

Research Bulletin 20/3 | Northern Ireland's International Competitiveness – Succeeding Globally

Fiona Bell, Analytical Services, Department for the Economy

December 2020

Summary

Northern Ireland's draft Industrial Strategy aims to put Northern Ireland in the top three most competitive small advanced economies by 2030. In order to deliver against this target, ensuring Northern Ireland is positioned well to succeed globally is highlighted as a key pillar within the strategy. Performance across a number of key indicators – FDI, Exports and Tourism was analysed to determine how Northern Ireland performs relative to sixteen other small advanced economies.

Over the past decade, Northern Ireland performed relatively well in attracting FDI (measured by jobs added). However, most recent data indicates that Northern Ireland is lagging behind the SAE group average. Furthermore, NI has consistently lagged behind the SAE group average in both Exports as a percentage of GDP and International Tourism Receipts as a percentage of GDP. Overall, Northern Ireland's performance across these three indicators highlight that more work is needed in order to strengthen this pillar to help meet the draft Industrial Strategy's ambitious target.

Introduction

The draft Industrial strategy for Northern Ireland (NI) highlights the importance of international engagement in order for Northern Ireland to become a leading, globally competitive economy. This Research Bulletin Article is one in a series of previously released articles looking at Northern Ireland's international competitiveness. This Research Bulletin Article provides an assessment of NI's international competitiveness across three indicators which sit within the succeeding globally pillar, namely;

- FDI Jobs Added per million persons;
- Exports of Goods and Services as a % of GDP; and
- International Tourism Receipts as a % of GDP

Using this data we compare NI's position against 16 other Small Advanced Economies - which are used as benchmarks based on their size and competitiveness.

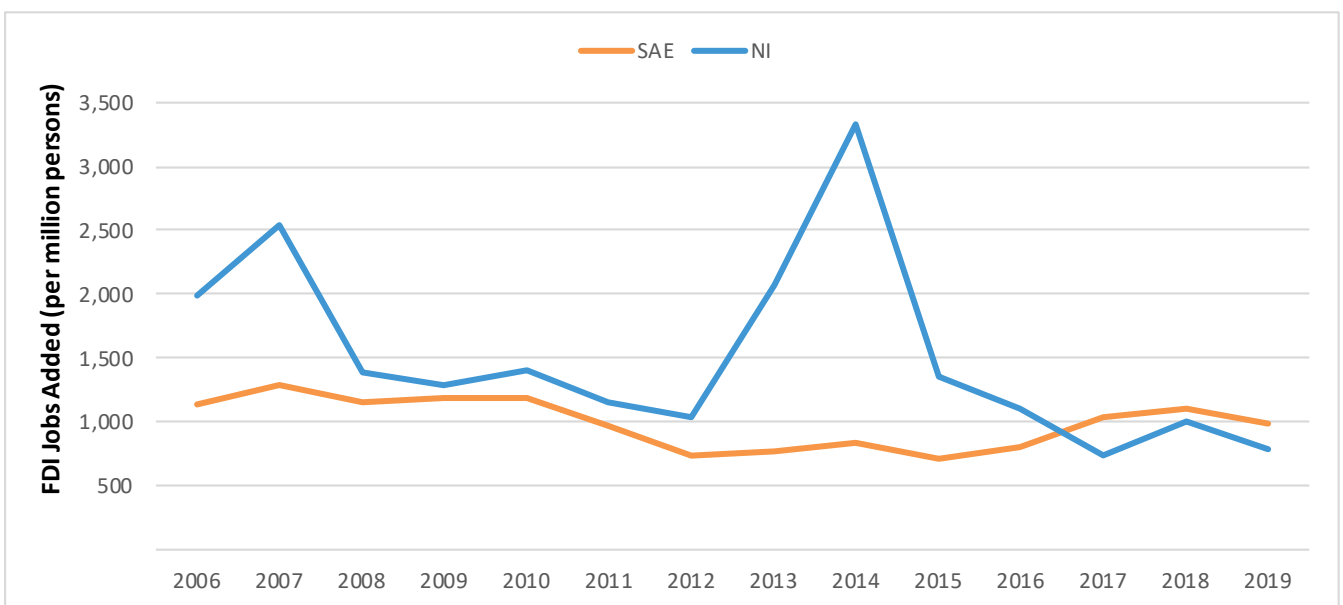
Foreign Direct Investment

FDI is a stimulus for economic development, particularly for small advanced economies (SAEs), as it brings with it a number of benefits to the recipient country such as improving international trade, technology spill-overs, human capita development and employment. In order to make a fair comparison across the SAEs we looked at data showing the number of FDI Jobs Added each year, adjusted for population size (i.e. per million persons).

Figure 1 illustrates the number of FDI Jobs Added per million persons over the years 2006-2019 for both Northern Ireland (NI) and the SAE group. Over this period NI has outperformed the SAE group in all but three years. Whilst the SAE group average has remained relatively stable over these years, NI experienced significant increases in investment in both 2007 and 2014 – the latter of which saw 3,331 FDI Jobs Added per million persons in NI compared with a SAE group average of 836. This peak performance in 2014 was a result of investments by Global lawfirm Baker & McKenzie who chose NI as the location for its new Global Services Centre and Moy Park's £170m expansion to their existing operations in NIⁱ.

However, following this peak in 2014, the number of FDI Jobs Added began to decrease, falling below the SAE group average in 2017. This more recent fall in investment may be attributed to the political uncertainty in recent years.

Figure 1: FDI Jobs Added (per million persons)



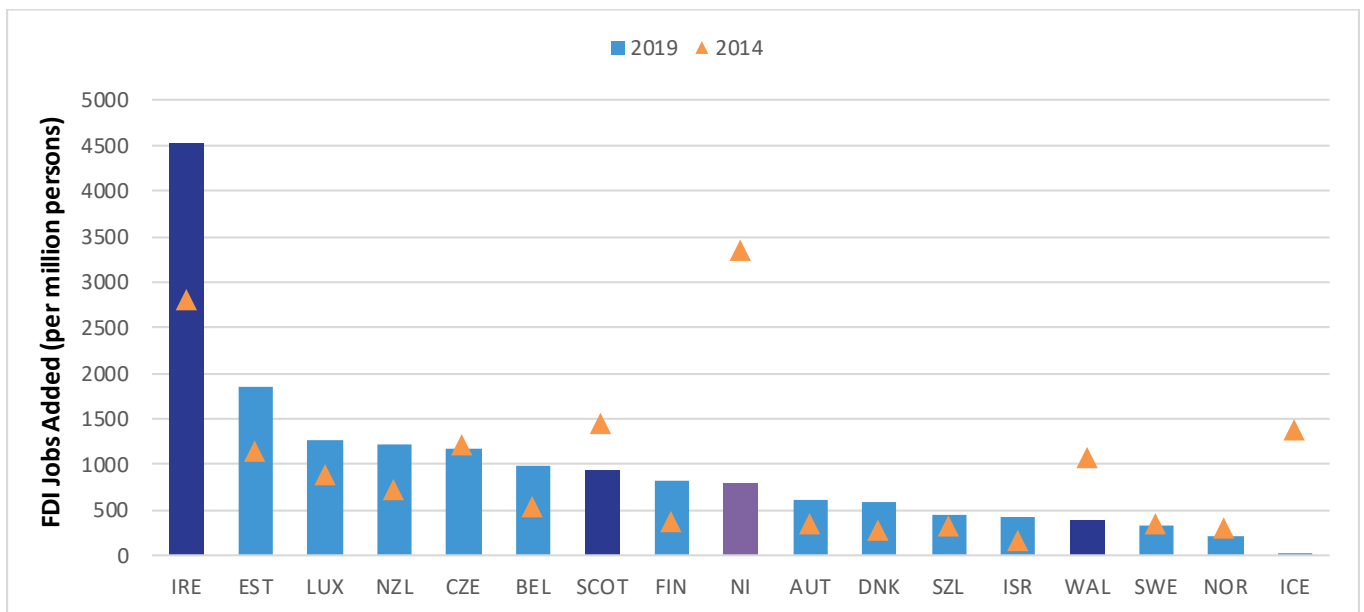
Source: FDI Markets

Despite falling below the SAE group average, Figure 2 highlights that NI positions (9th) reasonably well in 2019 relative to the SAE group, outperforming Iceland, Norway, Sweden, Wales, Israel, Switzerland, Denmark and Austria. Across the SAE group, Ireland, Estonia, and Luxembourg had the highest number of FDI Jobs per million persons added in 2019. Factors which have supported this performance include the following;

- **Ireland** – A low corporation tax of 12.5%, the lowest in Western Europe, has often been attributed to Ireland’s success at securing overseas investment. This coupled with an educated workforce and overall transparent tax regime has attracted investment from companies such as Google, Facebook, Pfizer and Pepsiⁱⁱ.
- **Estonia** – The International Tax Competitiveness Index, which measures the competitiveness of an economies tax system, ranks Estonia first, commenting that they have the best tax code across the OECD. This includes a favourable corporation tax, income tax, property tax and a territorial tax systemⁱⁱⁱ. With an investor friendly tax system, availability and quality of human capital and an advantageous geographical location to Western Europe, Estonia has attracted investment from companies such as Ericsson, ABB and Symantec.
- **Luxembourg** – Luxembourg, one of the most open economies in the world, has many attractive assets for investors, including, a competitive tax system, a highly developed transport infrastructure connecting the country to major cities and foreign capitals and a highly skilled multilingual workforce^{iv}.

When comparing the year 2014 with 2019 we can see just under half of the economies within the SAE group saw a decrease in investment over this five year period. Indeed, only one of the top three economies in 2014 held their positions in 2019. Interestingly, NI held the top position in 2014, dropping to 9th in 2019. A similar story can be seen in Iceland where they ranked fourth in 2014 in contrast to last position in 2019.

Figure 2: FDI Jobs Added (per million persons), 2014 vs 2019



Source: FDI Markets

Exports

One variable of International Trade is the levels of exports produced by a country. Exports play an important role in the performance of an economy as they have an impact on economic growth, employment and the balance of

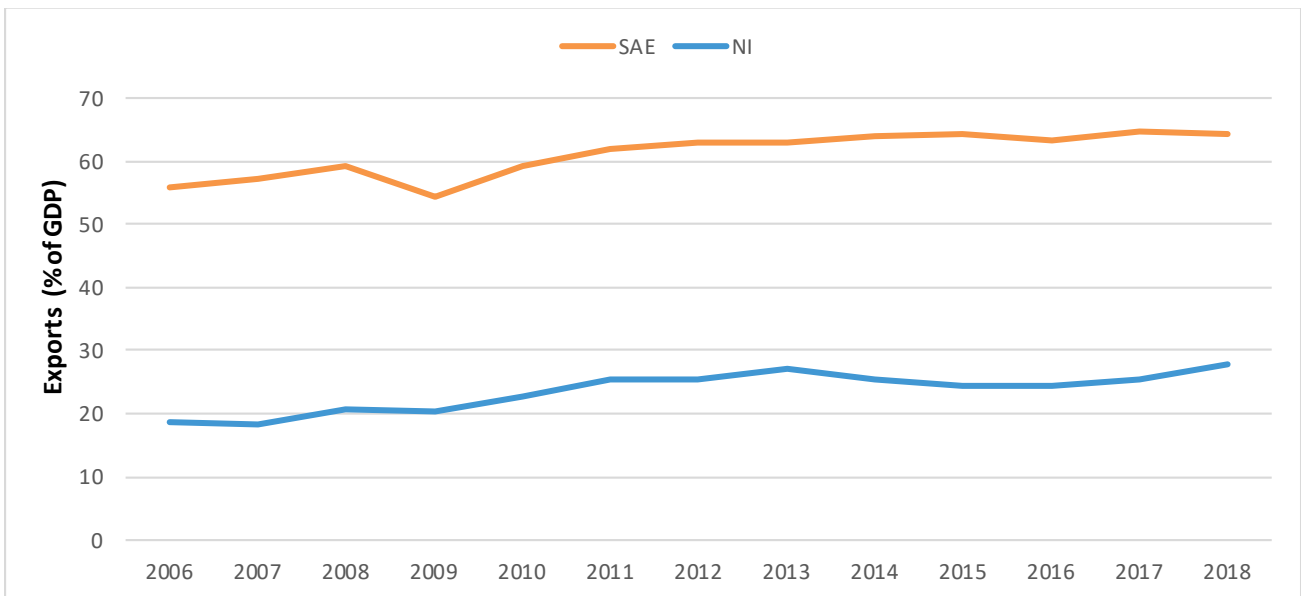
payments. Since 2006, Northern Ireland Exports as a percentage of GDP^v has been consistently below the SAE group average. Indeed, with Exports as a % of GDP on average thirty eight percentage points lower, at no point has NI exceeded the SAE group average (Figure 3). It should be noted that sales to the rest of the Great Britain from Northern Ireland are classified as external sales and not exports.

The SAE group experienced a sharper fall in exports during the global financial downturn when compared to NI. All but three economies saw a fall in Exports as a % of GDP with economies such as Luxembourg – with high levels of financial services exports seeing a relatively large decrease (-23%). However, by 2010, exports began to increase again with both NI and the SAE group levels as a % of GDP increasing above their pre-recession levels.

Over the years 2013 – 2016 Northern Ireland saw a fall in Exports as a % of GDP when the SAE group average was increasing. The Northern Ireland Broad Economy Sales and Exports Statistics report shows that exports to the rest of the world fell in 2014^{vi} and whilst manufacturing continued to dominate Northern Ireland exports, accounting for 60% of sales, manufacturing exports fell by almost 4% to £5.5bn in 2015^{vii}.

More recently, NI Exports as a % of GDP in 2018 was at its highest level across the years 2006-2018, however, Figure 4 highlights that most economies within the SAE group outperformed NI in this year.

Figure 3: Exports (% of GDP)



Source: World Bank, Export Statistics Scotland, NISRA, UK Balance of Payments, DfE Estimates

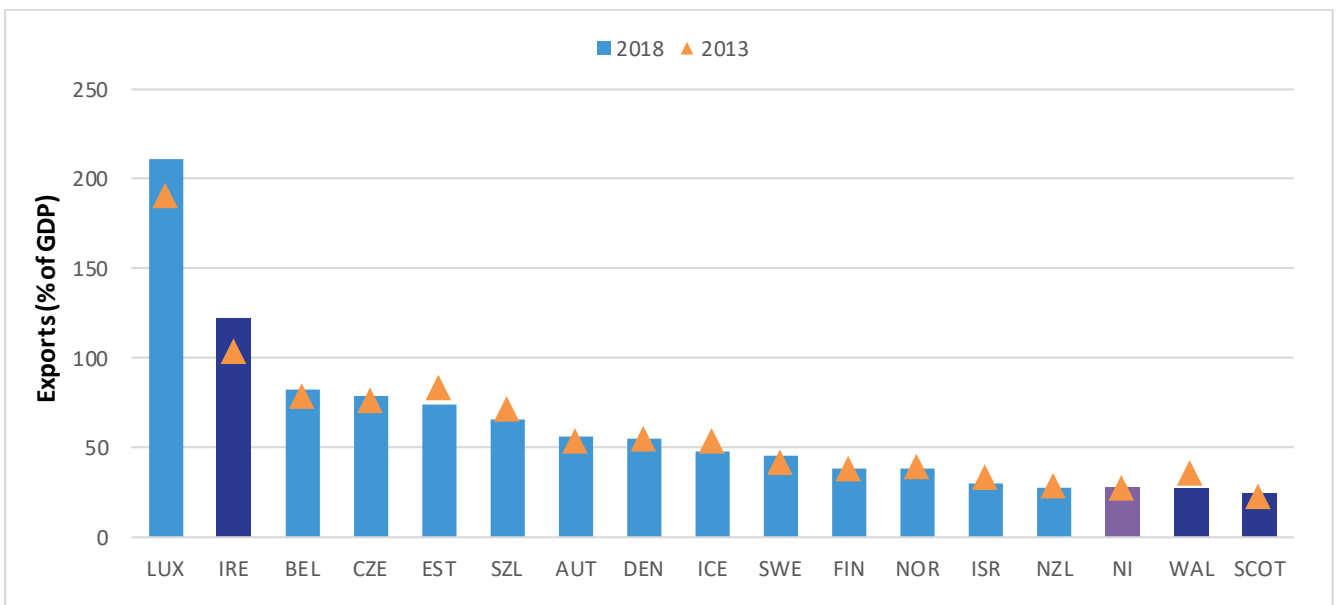
Note: Does not include external sales to other regions of the UK

Looking at the 2018 results, we can see Luxembourg, a landlocked Western European nation, stands out as the top performer on this indicator with Exports as a % of GDP at 211%. Luxembourg exports are supported by a strong physical infrastructure well-connected to the rest of Europe by roads, railways, and airlines allowing the export of goods through Belgium, the Netherlands, and France almost effortlessly^{viii}.

Strong performance in Luxembourg is followed by Ireland (122.3%) supported by the strong Pharma industry and Belgium (82.6%) with high automobile exports, representing the top three performing economies across the SAE group. During the same year, Northern Ireland ranked within the bottom three economies across the SAE group, above only Wales and Scotland.

Export levels as a % of GDP have remained fairly steady amongst the SAE group, with most economies reporting only a slight change in their 2013 levels relative to 2018. Wales, however saw a 25 per cent fall in Exports as a % of GDP when comparing these two years. This significant decrease may be explained by an 84 per cent increase in exports to the United Arab Emirates in 2013^{ix} leading to a higher level of exports during that year compared with subsequent years. In contrast, Ireland saw an 18 per cent increase in Exports as a % of GDP in 2018 relative to 2013, supported by an increase in exports in Blood, Antisera, Vaccines, toxins, and cultures^x.

Figure 4: Exports (% of GDP), 2013 vs 2018



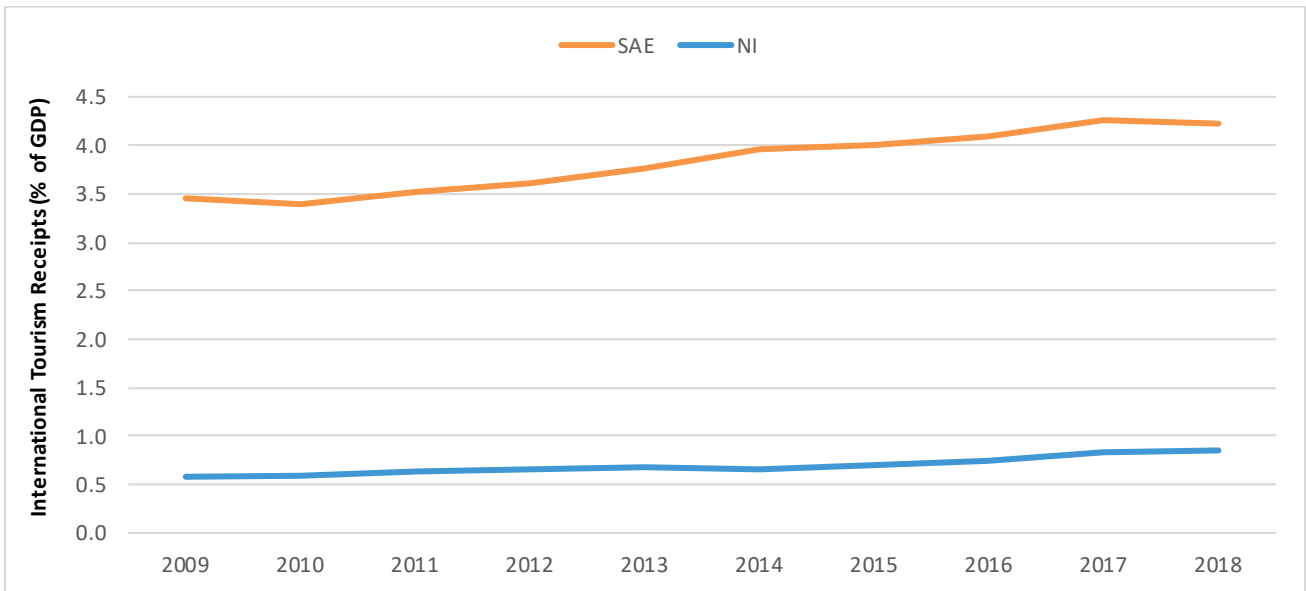
Source: World Bank, Export Statistics Scotland, NISRA, UK Balance of Payments, DfE Estimates

Note: Does not include external sales to other regions of the UK

International Tourism

Like FDI and Exports, International Tourism is a driver for economic growth. It is a key part of a growing services economy, generating income and foreign exchange, creating jobs and stimulating regional development^{xi}. Since 2009, NI inbound tourism receipts, as a percentage of GDP^{xii} has been consistently below the SAE group average (see Figure 5).

Figure 5: International Tourism Receipts (% of GDP)



Source: World Bank, NISRA & ONS

Note: Does not include visits from other regions of the UK

In 2009, NI International Tourism Receipts as a % of GDP was around 2.9 percentage points lower than the SAE group average, with this gap broadly maintained up to 2013. In more recent years, the gap between NI and the SAE average has been widening, with latest data for 2018 showing NI to be 3.4 percentage points lower than the SAE group.

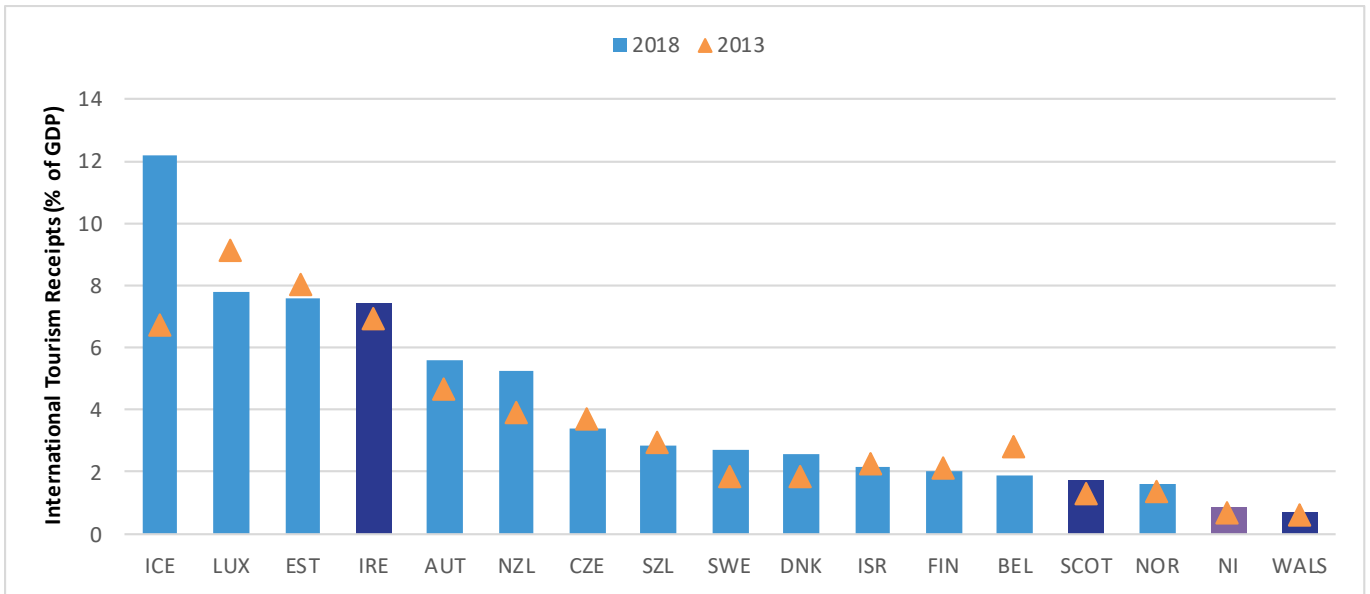
Whilst NI International Tourism Receipts as a % of GDP remained relatively unchanged over the years 2009 – 2018 the SAE group average saw a slightly more noticeable increase. This increase was supported by significant growth in tourism receipts in both Iceland and Denmark. Tourism in Iceland began to grow following the April 2010 eruption of the Eyjafjallajökull volcano which acted as a global billboard for Iceland’s natural beauty. Furthermore, it was cheap to visit and costs were affordable^{xiii} due to the country’s weak currency^{xiv}, however, more recently there has been an appreciation of the Krona making it more expensive to visit Iceland. In addition, in Denmark, Wonderful Copenhagen, the city’s tourism board, points to architecture, design, sustainability, diversity, and the city’s likeness to a “modern fairy tale” as the reasons for attracting visitors^{xv}.

Figure 6 highlights that Iceland, Luxembourg, Estonia, Ireland and Austria had the highest International Tourism Receipts as a % of GDP of all SAEs in 2018. Interestingly, whilst there were slight variations, these five economies also held the top five positions in 2013. Similarly, NI ranked 16th in both 2013 and 2018 above only Wales in both of these years.

The 2019 Visitor Attraction Survey published by NISRA found that the top three attractions (excluding parks and gardens) for NI were the Giants’ Causeway, Dundonald International Ice Bowl and Ulster Museum^{xvi}. With the creation of the Titanic museum in 2012 and the popularity of *Game of Thrones*, it is surprising that NI’s performance on this indicator has not seen much change since 2013. However, it is worth noting at this point, that in order to make like-

for-like comparisons to other national economies within the SAE group, receipts from inbound visitors from Great Britain have been excluded from this analysis.

Figure 6: International Tourism Receipts (% of GDP), 2013 vs 2018



Source: World Bank, NISRA & ONS

Note: Does not include visits from other regions of the UK

Conclusions

Northern Ireland lags behind most other SAEs on the three key indicators discussed within this Research Bulletin Article (see Table 1), however, encouragingly we can see that when compared with data from the previous five years NI remained stable or has improved on two out of the three indicators. Recent data shows a fall below the SAE group average on FDI Jobs Added (per million persons).

Table 1: Northern Ireland’s performance against Small Advanced Economy Group

Measure	Most Recent Rank	Five Year Rank
FDI Jobs Added	9 th	1 st
Exports	15 th	16 th
International Tourism	16 th	16 th

Ireland, Luxembourg and Estonia perform well across all three indicators, therefore it will be important to further research these economies and identify what lessons can be learnt which could then be applied to Northern Ireland in order to help improve performance.

NI and the SAE group are currently in the midst of the Covid-19 pandemic which will undoubtedly lead to economic costs which will impact performance across these three indicators. NI’s position will be further impacted by Brexit,

nevertheless, if NI is to meet the ambitious target set within the draft Industrial Strategy for NI to be in the top three most competitive economies by 2030, continued progress is needed. DfE will continue to take forward and expand its research into international competitiveness in order to better illustrate how NI performs against other SAEs.

Fiona Bell

For further information or queries please contact FionaBell@economy-ni.gov.uk

ⁱ [Inward Investment Report 2014/15 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

ⁱⁱ [Ireland's FDI success story - Cork on the rise - KPMG Ireland \(home.kpmg\)](https://home.kpmg)

ⁱⁱⁱ [International Tax Competitiveness Index | Tax Foundation](https://www.taxfoundation.org)

^{iv} [Foreign direct investment \(FDI\) in Luxembourg - Investing - Nordea Trade Portal](https://www.nordea.com)

^v ONS GVA growth data has been used as a proxy for GDP for Northern Ireland, Scotland and Wales. This statistic is a close comparator to international GDP growth figures produced by the World Bank which has been used for the SAE group.

^{vi} [Sectoral Analysis \(nisra.gov.uk\)](https://www.nisra.gov.uk)

^{vii} [Northern Ireland's exports fell by 5% in 2015 - BBC News](https://www.bbc.com)

^{viii} [The Economic Struggles of Landlocked Countries \(thoughtco.com\)](https://www.thoughtco.com)

^{ix} [Welsh Icons News | Welsh Exports Growth Outstrip the UK](https://www.welshicons.com)

^x [Ireland \(IRL\) Exports, Imports, and Trade Partners | OEC - The Observatory of Economic Complexity](https://www.oec.world)

^{xi} [OECD TOURISM TRENDS AND POLICIES 2020](https://www.oecd.org)

^{xii} ONS GVA growth data has been used as a proxy for GDP for Northern Ireland, Scotland and Wales. This statistic is a close comparator to international GDP growth figures produced by the World Bank which has been used for the SAE group.

^{xiii} Tourism has slowed more recently due to an appreciation of the Krona making it more expensive to visit Iceland.

^{xiv} [The Rise and Fall of Iceland's Tourism Miracle – Skift](https://www.skift.com)

^{xv} [Who we are | Wonderful Copenhagen](https://www.wonderfulcopenhagen.com)

^{xvi} [NI-tourism-publication-Visitor-Attraction-Survey-2019-Report.pdf \(nisra.gov.uk\)](https://www.nisra.gov.uk)