



# Response to the Committee for Enterprise, Trade & Investment's Inquiry

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## Introduction

Belfast City Council welcomes the opportunity to contribute to this inquiry. The council is approaching the conclusion of its three year Investment Programme, which secured all-party support, and was a major investment to make Belfast a more attractive place for people to visit, work, study and invest in.

The Council is also soon to launch a number of strategies that are pertinent to this inquiry. These include the City Centre Regeneration Strategy and Investment Plan, the Belfast Integrated Economic Strategy, the Belfast Tourism Strategy, and the Belfast Employability and Skills Strategy. These will all help to make Belfast and the rest of the region a more attractive prospect for investors and businesses to locate their operations.

While there is a focus on the lowering of the corporation tax rate, the committee is right to recognise that there are a series of key determinants that need to be in place to ensure that any reduction can act as a catalyst for growth. These include addressing skills and employability issues, developing the physical and business infrastructure and fostering entrepreneurship. Equally, businesses look to some non-economic factors when choosing an investment location. These include issues such as the political situation and the quality of life in an area. While this debate is primarily concerned with Foreign Direct Investment (FDI), there is also a need to recognise that indigenous businesses must be supported to innovate, grow and develop to create a more export focused and sustainable economy.

Perhaps the most important determinant in guaranteeing a successful rebalancing of the economy and attracting FDI, is strong and united leadership by the NI Assembly to lead on the required economic drivers and so ensure that any benefit from the reduction in corporation tax is fully realised.

## Research

In compiling our response to this inquiry we have made reference to the wealth of research that already exists on the subject of attracting FDI. There have also been several reviews of the performance and competitiveness of Belfast. In particular, the Centre for Cities recent report compared Belfast to 63 UK cities (Centre for Cities, 2015). Oxford Economics conducted research into the competitiveness of Belfast in comparison with other European cities (Oxford Economics, 2011).

This research is summarised in the following sections.

## Corporation Tax

There is no one universally accepted theory of what attracts foreign direct investment (Denisa, 2010). There is even disagreement over the impact of changes in corporation tax. For example, some have gone so far as to suggest that there was no evidence to support the theory that a low corporation tax alone had led to the economic growth in the Republic of Ireland (ROI)



(PricewaterhouseCoopers, January 2011) and that the Executive had been misled (BBC, 2015). Many observers have claimed that more important factors than low corporation tax were behind the economic growth in the RoI. These included a world-class infrastructure, low labour costs and high skill levels, an efficient planning system, membership of the Euro, the English language, lenient rules on profit-shifting and tax avoidance, and the role of targeted investment incentives (Stansbury, 2011) (NI Affairs Committee, 2011) (Reinsch, 2014). It is also worth noting that the NI economy was performing well prior to the 2008 recession despite the south already having a lower 12.5% tax.

To counter these views, comparisons have been made between Scotland, Wales, NI and the RoI in terms of their success in attracting FDI. It is claimed that the major difference that accounts for the much higher success of the RoI is the lower rate of corporation tax (Economic Reform Group, 2010). Specifically, it is stated that low corporation tax (firstly the very low rate for most manufacturing sectors since the late 1950s and then the general low rate from the late 1990s) are the real reason for the Republic's astonishing success during the Celtic Tiger years (Economic Reform Group, 2010). Some have described a lower corporation tax as 'indispensable ingredient' in economic growth (Economic Reform Group, 2010). Others have attempted to quantify this effect and claimed that cutting corporation tax by 10% could increase the annual economic growth rate by around 1.1% per year (Gordon, 2004).

In terms of the arguments for and against, some suggest that low profits taxes are particularly valuable to high-profit companies and especially those in R&D-intensive sectors including pharmaceuticals and computers. The low rate facilitates profit shifting in sectors where much of the profit is generated in US or other non-Irish R&D labs (Economic Reform Group, 2010). Others concede that corporation tax may be important to an extent, but point out that many developed countries tax all overseas income of domestically-based companies (e.g. all profits of a UK company earned in the RoI are still taxable in the UK). A UK-based company therefore has little incentive to create a subsidiary in the Republic of Ireland just because of the low tax rate (Stansbury, 2011). Some even claim that companies who are attracted to areas with low taxation tend to pay little or none of the tax that they are supposed to (Murphy, No pot of gold at the end of the rainbow, 2010).

Looking specifically at Northern Ireland the message is also mixed. NYSE Euronext and NYSE Technologies claimed factors such as high skill levels, low operating costs, strong incentives from local government, and a good geographical location, were more important than corporation tax. Hewlett Packard placed experience and skills above a lower rate of corporation tax. However, the Confederation of British Industry (CBI) has called for a lower corporation tax, claiming it is an important factor in attracting multinational companies to Northern Ireland (Stansbury, 2011).

These various opinions do suggest that the major incentive for inward investment as a result of a lower corporation tax rate in Northern Ireland would be confined to multinational companies wishing to locate headquarters in Northern Ireland, or multinational companies with headquarters in tax havens (Stansbury, 2011).

## Other factors

Putting the issue of lower corporation tax aside, there is lots of research relating to the other factors that can help to attract FDI.

There are two main reasons for a firm to invest in a foreign location. One is to provide better access and services to the local market. The other is to take advantage of lower costs (Martin,

2004). Lower costs could be in transport, materials or labour or access to technology that is harder to access in the organisation’s home base. It can also be lower costs through reduced bureaucracy, taxation, etc. The first reason typically involves investments in advanced countries, for example Japanese car manufacturing in Europe. The second involves moving parts of the business process to low-cost locations, for example moving production to China (Martin, 2004).

These two main reasons can be further divided into four key motivators for FDI (Zvirgzde, Schiller, & Diez, January 2013):

1. **Resource seeking** – cheap natural resources, labour, physical infrastructure. These are often seen as a prerequisite.
2. **Market seeking** – proximity to potential customers and suppliers.
3. **Strategic assets** – seeking access to technologies, knowledge or other specialisms that are not available in the home country.
4. **Efficiency seeking** – relates to more efficient division of labour, specialisation of assets, reduction of market entry barriers, or reduced transport costs. This is regarded as being secondary to the first two factors.

Proximity is also considered a significant factor in investment decisions. The potential reduction in operating costs needs to be balanced against the costs of establishing production at a different location. A general rule is that the further the distance from the home base, the higher the adjustment costs of factors such as language and culture (Zvirgzde, Schiller, & Diez, January 2013).

Figure 1 attempts to summarise the motivation for firms to invest abroad.

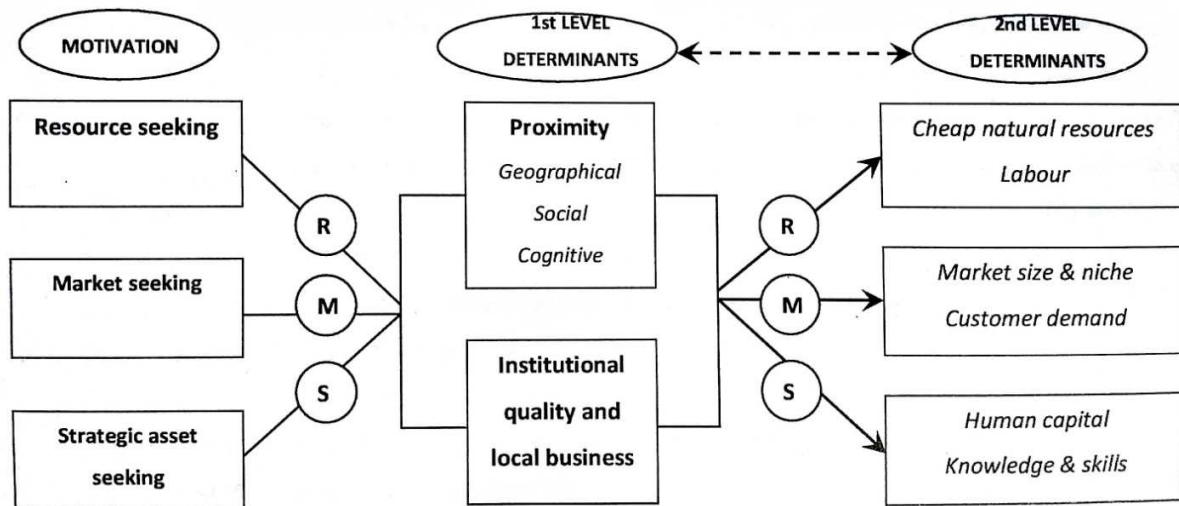


Figure 1 Conceptual Framework for FDI in transitional economies (Zvirgzde, Schiller, & Diez, January 2013)

## Resource seeking factors

### Labour

A key resource for any organisation is labour. This can be thought of in terms of availability, skill level and cost (Stansbury, 2011).



### **Cost and availability**

Belfast was ranked next to worst in terms of its JSA claimant count when compared to 64 UK cities (Centre for Cities, 2015). The relatively high unemployment rate in NI (particularly youth unemployment, which is a significant issue) suggests that labour is readily available for potential investors (Oxford Economics, 2011). Equally, wages are competitive with the average private sector salary only about 82% of the UK average. (Harper, 2015)

### **Skills and Employability**

The situation for skills and employability is mixed. Belfast's relatively high number of graduates and highly skilled residents is seen as a particular strength (Centre for Cities, 2015) (Oxford Economics, 2011). On the other hand, Belfast is one of the worst UK cities in terms of the proportion of people with no formal qualifications (Centre for Cities, 2015) and the high proportion of unskilled labour (Oxford Economics, 2011).

Addressing the skills challenges is fundamental to any future productivity and economic growth. Belfast in particular faces a significant long-term challenge around employability and skills as identified in Belfast City Council's draft 'Employability and Skills Strategy and Action Plan' (2015). This strategy has noted the high proportion (30.4%) of the working age population hold no qualifications with only 36% of this group in employment. There is a significant over supply of lower skilled residents in Belfast with future demand being for a higher skilled labour force. Alongside this are the projections for a restrained trend for employment growth in the future (2012-2025) with significant falls in employment within the public sector.

Skills and training is fragmented throughout the city and it will remain difficult to have effective impact unless there is greater alignment between identified needs, employability provision for target groups and input from employers on the skills required.

Ensuring that the local population are inspired to develop and have access to the appropriate support is a key function for central and local government with key partners to ensure that the local population attain higher qualifications and that skills are aligned to future market demands.

In terms of higher value jobs, in particular those that require a degree level or more qualifications, the research by Ulster University shows that the most relevant degrees by sector are (Gibson, 2015):

- Manufacturing sector: business and finance, engineering, and agriculture.
- ICT sector: mathematical and computer sciences, engineering, physical sciences.
- Admin and related services sector: business and finance, physical sciences, and biological sciences.
- Professional services sector: architecture, mass communications, and law.

### **Energy Costs**

High energy costs in Northern Ireland are cited as a key inhibitor to business development and growth. Manufacturing NI have recently produced a report (Manufacturing makes Northern Ireland strong) noting that energy costs was their third highest input after labour and materials costs with electricity being up to 20% more expensive than in the Republic of Ireland.

This view is supported by research by Ulster University that suggests the three biggest issues for Northern Ireland businesses are increasing general overhead costs, increasing energy costs, and cash flow issues (Gibson, 2015).



## Physical Business Environment

There is a serious imbalance in office space in Belfast. There is significant over-supply of secondary office accommodation, with estimates of vacant space of approximately 1.2 million sq ft (Q2, 2013). However, Grade A office space is undersupplied with virtually no grade A space available or in the immediate pipeline (Urban Strategies, 2014).

The City's Integrated Economic Strategy and Regeneration Strategy both prioritise the need for Grade A office accommodation and development activity including the potential of North Foreshore. Belfast City Council through partnership with Central Government and private sector support aim to deliver 500,000 sq ft Grade A Office Accommodation to meet the demands of the market place.

## Transport and Infrastructure

Infrastructure (both physical roads, and information technology), affects transport costs and the production process itself (Stansbury, 2011). A reliable electricity and water supply is important for manufacturers, while reliable communications might be more important for service providers (Stansbury, 2011). We are not aware of any comparisons between Northern Ireland and other investment locations in these areas though publicised failures of the water and electricity supplies over recent harsh winters may harm the image of the region as a location.

One area where Belfast is rated poor in international comparisons is in accessibility, which particularly hinders tourism (Oxford Economics, 2011).

Belfast and Northern Ireland are clearly very reliant on air transport both in terms of exporting and developing linkages on an international market. Maintaining connectivity with London as a central transport hub is essential while encouraging the development of direct flight services to Europe and beyond. While the capacity and services provided by our airports locally leaves significant scope for development, government locally also needs to influence the current air passenger duty which could be deemed prohibitive to inward investment and indigenous economic growth.

There is also a need to consider the fragmented linkages between airports and the main employment areas i.e. public transport between City and international airports to encourage the development of a business focused links.

## Market seeking factors

(The proximity to potential customers and suppliers.)

### Local Markets

The population of Northern Ireland is one of the smaller in Europe. However, being a member of the EU gives companies that are based here, access to the whole of the European market. This is important as the size of the domestic market affects the extent to which companies must focus on exporting as opposed to selling domestically, and also affects the availability of competitively priced and high quality suppliers of inputs for production (Stansbury, 2011).

Some key results from research on the Belfast domestic market are shown below:

- Belfast is in the lowest 10 (out of 64) in terms of the balance between private and public sector jobs (Centre for Cities, 2015).
- Belfast ranks 45 out of 46 European cities in terms of its economic balance or the diversity of its economy (Oxford Economics, 2011).



- The construction industry is struggling (Oxford Economics, 2011). More recent studies do show a slow recovery but mainly by firms working outside of the region and still lagging behind the rate of recovery elsewhere (BBC News, 2014).
- The retail and tourism sectors had initially avoided the worst of the recession thanks to an increase in visitors from the republic of Ireland. However this support has declined since the economic crisis in the south. (Oxford Economics, 2011):

However, distribution costs across Europe are relatively low. Hence the main appeal for an organisation to invest in NI is likely to be to secure lower costs, or other competitive advantage (as discussed in the other sections), rather than to be nearer the NI domestic market itself.

## Strategic assets factors

(Seeking access to technologies, knowledge or other specialisms that are not available in the home country.)

### Clusters

There are mixed views on the importance of clustering as an incentive for FDI. Some have identified clustering as a key aspect of the success of the ROI economy prior to the economic crisis (Ruane & Buckley, 2006) (Esposito, Ighniades, Mecklenburg, & Paddeuolivieri, 2010). Counter to this, there is some evidence to suggest that businesses were already moving away from geographic clusters prior to the policy changes introduced in the ROI in the late 1990s to promote greater spatial dispersion. Conversely multinationals do show patterns of industry based clustering, though this could be due to policies to attract certain industries such as high-tech manufacturing (Gleeson, Ruane, & Sutherland, 2005).

There has also been criticism of the loose definition of clusters both in how it is used in research into the impact of clusters and also in terms of policy making. In particular, it is pointed out that traditional industrial classification systems fail to describe true clusters (Fanning & Doyle, 2007).

Most of the work on clusters is based on Porter's work. He defined clusters as "critical masses - in one place - of unusual competitive success in particular fields...Clusters are geographic concentrations of interconnected companies [not necessarily of the same industrial classification] and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition" (Porter, 1998) cited by (Fanning & Doyle, 2007). The main attraction for businesses is that clusters can help to increase productivity and innovation for the firms within the cluster, which gives them a competitive advantage (Fanning & Doyle, 2007). On that basis, being able to join an established cluster should prove an attraction for FDI (Zvirgzde, Schiller, & Diez, January 2013).

As such, it may be beneficial to identify areas where NI already has established clusters or the potential to develop clusters from existing areas of expertise or excellence.

For example, there are also some sectors in which Belfast is already competitive. The BBC (BBC Northern Ireland, 2015) reported that Belfast is one of five places for the most successful digital technology companies in the UK. This sector has seen 73% growth of new digital companies incorporated between 2010 and 2013. These companies across Belfast and Derry/Londonderry combined employ over 32,000 people according to a new report (Tech Nation, 2015). The key sectors are games development and publishing<sup>1</sup>, software development,

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<sup>1</sup> Nesta estimates that this sector contributes £1.7 billion to the UK economy (Tech Nation, 2015).



data management and analytics. There are key capabilities in artificial intelligence, payments infrastructure and mobile and tablet development.

Previous surveys have highlighted the strength of Financial and business services in Belfast in comparison with other European cities (Oxford Economics, 2011). The potential of environmental/green businesses has also been suggested using the existing expertise in hydro and aero technologies associated with the businesses, supply chain and university connections with the harbour and Bombardier. These could be centred around the North Foreshore Green Economy Business Park. Other appropriate sectors may include creative industries, particularly video, film and photography, building on the success of headline investments such as 'Game of Thrones.' Other potential areas include life sciences, connected health and tourism.

### **Innovation and entrepreneurship**

Undermining any attempts to promote the benefits of local clusters is the continued underperformance in innovation and entrepreneurship. While foreign investment is likely to bring its own innovation and provide additional opportunities for local entrepreneurship, it will be harder to attract foreign investors if they perceive the areas to be lacking in the skill and desire to innovate. Recent surveys have all highlighted the problem:

- Belfast was last [out of 64] in terms of business start ups (Centre for Cities, 2015).
- Very low levels of entrepreneurship (Oxford Economics, 2011).
- Belfast was only 61st first in terms of patents granted (Centre for Cities, 2015).

### **Efficiency factors**

(More efficient division of labour, specialisation of assets, reduction of market entry barriers, or reduced transport costs. This is regarded as being secondary to the first two factors.)

### **Business regulation and planning**

The level of regulation and the compliance burden on companies significantly affects operating costs (Stansbury, 2011) and can be a significant factor in determining where a business locates. As previously reported, there are some observers who claim that factors such as an efficient planning system and reduced bureaucracy can play as important a role as the rate of corporation tax in terms of attracting FDI (Stansbury, 2011) (NI Affairs Committee, 2011).

Recent high profile cases have shown the frustration that existing businesses owners have with the bureaucracy affecting their business (Belfast Telegraph, 2015). Though it should also be noted that, overall, the United Kingdom is ranked as the 8<sup>th</sup> easiest country in which to do business (World Bank Group, 2015). Unfortunately Northern Ireland is not included in the rankings.

On the other hand, Government can also provide support for businesses. The Council's 2011 business survey suggests that 84% of businesses in the city had availed of no government support in the previous year, despite the range of services that are available from a number of agencies. Our experience of working with SMEs – and particularly micro businesses – suggests that they find it difficult to navigate the spectrum of agencies and programmes on offer and therefore tend to avoid getting involved in the many support initiatives which are created for them.



## Financial factors

There are various financial factors other than those previously discussed. These include the availability of finance, taxes (other than corporation tax that was previously discussed), and exchange rates. For companies with operations overseas, risks from currency fluctuations and the impact on access to international markets are very important (Stansbury, 2011). Companies based in the ROI are less likely to be exposed to this risk because of the size of the market using the Euro as currency.

In terms of access to funding, a recent survey suggests that Northern Ireland (digital sector) companies are well supported. For access to Public financial support, 75% of companies (twice the UK average) felt able to access funds. InvestNI and the £29 million Techstart NI fund have done much to facilitate this (Tech Nation, 2015).

In terms of rates and other taxes, local businesses there have been calls from local businesses to reduce VAT (McDonald, 2014) and the rates (UTV, 2015). We do not have access to any business rates comparisons between Belfast and other cities.

## Non-economic Factors

While most of the discussion around Corporation Tax has focused on economic factors, it is important to note that there are many non-economic factors that also influence FDI. It is also important to remember that if it is ability to attract investment depends on factors such as quality of life rather than just economic factors. Therefore, the committee should consider how it can work with an influence other departments to improve the region in terms of factors such as health, equality, culture and entertainment, governance, crime and safety, and the environment.

## Political Stability and Leadership

Research has shown that factors such as political risk and institutions can have a significant effect on FDI (Busse & Hefeker, 2005). Their research, which was primarily concerned with emerging and developing countries, suggested that the main factors affecting FDI decision were:

- Government stability.
- Law and order.
- The Quality of the bureaucracy.
- Investment portfolio.
- Internal and external conflict.
- Ethnic tensions.
- Democratic accountability.

Of these, the most significant factors were Government stability and law & order (Busse & Hefeker, 2005). Both are important considerations for the region and any attempts to attract FDI. Any threat of an impasse or collapse of the NI Assembly raises questions over the stability of the government (Clarke, 2014). Security alerts and civic tension, whether racial or sectarian, creates concerns about law and order, especially when they are embellished in the media. It is therefore essential that political stability continues and that politicians and civic leaders continue to play a role in maintaining stability with a view to enabling economic growth.





## Standard of living

As shown in the examples in the next section, the 'standard of living' or 'quality of life' in an area is also a consideration for FDI (Oxford Economics, 2011). Benchmarks for the standard of living consider many factors and the 2013 Good Growth for Cities index from PricewaterhouseCoopers ranks Belfast as ninth amongst the UK's top-10 cities against factors contributing to a good quality of life. The Council has commissioned various reports into the competitiveness of the city in these areas.

Belfast scored well in areas such as crime, safety & security<sup>2</sup> and affordability (Oxford Economics, 2011). Belfast was also ranked first in terms of the growth of housing stock (Centre for Cities, 2015). However, it has also been noted that city centre living has not quite achieved the same level of sustainability as in other comparable cities, and has experienced a larger downturn following the economic crisis. There is a perception that for a capital city, Belfast has not been able to attract the city centre residential community that a city of its stature should hold (Urban Strategies, 2014).

Belfast was rated the worst city in terms of social inequality and was considered average in terms of co2 emissions (Centre for Cities, 2015). There was a room for improvement in the areas of health, education and skills, culture and entertainment and governments and infrastructure where Belfast was considered to be mid tier. Belfast scored most poorly in the area of 'labour market' due to high levels of inactivity and the reliance on benefits (Oxford Economics, 2011).

## Historical connections

Another factor is the influence of historical connections and their potential impact on FDI. We have not discovered any hard evidence of this influence but there is anecdotal evidence to suggest that some FDI decisions are affected by family or historical connections to the area. Though it is not clear if these examples are relevant at the initial stage of identifying potential locations for investment, or at the final stage of deciding between the final few options. It is also possible that the anecdotal examples are actually just publicity statements to announce the arrival of a new investment. If this is a significant factor, it suggests there may be value at focusing efforts on those countries with the most obvious connections: the U.S., Canada, the U.K., Australia, and New Zealand.

## Application of these factors elsewhere

In compiling this response we have discovered some examples that show how other countries are focusing their efforts to attract FDI. Obviously we have not had the time to produce a detailed study but some of the headline results may be useful.

### Macedonia

Macedonia is an interesting example as it shares many similar attributes to NI. In particular, it is a small country (population 2M) on the fringes of Europe (though is not yet part of the EU) and shares a historic identify with its larger neighbour (Greece). Its political parties are also predominantly based on ethnic lines and it employs a power-sharing agreement. The economy suffered through the wars following the breakup of Yugoslavia up to the end of the Albania crisis in 2001. Its economy also had to adapt, as per other former socialist East European countries, through the transition to a market economy. Its economy policy has focused on attracting

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<sup>2</sup> Though it should be noted that this is not necessarily the same as the outside world's perception of safety and security in the region as referenced in the previous section.



foreign investment and promoting the development of small and medium-sized enterprises (SMEs) (Wikipedia, 2015).

Macedonia clearly sets out its benefits to potential investors with its advertising slogan (Vukovic, 2013):

*"Want to cut costs? Invest in Macedonia!*

- *0% tax on retained earnings.*
- *Competitive labour costs.*
- *Access to 650 million customer base.*
- *Foreign entities buy property freely.*
- *Skilled workforce".*

Looking at the benefits for FDI in more detail, corporation tax and personal tax is set at 10%, VAT is 18%, and there are various low taxes on property sales and inheritance tax. Government bureaucracy has also been addressed and it is claimed that a new business can be registered within 4 hours. This fast track approach also applies to issues such as construction permits, getting electricity, registering property, protecting investors and resolving insolvency. The country was ranked the 4th biggest reformer in 2008. In 2013 they were ranked the 7<sup>th</sup> best place in the world for starting a business. Macedonia is also ranked third in the world for being able to get credit for business (Vukovic, 2013).

The claim of a 650 million customers base is based on trade agreements Macedonia has with the EU, CEFTA and EFTA plus two bilateral free trade agreements with Ukraine and Turkey.

The article on Macedonia also provides examples of other successful small countries including Georgia (population 4.5M) and Mauritius (population 1.3M). All are trying to reduce problems with constraining bureaucracy, corruption and rent seeking interest groups. The author claims that smaller countries, which will not be able to compete in terms of infrastructure and reputation, need to focus on removing any barriers to new investor (Vukovic, 2013). In the author's words, Macedonia "improved its institutional efficiency and designed a set of policies and laws that attract capital. It attracted foreign companies with low tax rates (both corporate and income) and a cheap yet skilled workforce, and when they've caught their attention they made it very easy for an investor to purchase property and open a business." (Vukovic, 2013)

## **Kobe**

Kobe (population 1,545,410) in Japan publishes an investment guide to attract FDI. It highlights various factors that it believes will appeal to investors including (Kobe, 2015):

- The quality of life
  - Existing immigrant communities and access to ethnic food.
  - Religious facilities of all faiths including Buddhist, Christians, Jewish, Islamic, Jainism, etc.
  - Foreign schools.
  - Living environment – low rents and competitive real estate combined with good urban facilities, low traffic congestion and short commute times.
  - Natural environment – scenic location with access to outdoor leisure activities.



- Connectivity
  - Domestic and international.
  - Air, sea, rail and road.
- Business facilities
  - Existing international organisations that are based in the city.
  - Showing the strength in key sectors.
  - Highlighting office space and business parks.
- One stop shop for Support and advice
  - Planning applications and temporary accommodation.
  - Key facts and figures.
  - Specialist advice – marketing information, real estate advice, etc.
  - Bureaucratic support – visas, licences, etc.
  - Incentive schemes, tax relief and investment risk support.

### **Silk Road**

The investment guide to the Silk Road area in central Asia highlights various factors to attract investors. These include (UNCTAD, 2014):

- The recent history, climate, language, religion and other demographic information for the area.
- Economic information about the area.
  - GDP, trade and trading countries, trade agreements.
  - FDI, investment environment, financial institutions.
  - Taxation, regulatory framework.
  - Infrastructure – road, rail, air, energy and telecoms.
  - Labour – age profile, levels of education, wages.
- Major industries and priorities.
  - Tourism, energy, mining, logistics, Agro chemicals, Machinery, ICT.

### **Previous successes in NI**

Belfast has been reasonably successful in attracting FDI. Belfast sits 4th out of 28 UK cities based on number of projects and 3rd out of 28 based on number of jobs created between 2009 and 2011. Notably the list of investors in the city includes international brands such as CitiBank, HBO (Game of Thrones), Fujitsu, Liberty IT, Bombardier and New York Stock Exchange all of whom have established substantial bases in Belfast (Urban Strategies, 2014).

### **Key drivers**

Based on the previous section, we consider the main drivers for attracting FDI to Northern Ireland to be:



Labour	Transport and infrastructure
<ul style="list-style-type: none"> <li>• Cost</li> <li>• Skill levels</li> <li>• Availability</li> </ul>	<ul style="list-style-type: none"> <li>• Overland</li> <li>• International</li> <li>• ICT</li> </ul>
Energy costs	Financial factors
Physical business environment	<ul style="list-style-type: none"> <li>• Taxes &amp; Rates</li> <li>• Access to finance</li> </ul>
Local market	
Clusters	Political stability
Innovation & entrepreneurship	Standards of living
Business regulation and planning	Historical connections

The inquiry has asked us to consider how importance these factors are to manufacturing and service sector FDI. We have added some comments below. However, we did discover some research that suggests that different sector can also have a greater or lesser impact on the home economy. The inquiry may want to consider this in more detail. In summary the research suggested that FDI in primary sectors (mining, agriculture, etc) can have a negative impact on economic growth whereas FDI in manufacturing has a positive impact. The data for FDI in the service sector was not conclusive (Alfaro, 2003).<sup>3</sup>

## Key drivers for manufacturing

We have attempted to quantify the factors previously identified by their relevance to manufacturing industry. This is obviously open to interpretation and will vary between different types of manufacturing (especially low tech versus high tech). It will also depend on whether the definition includes associated elements such as research and development. Therefore the following table should only be used as a rough indication and we would recommend that a more robust method is used to determine the actual position.

Factor	Importance	Factor	Importance
Labour Cost	High	Transport Overland	High
Labour Skill levels	Medium	Transport International	Medium
Labour Availability	High	Infrastructure ICT	Low
Energy costs	High	Taxes & Rates	Medium
Physical business environment	Low	Access to finance	High
Local market	Medium	Political stability	Medium
Cluster	High	Standards of living	Low
Innovation & entrepreneurship	Medium	Historical connections	Low

<sup>3</sup> Though it should be noted that this research was limited exploratory research.



Business regulation and planning	High <sup>4</sup>		
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Table 1 Priority factors for FDI in Manufacturing

With regard to manufacturing, the experience of the existing local market is worth noting. Two points in particular from previous studies:

- Manufacturing is continuing its long-term decline. (Oxford Economics, 2011):
- The requirements to have a degree is most obvious in the ICT and financial sectors. Manufacturing by contrast has a fairly even spread of qualification levels. (Gibson, 2015).

### Key drivers for service industry

We have attempted to quantify the factors previously identified by their relevance to the service sector. This is obviously open to interpretation and will vary very widely between different types of services (call centres versus legal). It will also depend on whether the services are being established to serve the local market or as an international hub. Therefore the following table should only be used as a rough indication and we would recommend that a more robust method is used to determine the actual position.

Factor	Importance	Factor	Importance
Labour Cost	Medium	Transport Overland	Low
Labour Skill levels	High	Transport International	Medium
Labour Availability	High	Infrastructure ICT	High
Energy costs	Medium	Taxes & Rates	High
Physical business environment	High	Access to finance	Medium
Local market	Low	Political stability	Medium
Cluster	High	Standards of living	Medium
Innovation & entrepreneurship	High	Historical connections	Low
Business regulation and planning	Low		

Table 2 Priority factors for FDI in the Service industry

With regard to the service sector, the experience of the existing local market is worth noting. Three points in particular from previous studies:

- Most job losses suffered since 2008 we're in business services. (Oxford Economics, 2011).
- The requirements to have a degree is most obvious in the ICT and financial sectors. Manufacturing by contrast has a fairly even spread of qualification levels. (Gibson, 2015).

<sup>4</sup> We have assumed that most manufacturing investment will require the building of new factories and distribution centre and hence planning will be a key issue.



- The investment expected to be attracted to Northern Ireland is in areas such as research and call centres. These are not sensitive to issues such as location and transport costs (Stansbury, 2011).

## Priorities

In this section we attempt to answer the questions of how well each of the priority factors are developed in Northern Ireland to support inward investment, economic growth and job creation. We have attempted to summarise this on the table below. This lists each of the factors, then gives them a rating of how important they are and how well developed. It is hoped that this provides an indication of where future effort needs to be targeted. In particular, areas of importance in which we are currently weak need to be addressed.

However, it must be noted that this is our best estimate based on the research outlined in the rest of this report. It is also very difficult to summarise the results to this level. For example, should we compare the performance of the region to Ireland and the UK, Europe or the world? If you consider just one factor (labour costs) you can see how the result would vary considerably. Therefore our results are far from rigorous and we would urge further research, based on exiting benchmarks (World Bank Group, 2015), to ensure meaningful and realistic conclusions.

Factor	Importance	Rating	Factor	Importance	Rating
Labour Cost	High	Good	Transport Overland	Medium	OK
Labour Skill levels	High	Good Poor <sup>5</sup>	Transport International	Medium	Poor
Labour Availability	High	Good	Infrastructure ICT	High	Good
Energy costs	High	Poor	Taxes & Rates	Medium	Medium
Physical business environment	Medium	Good	Access to finance	Medium	Good
Local market	Low	Poor	Political stability	Medium	Poor
Cluster	High	OK	Standards of living	Medium	Poor
Innovation & entrepreneurship	High	Poor	Historical connections	Low	Good
Business regulation and planning	Medium	OK			

Table 3 FDI factors, their importance and current levels of development

Importance rating scale: High, Medium and Low

Rating scale: Good, OK, Poor.

These results mirror the headline results from an early report that the council commissioned that concluded that the main factors that restrict Belfast competitiveness are (Oxford Economics, 2011):

- High levels of economic inactivity [which affects the standard of living].
- A high proportion of unskilled labour.

<sup>5</sup> We have a high proportion of labour educated to degree level but a large number of people with no qualifications.



- An over reliance on the public sector for employment.
- Low levels of entrepreneurship.

## Domestic Investment

While this inquiry is focused on the factors affecting foreign direct investment, it might be beneficial to also consider whether any proposed changes will also encourage an increase in domestic investment.

It has been claimed that domestic investors will based their decision primarily on the post-tax rate of return of their investment. Obviously the total tax rate (including corporation tax) will affect the rate of return. However, it is argued that other factors may be even more important. These include the cost and availability of resources such as machinery, land and labour (Stansbury, 2011).

Sainsbury argues that SMEs (small and medium-sized enterprises, which employ 250 people or less) are less likely to be significantly affected by corporation tax (compared to large companies), as their percentage profits are normally lower. Lowering corporation tax rate was ranked as only the fifth (most important factor tied with increasing personal tax allowances) in improving economic prospects according to SMEs.<sup>6</sup> The top four factors were cutting business rates, increasing bank lending, cutting employers' national insurance, and keeping VAT at 15% (Stansbury, 2011) In Northern Ireland, 95% of businesses employ less than 10 people, and SMEs (employ over 65% of the private sector workforce).

## Key economic drivers that we can influence

Factor	Importance	Rating	Government control & influence
Labour Cost	High	Good	
Labour Skill levels	High	Good Poor <sup>7</sup>	Training should be less fragmented. There needs to be greater alignment between identified needs, employability provision for target groups and input from employers. The local population need to be inspired to develop and have appropriate support. Appropriate and sufficient funding of the universities in the relevant sectors.
Labour Availability	High	Good	
Energy costs	High	Poor	Invest in alternative energy schemes. Reduce barriers to alternative energy schemes.
Physical business environment	Medium	Good	Planning Masterplans need to be developed and publicised to potential investors. Incentivising the development of Grade A office accommodation.
Local market	Low	Poor	

<sup>6</sup> Northern Ireland Federation of Small Businesses 2009 survey.

<sup>7</sup> We have a high proportion of labour educated to degree level but a large number of people with no qualifications.



Cluster	High	OK	Targeted support for priority sectors. Support for existing clusters to publicise their achievements. Lobbying for enterprise zones or equivalent.
Innovation & entrepreneurship	High	Poor	Targeted funding for programmes to encourage innovation and entrepreneurship. Investing in relevant infrastructure such as the Innovation Centre. Awareness raising of opportunities at an earlier age – school age.
Business regulation and planning	Medium	OK	
Transport Overland	Medium	OK	
Transport International	Medium	Poor	Reduce airport taxes. Improve rail/bus links to Dublin and Belfast international airports. Lobby for appropriate connections.
Infrastructure ICT	High	Good	Support of schemes such as Super Connected Cities.
Taxes & Rates	Medium	Medium	
Access to finance	Medium	Good	
Political stability	Medium	Poor	Providing a positive and consistent message about what the region has to offer.
Standards of living	Medium	Poor	
Historical connections	Low	Good	
Other			Benchmark research into NI's real performance in key areas as per existing structures (World Bank Group, 2015). Research into what barriers current NI businesses are experiencing. Thorough research into what sectors would provide the best 'fit' with what NI has to offer so that efforts can be targeted at those sectors.

Table 4 FDI factors that Government can improve.

## What the council is currently doing

Professor Michael Parkinson (2014) has advised that city regions which have more of the following features are more successful: economic diversity; innovation in firms and organisations; human capital and skilled workforce; connectivity - internal and external; place quality - social, cultural, environmental ; governance, leadership and strategic capacity to create and deliver long term development; decentralisation of decision-making powers and deconcentration of investment. The policy challenge is to create the conditions which give cities more of these assets.





Belfast City Council is developing a draft Integrated Economic Strategy (IES) in partnership with Invest NI recognising that there was no definitive economic strategy for the city and no clear leadership in this field.

The strategy focuses on five key themes with a goal to make Belfast the regional driver for economic growth and development for the region. This strategy has also identified the inclusion of a Strategic Economic Partnership as the economic strand of the Community Plan, referred to as The Belfast Agenda, post Local Government Reform. The partnership will be supported by a number of task force groups created around key themes including sectoral specialisms and economic themes such as employability and skills and Entrepreneurship and Enterprise. These structures will be an inclusive partnership of the private and public sectors with voluntary and community stakeholder organisations in the City, working together to advance an agreed economic agenda for Belfast.

Some of the key actions of the Integrated Economic Strategy focus on creating an international investment proposition, marketing key investment projects such as the Green Technology Park and the engaging with key partners, particularly Invest NI to coordinate activities to attract and support investment into the city.

### **Innovation and entrepreneurship**

Ensuring that local businesses have the support to innovate and grow is another key determinant for successfully rebalancing the economy. Belfast City Council recognises this and is in the process of implementing a range of projects and initiatives that have innovation at their core. These include the Super Connected Cities project and the provision of a range of support and aftercare services for Belfast based SMEs across key sectors at pre-start/start-up and growth levels.

The development of an Innovation Centre to support hi-tech start-ups located beside Belfast Metropolitan College's E3 campus and the establishment of a creative hub facility for digital content companies beside the new University of Ulster campus, further illustrate the commitment we have made to encouraging greater innovation and creativity among all businesses in the city.

Innovation does not happen in isolation and it is not just about R&D and high tech firms. Innovation is also related to skills development and the instilling of a spirit of entrepreneurship in the community. Belfast City Council has been working with a wide range of partners over the past number of years such as the Ulster University, Queens University, NISP, Invest NI, Digital Circle and Belfast Metropolitan College and we are committed to developing these relationships further over the coming years

Alongside this theme to become a competitive and internationally connect city also lie a series of actions to support indigenous businesses and encourage the start up and development of new and innovative entrepreneurs. Key priority sectors for Belfast City Council are Creative and Digital Industries, Green Technology and Renewable Energy, Tourism and Social Economy.

### **Potential growth sectors**

The Integrated Economic Strategy (IES) identifies the opportunity sectors for Belfast as telecoms and ICT (currently estimated to have potential to grow by 20,000 jobs in Northern Ireland, but mostly concentrated in Belfast), professional and administrative services (including in particular legal and financial administration), advanced manufacturing (including renewable energy and low carbon technologies), the creative and cultural industries, tourism and the social



economy. It is these sectors that offer Belfast and the region the greatest opportunities and need the infrastructure and support in place to encourage growth.

The world is much better connected than it was a couple of decades ago. This brings opportunities as well as challenges to cities around the globe. The challenge for Belfast will be to attract investment, tourism and talent to the city, whilst improving the competitiveness of the local economy to compete on an international stage.

### **Promoting the region as a place to invest**

Belfast is recognised worldwide as a location of choice for many of the world's leading companies. The EY Attractiveness Survey UK 2014 stated that in the last year Northern Ireland was the best performing region in the UK for attracting inward investment. On a per capita basis, the region secured almost 40% more new inward investment jobs than the next best region, and three times as many as London. In addition, local companies are increasingly looking to international markets for their products and the business support regime needs to take account of these developments. Belfast City Council is working with key partners in the tourism, investment and education sectors to build a new shared narrative for Belfast to support the city's international promotion, marketing and positioning to ensure maximum profile and return.

The Council has also delivered (and will continue to deliver) a number of programmes and events to promote the region to investors and create export opportunities. The main target areas being the USA, India, China and Europe. A small number of examples of our activities include: hosting inward visits from our sister city Boston, hosting a visit from the Comptroller of the State of New York (who manages the state's \$180.7 billion pension fund), signing co-operative agreements with Shenyang, supporting the summer programme for Chinese students, facilitating the signing of a memorandum of understanding between the Chambers of Commerce in Belfast and Bombay, and hosting the Global India Conference.

### **Regeneration**

The council is also soon to launch the Regeneration Strategy and Investment Plan for the city centre. This recognises that the success of Belfast's city centre is central to the future growth of the city and region – it is to a large extent the international face of the region and the place on the basis of which people make decisions about where to invest, live and where to start a business. The Strategy has eight main policies aimed at improving the city, which should all help to make the city and region more attractive to potential investors. The relevant policy areas are:

#### ***Increase the employment population***

- Develop a comprehensive knowledge economy marketing programme for the city centre with appropriate inducement packages.
- Identify key Grade A office sites in three locations (traditional office core, City Quays, and Titanic Quarter) and prepare them for development.
- Examine the opportunity for selective demolitions of redundant stock to facilitate Grade A office construction.
- Consider ways to incentivise the upgrading of existing office space to Grade A standards.
- Undertake a feasibility study/pilot project to determine how Belfast City Council could derisk private sector investment in Grade A office construction.



- Support the creation of a prestige office cluster surrounding the Great Victoria Street Transport Hub by giving the station a presence on the street and identifying and preparing sites for Grade A office development.

***Increase the residential population***

- Identify key residential sites and prepare Market & Development Briefs, in discussion with landowners.
- Continue to work with the major educational institutions to develop a coordinated student housing programme.
- Develop a strategy and incentives for the adaptive reuse of heritage buildings, with a particular emphasis on student housing.
- Remedy any key deficiencies in the city centre living environment, through improvement of food shopping, day-care, open space and sense of security.
- Identify well-supported social housing opportunities along the major roads leading into the centre.

***Manage the retail offer***

- Develop a regional planning strategy or urban policy favouring city centre retail activity that could attract a large department /anchor store.
- Develop a refreshed Framework Plan for the North East Quarter including Royal Exchange that includes a mix of retail and non-retail uses.
- Develop a Donegall Place retail management strategy and potentially retail management body.
- Work with major owners and shopkeepers in and around CastleCourt Shopping Centre on strategies to renew the area's retail offer.
- Use the opening of the Rapid Transit system as an opportunity for a major re-branding of the city centre shopping experience that emphasises greater accessibility to communities.
- Develop a unified city 'app' that promotes the city centre by providing information on public transport, parking, events, sales, etc as well as coupons, booking opportunities, etc.
- Develop community policies and grants that encourage the opening of local, 'one-of-a-kind' shops, restaurants and entertainment with an initial focus in the Castle St./ Bank Square area.
- Create policy to support the retail offer with complementary uses such as accommodation, food and entertainment.
- Work with DRD to develop and implement a city centre parking strategy involving consolidation of car parks and real time advertisement of parking availability.

***Maximise the tourism opportunity***

- Work with the Airports on new connections to support business conference tourism.
- Identify a significant new tourism destination within the city centre.



- Increase the number and draw of largescale events occurring in Belfast and explore developing a city festival.
- Establish Belfast as a centre of 'adrenalin' recreational tourism.
- Work with local organisations to amplify the emerging Belfast brand related to food, music, literary and cultural events, festivals and recreation with the Castle Street/Bank Square District becoming a distinctive complement to the Cathedral Quarter.
- Investigate the potential of a new event/exhibition/festival space created by glazing the City Hall courtyard.
- Develop a promotion strategy for Belfast's existing attractions including marketing and better wayfinding between attractions.
- Identify and implement some 'quick wins' such as changes to licensing laws and encouraging businesses to open on Sunday mornings.

***Create the region's learning and innovation centre***

- Support the Campus Community Regeneration Forum to develop a comprehensive outreach programme between the University of Ulster and surrounding communities.
- Manage the connection between city centre business, cultural, professional and institutional communities to ensure targeted skills training.
- Continue to pursue the proposed "Creative Hub" and establish connections with complementary institutions.
- Explore the potential for instituting an innovation competition, with a potential focus being a Belfast "app".
- Contribute to a site options analysis for a potential BBC relocation.
- Develop a masterplan and regeneration strategy for the University of Ulster district.

***Create a green, walkable, cyclable centre***

- Develop key bike arterial routes giving access to the centre.
- Ensure bike rental and parking facilities are abundant in the centre.
- Plan a major new open space in the northern part of the city centre, combining existing open spaces at Buoy's Park and Writer's Square and the land around St. Anne's Cathedral.
- Develop a transformative landscape vision for the river corridor through the centre to the Titanic Quarter.
- Prepare a major traffic calming scheme for Oxford Street.
- Revitalise the public realm of the traditional office core by extending Streets Ahead to the south.
- Identify a location for a new public square in the traditional office core.
- Complete and transform the Inner Ring Road by: completing the South Link, creating a treed urban boulevard where possible, implementing 'super crossings' at key intersections.



### ***Connect to the city around***

- Improve the visual impact and pedestrian connectivity through the M3 and York Street interchange.
- Construct two new pedestrian bridges across the river at City Quays/Odyssey and Gasworks/ Ormeau Park.
- Make improved connections to the Crumlin Road Gaol, the Gaeltacht Quarter and Queen's University through streetscaping, signage and infill development.
- Work with the owners of CastleCourt to improve connectivity and permeability from the north and west.

### ***A shared space***

- Create a city centre events manager to program public spaces with large and small scale festivals and events.
- Make public spaces in the city centre child friendly.
- Locate facilities for informal sports such as five-a-side pitches.
- Increase water activity on the River Lagan such as boating, floating restaurants, floating art festivals.

## **Issues to be considered**

### **Policy notes**

Some research has highlighted some general guidelines for policy making that is aimed at attracting FDI (Ruane & Buckley, 2006):

- We are competing in a global market for FDI and the situation is currently evolving. We need to constantly evolve and tailor our offer.
- Single incentives, such as a tax break are less appealing than the overall package. The aim should be to make it easier for an investor to do business.
- We need to focus on providing what organisations want rather than trying to sell what we have.
- We need to be selective in the projects we run and support and focus on some sectors rather than try and appeal to all. The choices we make should be based on thorough cost-benefit analysis.
- Policy consistency matters to investors and so policy should evolve systematically. We need to avoid the uncertainty created by sudden changes and knee jerk reactions.
- Performance-based incentives, both fiscal and financial, can combine well. It is best to use incentives that are designed to ensure that the outcome (be they technology, output or export related) benefits the host country.
- Projects and performance based incentives need to be openly monitored and reported.
- Don't presume that FDI will link into existing local supply chains, especially as production supply chains become increasingly global.



- FDI policy based on the principle of low supply-side costs is unsustainable. In the longer term it results in either FDI leaving or “an inter-regional race to the bottom” (Martin, 2004).
- Our FDI decisions may need to choose between a focus on increasing productivity versus increasing employment (Oxford Economics, 2011). For example, lower wages are likely to attract new firms and investment. They are also likely to result in a higher number of total jobs, which will appeal to the large numbers of unemployed in the city. Alternatively, a focus on higher productivity would help to boost wage levels and the quality of life but might alienate those with low skill levels who are currently unemployed. A balance needs to be found to address the short term dates are the current workforce compare to the longer term needs the city as a whole (Oxford Economics, 2011).
- In terms of having a skilled workforce, STEM degrees are very important, but there does need to be a mix of skills and skill levels to provide a balanced workforce (Gibson, 2015).

## Risks

### To existing business

There is some research that suggests that sometimes foreign direct investment is attracted to markets that are already weak. It can then result in local firms being driven out of business (Denisa, 2010). This may also apply to sectors that are currently considered to be a success but are still relatively small on a global scale (e.g. IT and Creative Industries). It is important that any NI strategy avoids damaging local markets that are beginning to show signs of recovery on their own.

### To the NI budget

Previous section highlighted the mixed views on the impact of corporation tax; however there have been even stronger concerns raised. In particular, it is not clear how much of an impact the reduction on the block grant will have on the economy.

It is hoped that eventually the increase in FDI will result in a net gain in overall tax income. Some predictions have suggested it will take approximately 13 years (Economic Reform Group, 2010). Other estimates, have suggested the economy would need to grow by 33% to break even on tax income (Baker & Murphy, 2013). Others quote a 10.2% growth in the economy in 16 years (Gibson, 2015). This seems reasonable compared to other estimates that suggest cutting corporation tax by 10% could increase the annual economic growth rate by around 1.1% (Gordon, 2004). The figures are worryingly inconsistent and suggest that it might take considerably longer than 13 years to break even. It is also not clear how long it will take to recover the full amount lost over those 13 (or more) years.

Adding to this confusion, it is also not clear how much the NI budget will benefit from any increase in VAT, Income Tax, reduction in benefit claims, etc that an increase in FDI may bring. It seems that any such increase will go to the Treasury. The only direct benefit for the NI budget seems to be in increased income from rates income if the policy is successful. Finally, the exact amount of the initial cost is also unclear with estimates ranging from £220m to £700m.



More worrying is the risk<sup>8</sup> that devolving corporation tax could result in similar requests from Scotland and Wales and then some of the English regions who are also struggling economically. That could result in pressure to review the Barnett formula, which could cost NI in the region of £2.4 billion if a simplistic UK average figure was used.<sup>9</sup> A poll in September 2014 showed that 76% of people were in favour of scrapping Barnett (Wilkinson, 2014).

Though we do note that a policy of reduced corporation tax has been identified as possibly the most likely to contribute to a successful economic development strategy in Northern Ireland over a reasonable timescale (Economic Reform Group, 2010).

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<sup>8</sup> Though this is very unlikely and the figures are a very simplified 'worse case' scenario where the UK average Barnett figure (which doesn't include all forms of public spending) is applied to all regions.

<sup>9</sup> Figures based on (Webb, 2014).



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