Main Product Sector (€Millions)

	Q1-Q4 2000	Q1 2001	Q1 A.G.R.	Q2 2001	Q2 A.G.R.	Q3 2001	Q3 A.G.R.	Q4 2001	Q4 A.G.R.	Q1-Q4 2001	2001 A.G.R.
Annual Percentage Growth Rate (A.G.R.)											
Food and Live Animals	5,949	1,282	-1%	1,459	-7%	1,455	-5%	1,513	-2%	5,709	-4%
Beverages and Tobacco	958	184	-9%	179	-12%	261	7%	299	-3%	923	-4%
Other Primary Materials	1,255	319	11%	338	3%	274	-11%	305	-7%	1,236	-1%
Medical & Pharm. products	5,312	1,883	69%	2,177	57%	2,697	119%	2,211	39%	8,969	69%
Organic Chemicals	16,897	4,686	35%	4,499	9%	3,987	-11%	4,125	-14%	17,297	2%
Other Chemicals	5,151	1,432	32%	1,800	26%	1,609	22%	1,412	8%	6,254	21%
Office Machinery (incl. computers)	19,617	5,704	27%	5,125	11%	5,455	18%	6,119	5%	22,403	14%
Electrical Machinery	7,916	2,543	69%	2,528	52%	2,059	-3%	2,102	-20%	9,231	17%
Telecoms & Sound Equip.	3,737	1,047	8%	827	0%	720	-19%	862	-18%	3,457	-7%
Other Manufactured Items	13,580	3,522	6%	3,460	5%	3,196	-1%	3,260	-13%	13,437	-1%
Other	3,515	771	-11%	711	-16%	889	-2%	952	6%	3,323	-5%
Total	83,886	23,372	25%	23,103	14%	22,602	8%	23,161	-4%	92,238	10%

Source: CSO, *External Trade Statistics*.

- Table 1.1 analyses quarterly changes in the value of Irish exports by commodity over the period 2000-2001. Comparing the 2001 figures with those of 2000 shows that exports of medical and pharmaceutical products increased from €5.3 billion to €9.0 billion (a rise of 69%), office machinery (including computers) increased from €19.6 billion to €22.4 billion (an increase of 14%), electrical machinery increased from €7.9 billion to €9.2 billion (an increase of 17%). These three sectors alone, which are dominated by U.S. MNCs, accounted for over 80% of Irish export growth in 2001.
- The impact of the global ICT downturn was clearly evident in Ireland's export performance in the office machinery (including computers), electrical machinery (including semiconductors) and telecoms and sound equipment sectors, all of which suffered as the year progressed. Exports of telecoms equipment fell, and while exports of computers and semiconductors for the year as a whole were up on 2000, this was mostly on the basis of the first quarter performance, with growth rates declining dramatically by the third and fourth quarters.
- Despite the difficult year in 2001, the office machinery sector (including computers) remained Ireland's largest export sector, generating earnings of €22.4 billion in 2001, or 24% of total exports. However, most export growth (57%) in 2001 originated in the multinational-dominated chemicals and pharmaceutical industries — sectors that were largely unaffected by global cyclical economic conditions.
- Exports of food and live animals and beverages and tobacco, which account for around half of total indigenous exports, both decreased by 4% to € 5.7 billion and €923 million respectively, partly as a result of the closure of certain non-EU markets to Irish meat and cattle exports as a result of the BSE crisis.
- According to the Forfás Annual Business Survey of Economic Impact (ABSEI), goods exports by clients of Enterprise Ireland increased by 4.1%. A breakdown by the CSO of manufactured exports between foreign-owned and all indigenous industry (which is broader than clients of Enterprise Ireland) will not be available for some time. It is clear, however from Table 1.1 that the export performance of some sectors with a strong indigenous industrial presence deteriorated over the course of 2001. This stems not just the difficult global trading environment, but also likely reflects the impact of competitiveness developments here. After stripping out the pharmaceuticals/chemicals sector, the Central Bank estimates that, despite favourable currency movements, unit wage costs in Irish industry (when measured in a common currency) increased relative to our main trading partners in 2001, particularly in traditional manufacturing and agri-food sectors.

Chart 1.2 Source of Irish Export Growth by Main Geographic Regions, 2001

Source: CSO, *External Trade Statistics*.

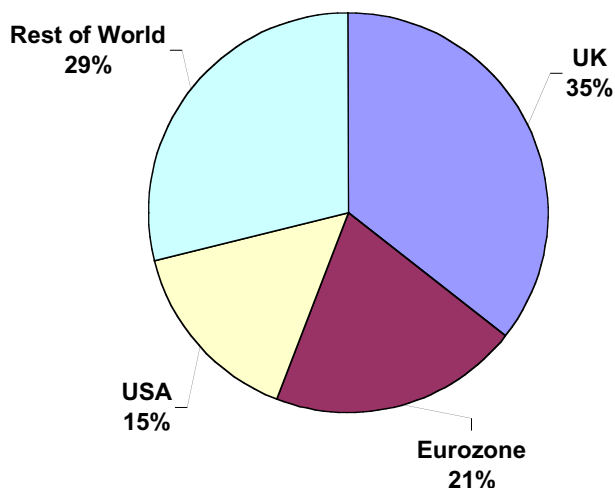
- Chart 1.2 analyses the source of the growth in Irish exports in 2001 by Ireland's main export destination. Of the total €8.6 billion rise in Irish goods exports in 2001, almost 38% went to the UK, which remained Ireland's largest market. Altogether, the UK took in €22.2 billion in Irish goods exports in that year (23% of the total). In contrast, the USA played a much more muted role in Irish export growth in 2001, accounting for only 17% of the increase (compared with 36% in 2000). This reflects the sudden downturn in business investment in the USA over the course of 2001. Altogether, Irish goods exports to the USA in 2001 were valued at €15.7 billion (17% of the total), an increase of just 10% (in value terms) compared with growth of 38% in 2000.
- The euro-zone accounted for 20% of the increase in Irish exports in 2001, up from 18% in 2000. Altogether, Irish goods exports to the euro-zone were valued at €33.1 billion in 2001, up 5% from 2000 levels (and equal to 36% of total Irish exports). It is difficult to assess whether this improvement reflects the beginning of a long-term structural shift in Irish trade towards continental Europe as a result of the introduction of the euro, or else a shorter-term cyclical swing reflecting the less severe economic downturn in Europe in 2001 compared with the USA. Within the euro-zone, the value of Irish exports to Germany and Greece increased by 24% and 11% respectively during 2001 compared with the previous year, while the value of exports to France and Austria fell by 11% and 9% respectively over the same period.
- Irish exports to the rest of the world region rose by 11% in 2001, to reach € 21.5 billion (23% of the total). Continued economic difficulties in Japan (particularly in the electronics sector) saw the rate of growth in Irish goods exports there fall to 5% (to €3.3 billion), down from growth of 60% in 2000. Ireland recorded strong export growth in 2001 in China (up 110% to reach €350 million) and Mexico (up 117% to reach €552 million).
- The UK continued to be the destination for the bulk of indigenous Irish exports. According to the ABSEI, 48% of exports by Enterprise Ireland supported companies were destined for the UK market, compared with 23% for the remainder of the EU, 15% for the USA and 14% for the rest of the world.

Table 1.2 Irish Merchandise Imports by Main Product Sector (€ Millions)

	Q1-Q4 2000	Q1 2001	Q1 A.G.R.	Q2 2001	Q2 A.G.R.	Q3 2001	Q3 A.G.R.	Q4 2001	Q4 A.G.R.	Q1-Q4 2001	2001 A.G.R.
Annual Percentage Growth Rate (A.G.R.)											
Food and Live Animals	2,826	699	7%	732	11%	732	7%	889	7%	3,053	8%
Beverages and Tobacco	522	115	17%	150	23%	169	22%	222	36%	656	26%
Other Primary Materials	3,241	806	11%	811	1%	736	-10%	770	-13%	3,122	-4%
Organic Chemicals	1,669	409	-23%	439	-6%	319	12%	385	-1%	1,552	-7%
Medical & Pharmaceutical Products	1,525	454	38%	424	7%	511	29%	521	29%	1,909	25%
Other Chemicals	2,911	773	7%	753	-2%	676	-6%	683	-3%	2,885	-1%
Office Machinery (incl. computers)	11,363	3,188	31%	2,649	3%	2,974	8%	3,372	-6%	12,183	7%
Electrical Machinery	7,048	2,098	46%	1,940	26%	1,749	-1%	1,803	-22%	7,590	8%
Telecoms & Sound Equip	2,881	910	41%	767	16%	661	4%	716	-23%	3,054	6%
Other Manufactured Items	18,690	5,178	12%	4,476	-6%	3,880	-15%	4,324	-8%	17,859	-4%
Other	3,231	686	-21%	625	-18%	752	-10%	831	8%	2,895	-10%
Total	55,909	15,316	17%	13,767	2%	13,160	-3%	14,516	-7%	56,758	2%

Source: CSO, *External Trade Statistics*.

- Table 1.2 analyses growth in Irish goods imports by main product sectors. Growth in Irish merchandise imports slowed dramatically in 2001, reflecting the fall in export growth (Irish manufactured exports rely on imported inputs and raw materials), as well as the steady slowdown in Irish consumer and business demand as the year progressed. As a result, total goods imports in 2001 were valued at €56.8, up just 2% on 2000 levels. The pattern of Irish imports followed broadly that of exports, with growth turning negative in the third quarter.
- Indeed, the total value of imports only increased because of higher import prices — reflecting the weakness of the euro against sterling and the dollar. Stripping out this price effect, the volume of Irish goods imports actually declined in 2001 (by just under 1%) — for the first time in almost 20 years.
- A comparison of merchandise imports in 2001 and 2000 shows that imports of computer equipment increased from €11.4 billion to €12.2 billion (up 7%), imports of electrical machinery went up from €7.0 billion to €7.6 billion (up 8%) and imports of medical and pharmaceutical products were up by 25% to €1.9 billion. Imports in these three sectors almost entirely comprise raw material and other inputs for further processing and export.
- The slowdown in Irish construction, inward FDI and domestic investment in equipment and machinery was reflected in the 8% fall in the value of imports of power-generating equipment and other heavy machinery.
- The 10% fall in the value of other imports in 2001, to € 2.9 billion, is largely the result of the 21% decline in the value of imports of road vehicles in 2001 to €2.5 billion.

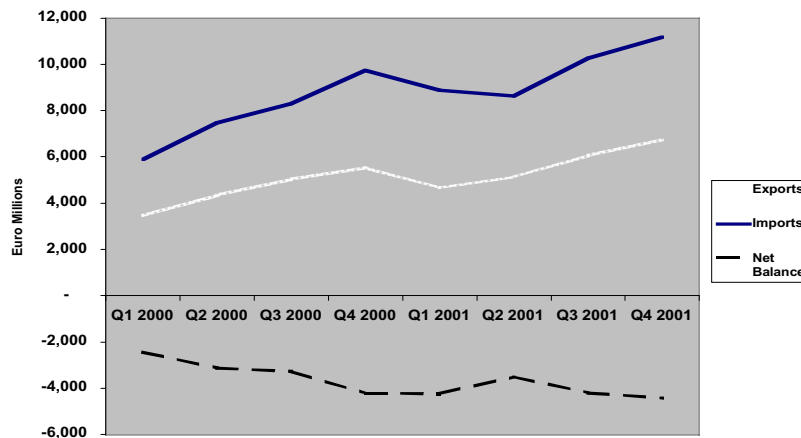
Chart 1.3 Share of Irish Merchandise Imports by Main Geographic Regions

Source: CSO, *External Trade Statistics*.

- Chart 1.3 analyses the share of Irish imports in 2001 by the main country of origin. While the value of Irish goods imports only increased by €1.3 billion, imports from the UK grew by €2.7 billion (up 15%) to reach €20.3 billion. Following a steady decline over the last decade, the UK's share of Ireland's import market rose to 35% in 2001, up from a low of 32% in 2000. While the reversal may partly reflect the results of intensive export promotion activities by UK authorities in Ireland over the last 3-4 years, it remains unclear why Ireland's participation in the euro has been accompanied by an increase in the UK's share of total Irish trade.
- The value of merchandise imports from the euro-zone grew by 4% in 2001 to €11.7 billion (21% of the total). The aggregate euro area performance obscures significant variation between countries — imports from Greece increased in value by 13% and while imports from Portugal decreased by 15%. While growth in imports from the euro-zone was relatively modest in 2001, this nonetheless represented a small rise in the euro-zone's share of total Irish imports. Even still, at just 21% of the total, Ireland imports fall less from our euro-zone partners than any other euro member. In the absence of greater levels of trade between Ireland and other euro-zone countries, the introduction of the single currency may be of less benefit to Irish consumers and businesses compared with their euro-zone counterparts.
- The value of goods imports from the USA declined by 5% in 2001 to €8.7 billion (15% of the total). The decline intensified towards the year-end, with the value of imports from the USA in the final two months 23% lower than in the same period of 2000. This drop in imports reflects in large measure the reduced input requirements of the extremely import intensive high-tech export sectors. Many of these inputs would be sourced from parent companies in the USA.

Section 2 International Trade in Services

Chart 2.1 Irish Services Trade



Source: CSO, *Balance of International Payments*.

- According to WTO estimates, the value of global services trade slipped in 2001 by 1.5% to \$1.4 trillion (just under 20% of total world trade) — the first year-on-year decline in world service trade since 1983. The value of global exports of communications, insurance, financial services and royalties and licenses all rose steadily, but not enough to compensate for the sharp fall in exports of transportation and travel services.
- Chart 2.1 maps the growth in Irish service exports and imports and the widening services trade deficit over the period 2000 to 2001. Going against the global trend, the value of Irish service exports increased by 23% in 2001 to reach €22.6 billion (21% of total Irish exports), with the annual growth rate maintaining a steady momentum throughout the year. At €38.9 billion, however, the value of Irish service imports was almost twice the level of service exports. Service imports grew by 24% in 2001, although the growth rate moderated as the year progressed. Nonetheless, the deficit on services rose to €16.4 billion in 2001, up from €13.0 billion in 2000. The widening services deficit more than offset the increase in Ireland's merchandise trade surplus, resulting in an increase in Ireland's balance of payment's deficit (current account) €615 million in 2000 to €1.1 billion in 2001.
- The large and widening services trade deficit is, to a large degree, a mirror image of the growing surpluses in merchandise trade, as there is a direct link between the many high-technology goods exports and payments by Irish-based companies for overseas royalties/licences and other service imports. In 2001, foreign-owned companies accounted for an estimated 90% of Irish industrial exports. Foreign-owned multinational companies in Ireland make royalty payments to their overseas affiliates in return for using manufacturing technologies developed abroad. As high technology exports by foreign-owned manufacturing operations surge ahead, so do service imports. Thus, the large services deficit is a reflection not of poor Irish competitiveness in the provision of internationally traded services relative to the rest of the world, but rather of the dominance of foreign-owned firms in Irish manufactured exports.
- Another explanation for Ireland's large services deficit lies with the historical preferential corporation tax historically given to manufacturing companies as opposed to service companies, which may have consequently stunted the development of the services industry in Ireland, and resulting in a larger proportion of services being imported. The introduction of a single corporation tax of 12.5% in 2003 may lead to an unwinding of Ireland's large trade imbalances with the rest of the world.

Table 2.1 Exports of Irish Services by Sector (€ Millions)

	Q1-Q4 2000	Q1 2001	Q1 A.G.R.	Q2 2001	Q2 A.G.R.	Q3 2001	Q3 A.G.R.	Q4 2001	Q4 A.G.R.	Q1-Q4 2001	2001 A.G.R.
Annual Growth Rate (A.G.R.)											
Transport	1,474	316	12.9%	461	18.2%	517	10.7%	372	10.4%	1,666	13.0%
Tourism & Travel	2,886	453	7.1%	791	-1.0%	1,186	10.5%	658	11.3%	3,088	7.0%
Communications	358	169	138.0%	186	141.6%	210	125.8%	247	111.1%	812	126.8%
Insurance	1,222	222	-22.1%	385	47.5%	412	100.0%	498	6.0%	1,517	24.1%
Financial Services	2,259	820	81.8%	737	39.6%	651	2.0%	716	11.5%	2,924	29.4%
Computer Services	5,965	1,447	11.1%	1,460	1.8%	1,849	30.0%	2,547	41.0%	7,303	22.4%
Royalties / Licences	553	162	116.0%	91	-39.3%	50	-64.3%	81	-56.9%	384	-30.6%
Business Services	3,272	980	102.9%	924	53.0%	1,093	21.7%	1,530	18.9%	4,527	38.4%
- Merchenting	1,255	300	42.9%	184	-23.7%	96	-66.1%	49	-90.6%	629	-49.9%
- Leasing	586	242	214.3%	276	114.0%	323	7.0%	457	485.9%	1,298	121.5%
- Misc. Bus. Services	1,431	438	123.5%	464	98.3%	675	115.7%	1,023	48.7%	2,600	81.7%
Other Services	342	83	0.0%	88	0.0%	87	-1.1%	99	19.3%	357	4.4%
Total	18,331	4,652	34.7%	5,123	18.3%	6,055	20.5%	6,747	22.2%	22,577	23.2%

Source: CSO, *Balance of International Payments*

- Table 2.1 illustrates the sectoral breakdown of Irish service exports for the period 2000 to 2001. Despite the downturn in the global IT industry, computer services remained Ireland's largest individual service export, measuring €7.3 billion in 2001, up 22% on 2000 levels, and making up 32% of total Irish service exports. Exports of computer services are mostly accounted for by on-line delivery of software through open (Internet) or closed networks. As software delivery to overseas customers moves from a physical carrier medium to on-line delivery, the recorded export shifts from the merchandise trade to the services section of the balance of payments. In contrast, royalty and licensing payments by foreigners to Irish residents contracted by 31% in 2001 to €384 million, following strong growth in 2000. This perhaps partly reflects difficulties faced by indigenous software and other high technology industries in overseas markets in 2001.
- Financial services exports continued their robust growth over the course of 2001, rising 29% over 2000 levels to reach €2.9 billion. These mostly comprise custodial, treasury and other investment administration services to foreign residents by companies based at the IFSC in Dublin. Including leasing and insurance services, IFSC-related service exports expanded rapidly over the course of 2001 to total €5.7 billion for the year as a whole, up 49% on 2000 levels. When offset against IFSC-related service imports, however, *net* income from IFSC-related services grew less rapidly in 2001, albeit still by 23% to €918 million.
- Despite the negative impacts of the BSE crisis, the events of September 11 and the downturn in the global economy, earnings from tourism and travel grew steadily over the course of 2001. While the number of visitors to Ireland declined by 5.1% to 6.1 million, tourism and travel earnings for the year as a whole measured €3.1 billion, up 7% from a year earlier. The UK remained the single largest source of foreign visitors in 2001, totalling 3.5 million and generating €1.2 billion in revenue. Following strong growth in previous years, however, the number of visitors from the USA and Canada declined by 13% to 915,000, although earnings from North American visitors continued to grow, rising by 5% to €715 million.
- Nearly all other service categories enjoyed strong export growth in 2001, with the exceptions of merchanting services (see below), which fell by 49% respectively from year earlier levels.
- According to preliminary data from the Annual Business Survey of Economic Impact (ABSEI), service (mostly software) exports by Enterprise Ireland supported companies measured €1.5 billion in 2001, up from €1.2 billion in 2000. It seems likely that the most of the remaining €16 billion in non-tourism, transport and travel services exports in 2001 were accounted for by foreign-owned companies.

Table 2.2 Imports of Irish Services by Sector (€ Millions)

	Q1-Q4 2000	Q1 2001	Q1 A.G.R.	Q2 2001	Q2 A.G.R.	Q3 2001	Q3 A.G.R.	Q4 2001	Q4 A.G.R.	Q1-Q4 2001	2001 A.G.R.
	Annual Percentage Change (A.G.R.)										
Transport	2,797	771	15%	699	1%	666	-1%	729	-4%	2,865	2%
Tourism & Travel	2,858	526	15%	818	11%	1,218	13%	654	12%	3,216	13%
Communications	373	66	-8%	70	-20%	84	-28%	112	15%	332	-11%
Insurance	1,582	430	28%	367	-30%	368	8%	591	56%	1,756	11%
Financial Services	1,572	412	17%	531	52%	427	-9%	471	17%	1,841	17%
Computer Services	300	75	23%	77	13%	85	10%	137	46%	374	25%
Royalties / Licences	8,598	2,444	36%	2,468	11%	2,341	13%	2,544	1%	9,797	14%
Business Services	13,243	4,116	94%	3,566	29%	5,042	46%	5,909	21%	18,633	41%
- Merchanting	5,473	1,589	66%	1,321	28%	2,257	65%	2,494	18%	7,661	40%
- Leasing	101	21	11%	16	-24%	16	-47%	20	-35%	73	-28%
- Misc. Bus. Services	7,669	2,506	118%	2,229	31%	2,769	34%	3,394	24%	10,898	42%
Other Services	72	41	141%	32	60%	23	28%	23	35%	119	65%
Total	31,395	8,881	51%	8,628	16%	10,255	24%	11,170	15%	38,934	24%

Source: CSO, *Balance of International Payments*.

- Table 2.2 analyses the sectoral breakdown of Irish service imports for the period 2000 to 2001. Business services were the largest individual service import category, measuring €18.9 billion in 2001, up 42% on 2000 levels. Of this, miscellaneous business services measured €10.9 billion (up 42% on 2000 levels). Imports of miscellaneous business services are dominated by inter-affiliate management fees charged by foreign MNCs to their Irish subsidiaries for head office services, such as finance, administration and marketing. Imports of other miscellaneous business services are also significant, including legal, management consulting, advertising and marketing and other professional and technical services.
- Imports of merchanting services measured € 7.7 billion in 2001 (up 40% on 2000 levels). These usually comprise trade-related commissions paid on exports of high technology goods by foreign MNCs located in Ireland, which frequently involve the services of an affiliate abroad acting as an agent. For instance, some MNCs use Ireland as their headquarters for the European, African and Middle Eastern regions. They sell directly to the final customer abroad and pay their affiliates in these regions a commission for the sales that these affiliates arrange.
- Payments of royalties and licences to overseas residents were Ireland's second largest service import in 2001. These rose from €8.6 billion in 2000 to €9.8 billion in 2001, a rise of 14%. The growth of this category royalty payments by foreign-owned MNCs in Ireland to their parent companies in return for the right to use technology developed abroad. In fact, it is likely that imports of royalties and licences are substantially under-reported in economic terms given the preference of MNCs to book profits in Ireland in order to take advantage of the lower corporate tax rates here.
- At a total of €6.1 billion in 2001, Irish imports of transportation and tourism and travel services rose by 8% over 2000 levels, reflecting the increased demand for overseas business and leisure travel by Irish residents. Imports of insurance and other financial services also grew steadily.
- According to WTO estimates, Ireland was the 11th largest importer of commercial services in the world in 2001, ahead of South Korea, Spain, India, Russia, Australia and Switzerland.

China's Accession to the World Trade Organisation: Implications for Irish Trade and Investment

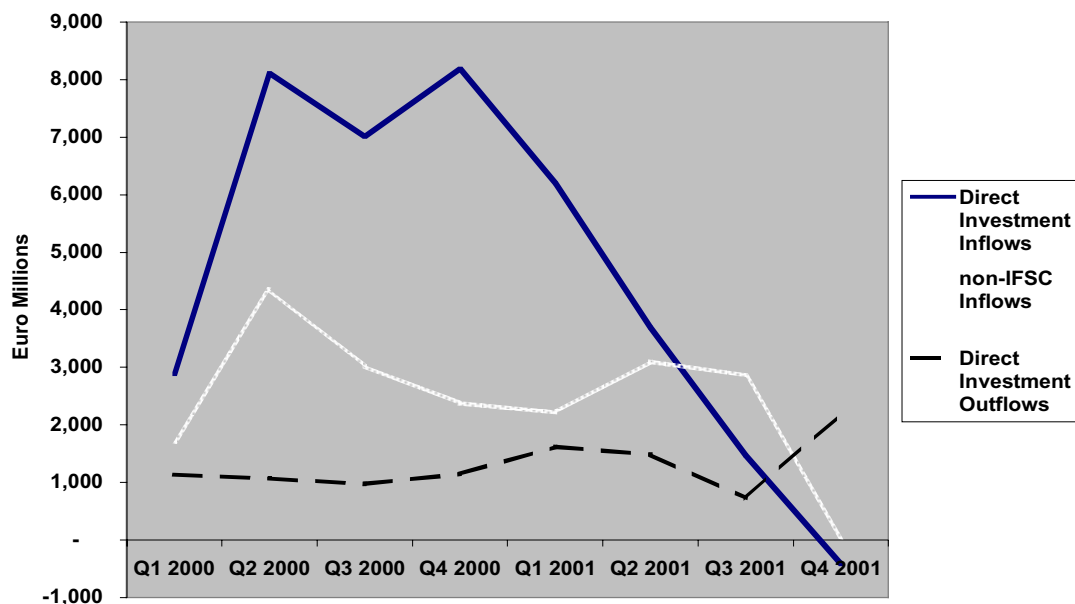
After almost 15 years of negotiations, China's WTO accession was endorsed at the WTO Ministerial at Doha in November 2001, heralding the most significant development in the international trading system for a decade. The main implications for Irish trade and investment flows will be as follows:

- WTO admission will formally commit China to substantially reduce tariff barriers to imports of foreign industrial and agricultural goods. Under the terms of its accession, industrial tariffs will fall from an average of about 17 per cent at present to around nine per cent by 2005, and all import quotas will be phased out. There will be significant tariff reductions on over 150 leading European (including Irish) exports, including machinery, ceramics, clothing and leather goods, cosmetics and spirits.
- The central Chinese government has also committed to the elimination of many non-tariff barriers that currently restrict import competition, such as import quotas, forced technology transfers, restricted trading rights and weak enforcement of intellectual property rights. Implementation of these commitments at regional and local government level is, however, likely to be problematic.
- Implementation of the WTO's Information Technology Agreement by China as part of accession will result in the elimination of Chinese customs duties on Irish exports computers, semiconductors, telecoms equipment and related products by 2005. Improved enforcement and protection of intellectual property rights of foreign companies as a result of accession to the WTO could also, over the longer-term, spur Irish software exports to the region.
- Irish and other foreign firms will, for the first time, have the right to import freely (without license), and to distribute, retail and transport their products within China within three years after accession.
- Over the longer term, the main benefit to Irish exporters of China's accession to the WTO will be the gradual harmonisation of regulatory, legal and trade frameworks in China with WTO norms, thus making trade with China a less burdensome and complicated market with which to trade.
- For Ireland and other EU countries, the main impact on the import side will be the requirement to phase out China-specific quantitative import restrictions (import quotas). This applies to the EU's remaining textile quotas applied to China, which must be dismantled by 2005. It also applies to the three industrial products for which the EU still maintains China-quotas: footwear, ceramic tableware and porcelain tableware. This could spell increased import competition for certain traditional manufacturing industries in Ireland.
- The reduction of tariff and non-tariff barriers to trade, the removal of barriers to foreign establishment and the generally improved Chinese business environment as a result of WTO accession, may lead to increasing competition from China for mobile FDI projects, particularly in the areas of electronics, chemicals and, increasingly, pharmaceuticals. According to UNCTAD, WTO accession will lead to a doubling of FDI inflows to China by 2005.
- One positive aspect of this development is that many indigenous Irish exporters to China, given their relatively small scale and the difficulties of doing business there, choose to supply foreign MNCs in China, rather than working directly with Chinese companies or partners. Accordingly, higher levels of investment in China by large MNCs as a result of China's WTO accession should also have positive indirect spin-offs for Irish sub-suppliers.

Overall, Ireland and the EU should receive modest economic benefits from Chinese WTO accession via cheaper imports and improved market access for exports. While current Irish exports to China, at just €276 million in 2001, are relatively modest, WTO accession and the current rate of growth of the Chinese economy makes it plausible that China could become Ireland's largest trading partner in Asia by 2020.

Section 3 Direct Investment Flows

Chart 3.1 Ireland's Inward and Outward Foreign Direct Investment Flows



Source: CSO, *Balance of International Payments*.

- Unlike trade flows, direct investment (FDI) flows are much more erratic, fluctuating considerably from quarter to quarter and year to year, often reflecting single large transactions (including greenfield investments and mergers and acquisitions (M&As)).
- According to UN estimates, total global FDI inflows in 2001 fell by 40% to \$760 billion from \$1.3 trillion in 2000, mainly as a result of the rapid slowdown in global economic growth and the consequent sharp fall-off in cross-border M&As. FDI flows to developed countries fell even faster, falling by almost 50% from \$1 trillion in 2000 to \$0.5 trillion last year. In contrast, FDI flows to China and central and eastern Europe continued to grow. FDI *outflows* from the developed world also declined.
- In line with the trend in other developed countries, total inward FDI flows into Ireland fell rapidly in 2001, to €10.9 billion from €26.2 billion in 2000. Inward FDI flows declined steadily over the course of the year, from €6.2 billion in the first quarter to negative FDI (a net withdrawal of investment by foreign MNCs) of €424 million in the final quarter.
- Of the total €10.9 billion in FDI inflows in 2001, €2.7 billion was accounted for by inflows into IFSC-related companies (down from €14.7 billion in 2000), while the remaining €8.2 billion was accounted for by traditional industrial FDI (down from € 11.4 billion in 2000).
- In contrast to the trend in other developed economies, outward direct investment flows from Ireland remained steady throughout 2001. Total FDI outflows measured €6.0 billion, up from €4.3 billion in 2000 and €4.0 billion in 1999. Outward FDI flows in 2001 were dominated by reinvested earnings in overseas operations and outflows of equity capital, while there was a net repayment (inflow) of debt capital to Irish companies from their overseas subsidiaries.
- Overall, the balance of FDI flows between Ireland and the rest of the world remained in favour of Ireland, with inward FDI exceeding outward FDI by €4.9 billion. This is, however, well down on 2000 (€21.9 billion) and 1999 (€12.7 billion). Moreover, outflows of FDI exceeded inflows of FDI in the fourth quarter of 2001 (by €2.6 billion) — for the first time since quarterly FDI records were first published in 1998.

Table 3.3 Inward and Outward FDI Flows by Geographic Regions (€ Millions)

	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
	2000	2000	2000	2000	2000	2001	2001	2001	2001	2001
Inward FDI Flows										
EMU	-537	138	2,613	1,052	3,266	3,173	1,528	2,116	4,627	11,444
Non-EMU	3,417	7,967	4,392	7,135	22,911	3,015	2,162	-647	-5,051	-521
EU	-328	2,859	3,776	38	6,435	4,117	2,176	4,525	5,232	16,050
Non-EU	3,208	5,246	3,229	8,148	19,831	2,072	1,515	-3,056	-5,656	-5,125
Total	2,880	8,150	7,005	8,187	26,177	6,188	3,691	1,469	-424	10,924
Outward FDI Flows										
EMU	71	101	88	-30	230	151	118	1124	1259	2,652
Non-EMU	1,061	964	883	1,174	4,082	1,465	1,366	-401	947	3,377
EU	78	220	-446	106	-42	517	456	1,361	1,772	4,106
Non-EU	1,054	845	1,417	1,038	4,354	1,099	1,030	-639	434	1,924
Total	1,132	1,065	971	1,144	4,312	1,616	1,486	722	2,206	6,030

Source: CSO, *Balance of International Payments*

- Inward FDI into Ireland has traditionally been sourced largely outside the euro-zone (and indeed outside the EU). In 2001, however, there was a net withdrawal of €5.1 billion in FDI in Ireland by non-EU multinationals, presumably reflecting the difficulties faced by many U.S. multinationals, particularly in the electronics sector, and the sharp reduction in new FDI projects by U.S. companies globally. The IDA reported a net decline of 2.7% in employment in IDA supported companies in 2001, with employment in the U.S. dominated electronics sector down by 10%. This is the first such overall jobs decline in fifteen years.
- In contrast, FDI flows from other euro-zone countries grew to €11.4 billion in 2001, from €3.3 billion in 2000. Evidence suggests, however, that most FDI inflows into Ireland from other euro-zone countries went into companies associated with the IFSC. This mostly entails large movements of capital by parent companies to their treasury, fund management and other IFSC financial subsidiaries, mostly to be reinvested in overseas assets. In this sense, such flows of direct investment into IFSC companies are roughly matched by outward flows of portfolio investment, and have little impact on the real domestic economy. The share of total FDI inflows sourced from other euro-zone countries has fluctuated from 5% in 1998, to 36% in 1999, back down to 12% in 2000 and back up to over 100% in the 200.
- FDI inflows from non-eurozone EU countries measured €4.6 billion in 2001, up from €3.0 billion, likely reflecting continued UK acquisition activity in the Irish telecoms and retailing industries, as well as greenfield FDI projects by UK companies.
- The USA has, together with the UK, traditionally been the main destination for Irish outward FDI flows. As with inward FDI flows, however, the direction of Irish outward FDI flows in 2001 shifted towards other EU countries, which received €4.1 billion in direct investment by Irish companies (68% of the total). Of this, €2.7 billion was invested in other euro-zone countries, with the remainder (€1.5 billion) invested in non-eurozone EU countries (presumably mostly in the UK). Notwithstanding the increase in 2001, in the four-year period since FDI statistics have been published (1998-2001), less than 10% of total Irish outward FDI flows were destined for other euro-zone countries, and only 20% of two-way direct investment flows between Ireland and the rest of the world were carried out with other euro-zone countries.
- Direct investment by Irish companies in non-EU countries measured €1.9 billion in 2001, down from €4.4 billion in 2000, presumably reflecting deteriorating economic conditions and investment prospects in the USA over the course of 2001.