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Country experience and business perspectives**

Services FDI and Offshoring into Ireland

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Abstract

The share of services in the world FDI stock had grown to 60 percent by 2002, up from around only one-quarter in the early 1970s. Services, furthermore, have accounted for around two-thirds of global FDI flows in recent years (UNCTAD 2004). These facts notwithstanding, much more is known about manufacturing-sector FDI. The present paper seeks to redress this balance somewhat, by assessing what is known to date about the offshored services sector in Ireland. Ireland is an interesting case study for FDI in that its manufacturing sector is the most FDI-intensive in the EU. It is also an important EU location for three separate offshored services sectors – computer software, international financial services and other BPO (business process offshored) activities such as call centres and shared services. The paper describes Ireland's position in the European economic geography of these sectors and analyses the pattern of sectoral development in each case. It also seeks to identify the educational attainment levels of the workforce in each sector, to assist in evaluating their contribution to Irish development.

Introduction

Ireland is the most FDI-intensive economy in the EU – apart perhaps, on one measure, from Luxembourg whose FDI inflows are concentrated in the international financial services sector. Table 1 presents two measures of Ireland’s success in attracting FDI. The column on the left shows the share of foreign-owned firms in manufacturing employment, while that on the right shows the inward FDI stock per capita. In both cases Ireland’s FDI-intensity relative to the average Western European EU country is readily apparent.

Table 1:

Share of foreign affiliates in manufacturing employment, and inward FDI stock

	Share of foreign affiliates in manufacturing employment (1998)	FDI inward stock (USD) per head of population (2000)
Ireland	48	37740
EU15	19	6032

Notes: share of affiliates in manufacturing employment comes from OECD (2001) Science, Technology and Industry Scoreboard; (EU15 here refers to the average of the 11 other member states for which the table provides data). FDI Inward Stock data come from the UNCTAD (2004) World Investment Report.

Ireland is a particularly important European export-platform location for manufacturing-sector FDI in computer hardware, pharmaceuticals and medical and precision instrument engineering; Barry (2004). Interestingly, foreign-firm employment in each of these sectors is matched by foreign-firm employment in the services sectors in which Ireland has also been particularly successful in attracting FDI, with computer software matching hardware, international financial services matching pharmaceuticals and other business-process offshored (BPO) activities matching instrument engineering.

How is this inward FDI stock divided between manufacturing and services? From 1998/1999 Ireland’s Central Statistics Office (CSO) began to collect a new FDI series that embraced financial as well as non-financial FDI sectors. Manufacturing and non-financial service enterprises had been reporting their balance of payments transactions to the CSO for a number of years, on a sample selection basis. In 1998 however a number of new quarterly surveys were introduced which covered banking, insurance, asset financing, treasury, institutional investment, activities of mutual funds, unit trusts and similar collective investment operations, broking and other service provision. Information collected for all types of enterprises covered transactions with non-residents concerning purchases and sales of services, income flows and acquisitions and disposals of foreign assets or liabilities.

The new CSO series breaks down inward FDI into IFSC (Dublin’s International Financial Services Centre) and non-IFSC components. CSO first published the International Investment Position (IIP) data in October 2003 with the series

beginning in 1998. These data are the same as those reported in recent UNCTAD World Investment Reports and used in the column on the right of Table 1.

Table 2: FDI Inward Stock (\$m)

	Total	IFSC	Non IFSC
1998	59790	41863	17928
1999	77224	44397	32827
2000	117381	52538	64842
2001	140393	52362	88031

Source: CSO (2003) International Investment Position, December 2002

The IFSC FDI stock is seen to comprise around 40 percent of the total stock. With IFSC employment in foreign firms totalling around 12,000 while foreign manufacturing employment comes to around 120,000 and substantial numbers of jobs in foreign-owned firms in other services sectors, these data confirm the finding of UNCTAD (2004, page 137) that financial services FDI creates far fewer jobs per dollar than FDI in other sectors. As Forfás (2002) states, IFSC-type flows entail “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”.¹

The determinants of Ireland’s success in attracting FDI in both manufacturing and services are well-known (see Barry, 2004) and include

- EU membership and an English-speaking environment (characteristics which the country shares with the UK of course)
- a low corporation tax rate
- the skills and experience of the country’s Industrial Development Agency (IDA)
- the quality of the telecommunications infrastructure
- an educational system that is integrated to a large extent with the country’s FDI-oriented development strategy, and
- the playing out of agglomeration and demonstration effects.

The present paper concentrates on FDI and offshoring within the services sector. Accordingly, we begin in Section 2 by looking at several indirect measures of services offshoring activities to see how Ireland stands in the international comparative analysis. The US is the home location for the bulk of Ireland’s inward FDI. Thus Section 3 presents an analysis of the US data on services FDI into Ireland. Sectors 4, 5 and 6 summarise what is known to date about the three services sectors in which Ireland has proved to be an important European location

¹ Fund management flows (as is appropriate) are not counted as FDI by the CSO. Flows in support of foreign-owned banks, insurance and investment companies are included as FDI, however, and these generate jobs and physical investment in Ireland, just as is the case with manufacturing-sector FDI.

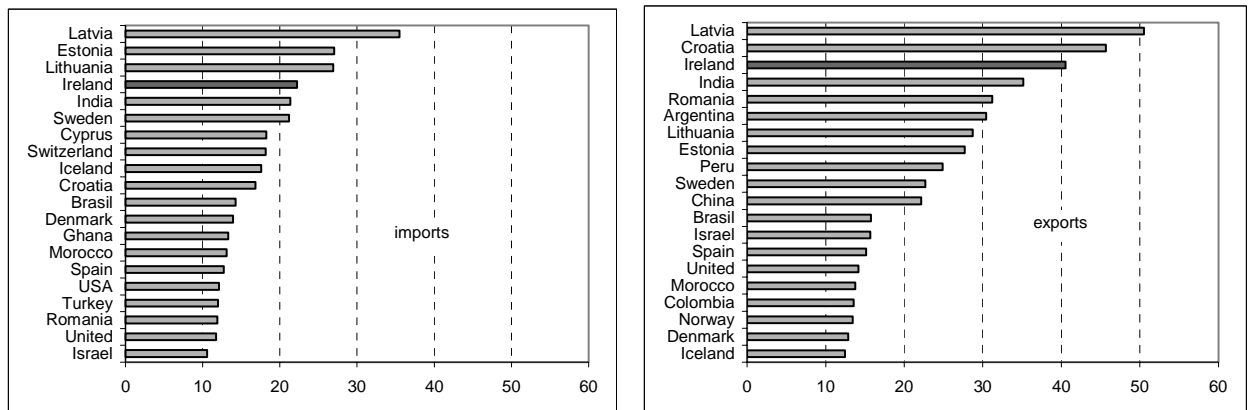
for offshored services. These sectors are, respectively, (i) computer software, (ii) international financial services and (iii) other business process offshored (BPO) activities, comprising call and contact centres, elements of shared services and a variety of other activities.

2. Indirect Trade Measures of Services Offshoring Activities

To date there are no official data measuring the extent of offshoring so it is necessary to use indirect measures such as data on trade in services, to which we now turn.

We look first at the growth of exports in the main Balance of Payments categories concerned, i.e. “other business services” and “computer and information services”.² These data contain information on international outsourcing and international insourcing combined, and it is not possible to identify the proportion resulting directly from offshoring.³ Figure 1 shows the top 20 countries in terms of growth of imports and exports of other business and computer and information services (in current USD) for the period 1995-2003.

Figure 1: Growth of the value of imports and exports of other business services and computer and information services for selected countries, 1995-2003. (Compound annual growth rate, percentages)



Notes: 1. India, 1995-2002: 2002. Table excludes data for Belgium, Luxembourg and Mexico. Source: Calculations based on IMF Balance of Payments Database (February 2005).

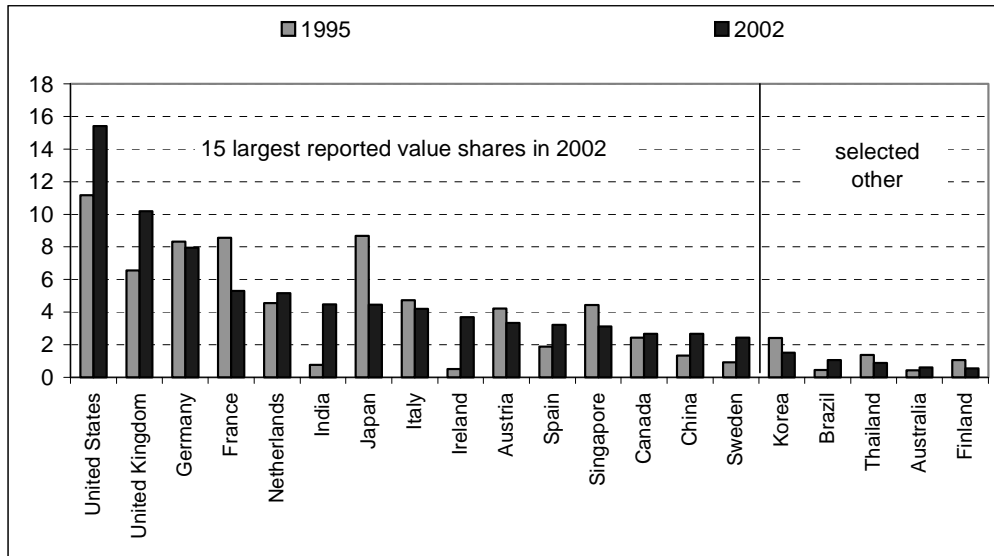
Some of these countries with high export growth rates are starting from a low base. Of the top 10 countries in terms of growth rates of exports, only Ireland and India are among the top 10 countries with the largest shares of exports (2002); Figure 2. These export figures serve as an indication of the extent to which Ireland is in receipt of offshored services activities.

² See OECD (2004) and van Welsum and Vickery (2005) for an analysis of exports of services. van Welsum (2004) analyses offshoring and services imports, while van Welsum and Reif (2005) examine both imports and exports as well as employment changes.

³ Data on computer and information services are not available for all countries. For some, such as India, they are included under “other business services”, a category which may have variable shares of IT and ICT-enabled services in different countries.

Figure 2: Share of the value of reported total exports of other business services and computer and information services, selected countries, 1995 and 2002

Decreasing order of the total reported value share in 2002, percentages

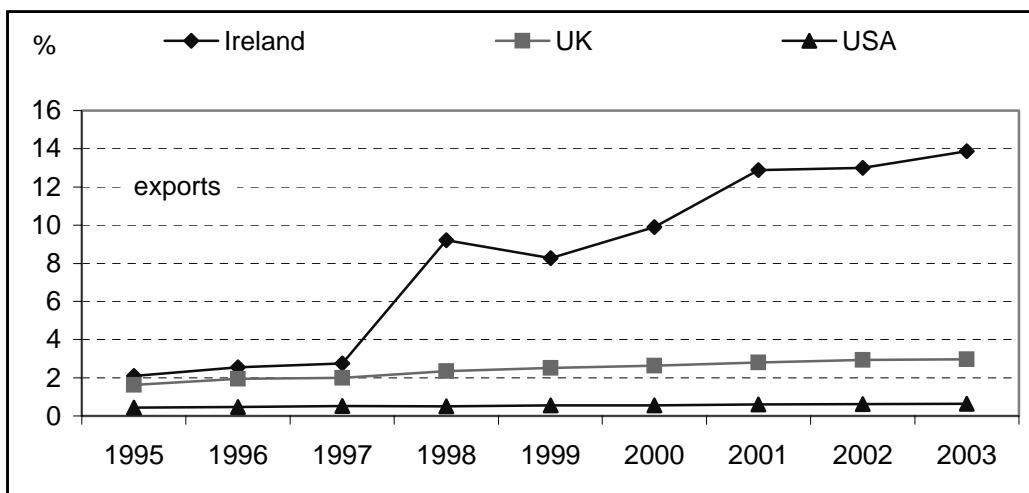


Note: The reported total for all countries does not necessarily correspond to a world total. For some countries, such as India, it is not possible to isolate other business services and computer and information services. As a consequence, for India, the category includes total services, minus travel, transport and government services (*i.e.* including construction, insurance and financial services as well as other business services and computer and information services).

Source: OECD (2004), based on IMF Balance of Payments Database (November 2003).

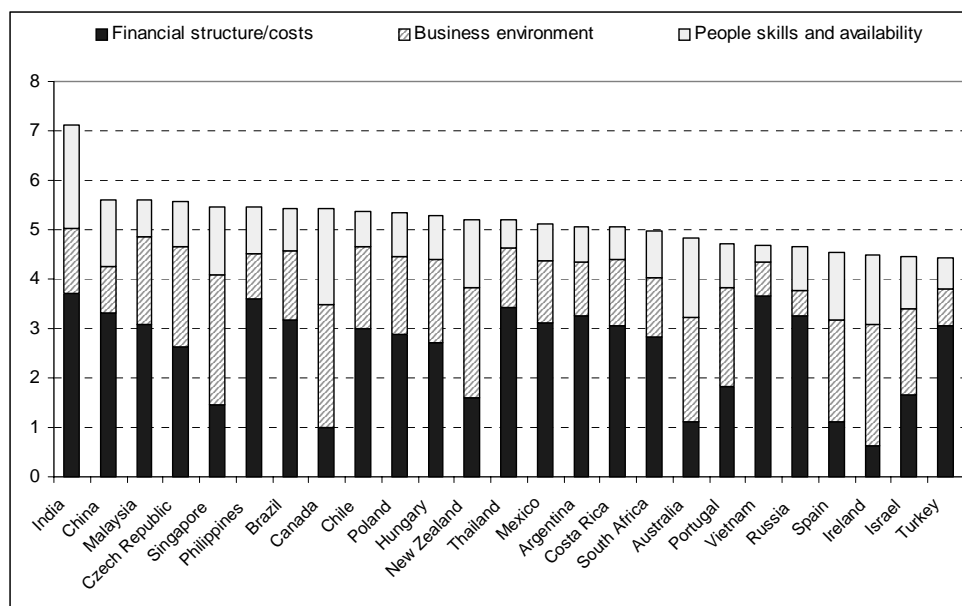
Figure 3 shows the time trend in Irish exports in these services segments in comparison to that of the US and the UK.

Figure 3: Exports of other business and computer and information services as a per cent of GDP



It is interesting to note however that Ireland does not score well in the AT Kearney Offshore location attractiveness index, as seen in Figure 4. Further research is required to determine why this might be the case.

Figure 4: The A. T. Kearney ‘Offshore location attractiveness index’, 2004



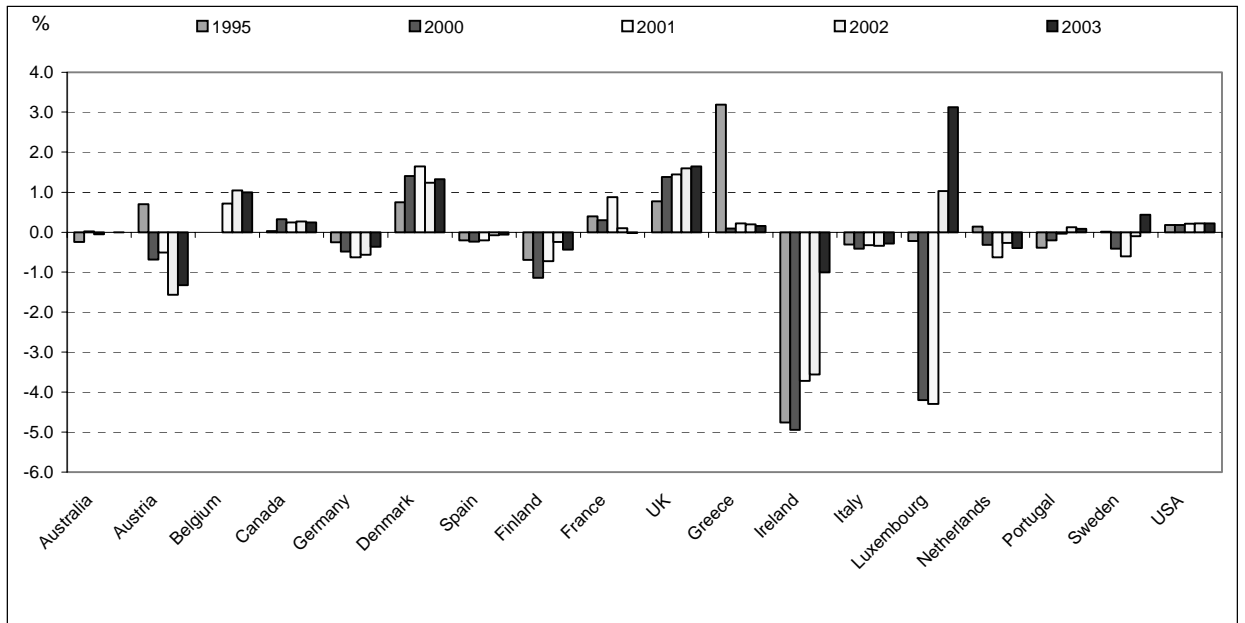
Note: Financial structure is rated on a scale of 1-4, the other two measures both on a scale of 1-3.
Source: A. T. Kearney (2004).

It might also seem surprising at first sight then that the Irish trade balance in these categories of services actually records a very large deficit, as shown in Figure 5.⁴ Ireland’s services imports however are consumed largely by the country’s very substantial foreign-owned manufacturing sector. The foreign-owned pharmaceutical and computer hardware sectors, for example, make substantial payments to their overseas parent companies not only in the form of royalties and licence fees but also for miscellaneous business services for example. Therefore Ireland’s exports and imports of services are actually very different phenomena.⁵

⁴ Even though Ireland is generally believed to be an important recipient of US offshoring activities, Ireland does not figure among the 10 largest countries from which the US imports services (Borga and Mann, 2003, 2004). This suggests that US investment in Ireland in these sectors may be to service the EMEA (Europe, Middle East and Africa) market.

⁵ For a more detailed breakdown of exports and imports in these categories, go to the ‘database direct’ section of the ‘economy – balance of payments’ field on the Central Statistics Office website: <http://www.cso.ie>.

Figure 5: Trade balance in the categories Other business services and Computer and information services (Current USD) as per cent of GDP, selected countries and years



Source: van Welsum and Reif (2005), based on IMF Balance of Payments Database (February 2005).

It is important to note also that the quality of the international data is variable and that there can be very large discrepancies between reported exports and imports (see OECD, 2004, Chapter 2, for an example using Indian data). Some of the problems with data on trade in services can be explained by factors such as reporting difficulties, collection methods (company surveys rather than customs records for goods), varying timelines of implementing Balance of Payments (BPM5) methodology and rules, the treatment of certain services categories and the complexity of the structures and operations of multinational firms (OECD, 2004).

3. US data on services FDI into Ireland

Anecdotal evidence suggests that affiliated offshoring is the largest mode of offshoring, comprising about two-thirds of the total, while the US is by far the most important home location for FDI into Ireland. Hence we look now at data pertaining to the activities of US multinationals in Ireland. Some data on the activities of multinationals from France, Germany and the UK are included in the Appendix.

In the new NAICS classification, the main categories of interest to the ICT-enabled services offshoring debate are: “Professional, scientific and technical services” (PSTS) and “Information”.

Table 3: New NAICS Classification System

Professional, scientific, and technical services (PSTS)	Information
Architectural, engineering and related services	Publishing industries
Computer system design and related services	<i>Newspaper, periodical, book and database publishers</i>
Management, scientific, and technical consulting	<i>Software publishers</i>
Other:	Motion picture and sound recording industries
<i>Legal services</i>	<i>Motion picture and video industries</i>
<i>Accounting, tax preparation, bookkeeping and payroll services</i>	<i>Sound recording industries</i>
<i>Specialised design services</i>	Broadcasting and telecommunications
<i>Scientific research and development services</i>	<i>Broadcasting, cable networks, and program distribution</i>
<i>Advertising and related services</i>	<i>Telecommunications</i>
<i>Other professional, scientific and technical services</i>	Information services and data processing services
	<i>Information services</i>
	<i>Data processing services</i>

The relative importance of Ireland as a home to US multinationals is illustrated in the following tables where the data are weighted by the population of working age (in 1000s).⁶

Table 4: FDI position (USD millions), weighted by the population of working age (in 1000s)

All industries	1999	2000	2001	2002	2003
Ireland	10.1	14.1	15.3	17.7	20.7
UK	5.8	6.1	6.0	6.2	7.0
EU15	2.3	2.5	2.7	3.0	3.4
Manufacturing					
	1999	2000	2001	2002	2003
Ireland	3.0	3.8	4.1	5.1	5.6
UK	1.2	1.1	0.9	1.0	1.0
EU15	0.6	0.6	0.6	0.6	0.7
PSTS					
	1999	2000	2001	2002	2003
Ireland	0.6	0.6	0.5	0.6	0.6
UK	0.2	0.2	0.3	0.2	0.3
EU15	0.1	0.1	0.1	0.1	0.1
Information					
	1999	2000	2001	2002	2003
Ireland	na	2.5	3.4	3.9	5.2
UK	0.4	0.5	0.2	0.2	0.2
EU15	0.1	0.1	0.1	0.1	0.1

⁶ Data on recent growth rates in related aggregates are presented in an appendix.

Table 5: Value added (mns USD), weighted by the population of working age (in 1000s)

All industries				
	1999	2000	2001	2002
Ireland	6.0	6.5	6.6	8.9
UK	2.7	2.9	2.7	2.7
EU15	1.2	1.2	1.2	1.2
Manufacturing				
	1999	2000	2001	2002
Ireland	5.2	5.3	5.6	7.5
UK	1.4	1.2	1.1	1.1
EU15	0.8	0.7	0.6	0.7
PSTS				
	1999	2000	2001	2002
Ireland	0.02	0.03	0.07	0.13
UK	0.23	0.25	0.24	0.24
EU15	0.07	0.07	0.07	0.07
Information				
	1999	2000	2001	2002
Ireland	0.29	0.65	0.53	0.57
UK	0.14	na	0.14	0.22
EU15	0.05	0.05	0.05	0.06

Table 6: Sales (mns USD), weighted by the population of working age (in 1000s)

All industries				
	1999	2000	2001	2002
Ireland	23.4	27.0	29.1	32.5
UK	9.2	10.8	10.6	9.7
EU15	4.4	4.7	4.6	4.6
Manufacturing				
	1999	2000	2001	2002
Ireland	17.2	18.0	19.3	22.0
UK	4.0	3.9	3.6	3.6
EU15	2.4	2.3	2.2	2.3
PSTS				
	1999	2000	2001	2002
Ireland	0.4	0.7	0.9	0.8
UK	0.6	0.5	0.6	0.6
EU15	0.2	0.2	0.2	0.2
Information				
	1999	2000	2001	2002
Ireland	2.0	2.3	2.4	2.8
UK	0.4	0.5	0.5	0.5
EU15	0.2	0.2	0.2	0.2

The following tables show the EU15, Irish and UK shares in various FDI-related US aggregates.

Table 7: Shares (%): FDI stock

All industries					
	1999	2000	2001	2002	2003
EU in all	46.4	46.3	46.8	46.8	47.2
Ireland in EU	4.5	5.9	5.8	6.2	6.6
UK in EU	38.4	37.9	33.4	31.9	32.3
Manufacturing					
	1999	2000	2001	2002	2003
EU in all	46.7	45.7	42.6	43.0	42.4
Ireland in EU	4.8	6.1	7.6	9.2	9.4
UK in EU	29.5	25.8	25.8	26.8	25.3
PSTS					
	1999	2000	2001	2002	2003
EU in all	46.6	48.3	55.7	51.0	48.8
Ireland in EU	11.2	9.3	6.6	8.2	8.4
UK in EU	47.5	48.2	59.1	48.9	49.4
Information					
	1999	2000	2001	2002	2003
EU in all	60.4	63.4	60.7	66.1	67.7
Ireland in EU		18.9	33.6	39.4	43.6
UK in EU	55.1	57.6	35.5	26.7	23.8

Table 8: Shares (%): Employment

All industries				
	1999	2000	2001	2002
EU in all	40.8	40.9	41.0	40.3
Ireland in EU	2.7	2.7	2.6	2.6
UK in EU	33.5	35.6	35.7	34.0
Manufacturing				
	1999	2000	2001	2002
EU in all	39.6	37.8	37.9	37.4
Ireland in EU	3.8	4.0	3.8	3.7
UK in EU	26.2	25.8	25.1	24.2
PSTS				
	1999	2000	2001	2002
EU in all	57.3	54.0	52.8	51.9
Ireland in EU	1.7	1.7	2.7	2.3
UK in EU	52.1	50.4	49.7	49.3
Information				
	1999	2000	2001	2002
EU in all	51.8	49.1	50.4	49.5
Ireland in EU	2.4	2.7	3.0	3.0
UK in EU	48.1		57.5	58.4

Table 9: Shares (%): Value added

All industries	1999	2000	2001	2002
EU in all	53.4	50.9	50.4	50.8
Ireland in EU	4.9	5.3	5.8	7.6
UK in EU	34.1	35.9	34.6	33.8
Manufacturing				
	1999	2000	2001	2002
EU in all	59.3	52.2	52.3	54.2
Ireland in EU	6.9	8.2	9.2	11.5
UK in EU	28.3	28.0	26.1	25.3
PSTS				
	1999	2000	2001	2002
EU in all	53.1	56.0	57.3	57.6
Ireland in EU	0.3	0.4	1.0	1.9
UK in EU	52.1	51.7	50.1	51.7
Information				
	1999	2000	2001	2002
EU in all	57.9	57.9	60.4	66.9
Ireland in EU	6.1	13.8	11.7	9.7
UK in EU	43.0		47.0	55.1

Table 10: Shares (%): Sales

All industries	1999	2000	2001	2002
EU in all	49.5	46.6	45.8	45.3
Ireland in EU	5.3	5.9	6.5	7.4
UK in EU	31.5	34.9	34.9	32.2
Manufacturing				
	1999	2000	2001	2002
EU in all	52.8	48.4	48.5	48.1
Ireland in EU	7.3	8.0	9.0	10.0
UK in EU	25.9	26.0	24.6	24.0
PSTS				
	1999	2000	2001	2002
EU in all	52.6	51.0	54.5	53.8
Ireland in EU	2.5	4.2	4.9	4.8
UK in EU	50.7	49.5	53.7	52.0
Information				
	1999	2000	2001	2002
EU in all	60.0	56.4	57.1	59.9
Ireland in EU	11.7	14.4	13.9	15.7
UK in EU	36.3	41.6	44.0	43.7

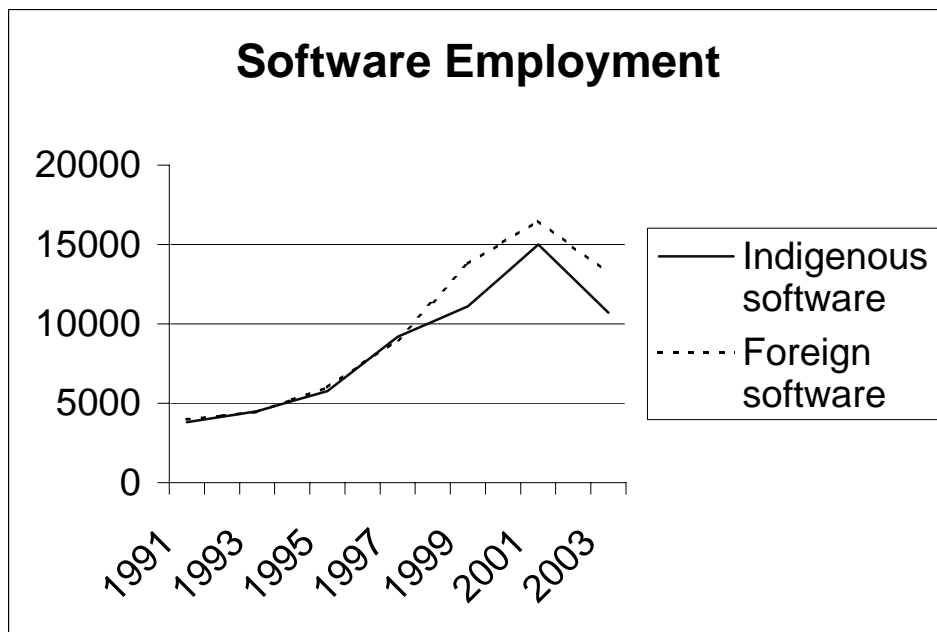
We now turn to analysis of the services sectors in which Ireland has emerged to become an important European location for offshored services. One anecdote concerning this emergence may be of interest. MacSharry and White (2000) – the

former an erstwhile Finance Minister in the Irish government and the latter a long-term Managing Director of the IDA – describe the role that the IDA played (in response to foreign firms’ criticisms of the state of Irish telecommunications) in wresting the state system from the hands of the moribund Department of Posts and Telegraphs in the 1970s. The telephone service was then commercialised and a digital-based network developed shortly thereafter which was the most advanced in Europe outside of France. This allowed Ireland capture a range of newly offshoring IT-enabled services sectors, ranging from software development to call centres, customer support and data-related services, in which first-class international telecommunications were a key factor. Ireland continues to offer the lowest cost in Europe for inbound international toll-free services (when discounts for volume use are taken into account) and offers a comprehensive range of business telephony services in addition; Fahy et al. (2002).⁷

4. The Computer Software Sector in Ireland

Software employment records its highest share of private-sector employment in the EU15 in Sweden, the UK and Ireland. In Ireland, roughly equal numbers are employed in indigenous and foreign-owned software firms. Employment developments in the sector are depicted in Figure 6.

Figure 6



Within software there is an important distinction between mass market packaged products, which tend to be produced by large TNCs, and other software activities – including custom and niche software and business solutions – in which domestic firms tend to dominate.

⁷ Problems have emerged recently however over the slow pace of broadband rollout under the privatised monopoly.

OECD (2002) reports that Ireland accounts for around 50 percent of all mass-market packaged software sold in Europe. Though transfer pricing issues raise problems in evaluating true Irish output levels, even in employment terms the packaged software sector is more important in Ireland than in other EU economy.

The mass-market packaged software sector in Ireland is engaged in the manufacturing, localisation and distribution (MLD) of software packages. The key players in the MLD sector (including Microsoft, Lotus, Oracle, Symantec, Informix and Corel) first established software manufacturing facilities in Ireland around the mid-1980s, duplicating and shrink-wrapping disk copies of software programmes developed by the parent company and arranging for the printing and assembly of manuals. The second phase, again beginning with Lotus and Microsoft, saw these companies adding localisation –involving translation into other languages and cultural and technical formats appropriate to the destination markets – to their Irish operations. The third phase saw the transfer of the responsibility for distribution to the Irish operations, making Ireland an operations hub.

The other half of the jobs in the foreign-owned software sector in Ireland are in software development, which is substantially more highly skilled. One part of this segment consists of branches of major computing-services or IT consulting companies (including EDS, IBM, ICL and Accenture). The other is an adjunct to non-software electronics corporations such as Motorola and Ericsson, with operations focussed on the production of embedded software and applications for products such as mobile phones. This latter segment can be seen as an unanticipated spin-off benefit from the country's success in attracting ICT hardware sectors.

The indigenous software sector produces custom software (which is provided for individual companies), niche software (written for specific business sectors) and other software services, which are provided both for organisations and consumers. The strong export orientation of indigenous firms is explained by the fact that about half of Irish indigenous software firms are engaged in the development and sale of niche products in sectors such as Banking and Finance, Telecommunications and computer/internet-based training. The emergence of this product-orientation is in part ascribable to the substantial presence of MNCs *across all manufacturing and services sectors* in Ireland. Ó Riain (1997), for example, describes how some indigenous firms began by providing custom services, expanding over time into producing consultancy kits which eventually mutated into exportable products.

It is of interest to analyse as well the educational attainment levels of workers in this sector, and in the other services sectors we look at as well, since there is no classification of services sectors equivalent to the OECD low-tech/high-tech classification of manufacturing sectors. Table 11, from Barry (2005) shows that the educational attainment levels of software-sector workers are substantially higher than in the overall economy.

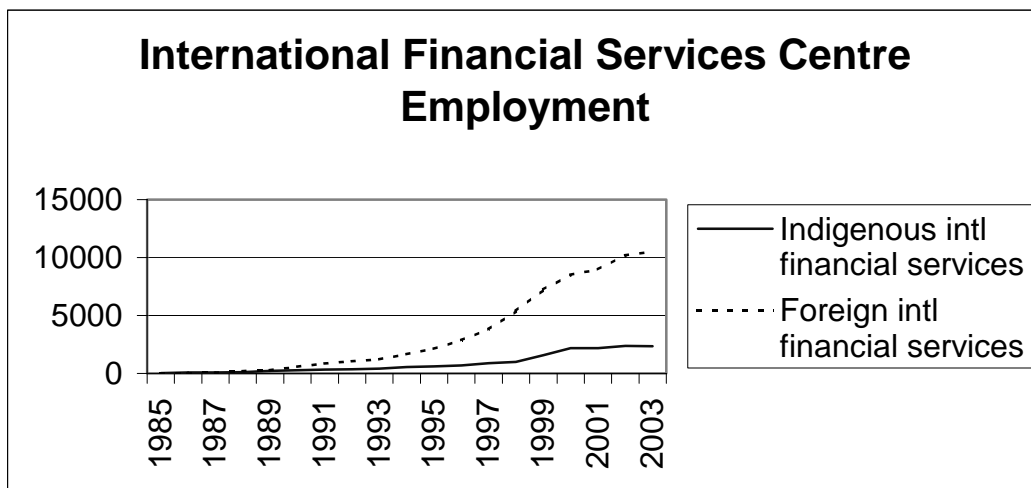
Table 11: Relative Educational Attainment in the Irish Software Sector

	% with sub-degree tertiary	% with tertiary degree and above
Manufacturing	13	16
Insurance, Finance and Business Services	18	40
At work in all industries	13	21
Software	19	71

5. International Financial Services in Ireland

Since the inception of the International Financial Services Centre in Dublin in 1987 Ireland has become a leading offshore location for international financial services. The sector now has an employment level of around 16,000, with about 70 percent located at the IFSC itself. Employment growth in the sector is illustrated in Figure 7.

Figure 7



Global developments in financial services over the course of the 1980s combined to create an opportunity for a regional location like Ireland – with its advantages in terms of language, location, education and technology – to create an offshore financial services industry. The technology to set up and run international data- and fund-management centres had created an electronic market place and global deregulation meant that an increasing number of such services could be provided from beyond national borders. In response to these developments, the Irish Government in 1987 established the International Financial Services Centre (IFSC) in Dublin, with a special low rate of corporation tax of 10 percent available to licensed companies. This allowed Dublin begin to compete against established offshore centres in the Isle of Man, Luxembourg and the Channel Islands.

By 1999, when the special 10 percent tax rate was closed off to new entrants – to be replaced from 2003 by a standard tax rate of 12.5 percent levied on all

manufacturing and services companies – employment in the IFSC had grown to almost 7000 and has grown by a further 4000 jobs since then.

With intersectoral corporation-tax harmonisation, the sector has expanded beyond the IFSC site. It now employs 16,000 people and pays an estimated 15 percent of all corporation taxes collected. Almost 450 international financial institutions operate from Dublin, including half of the world's top 50 banks and half of the top 20 insurance companies. Over 80 percent of these financial institutions are non-Irish, with American companies representing the largest segment.

Dublin specializes in back office activities, and has a particular specialisation in four niche areas—fund administration, treasury operations, corporate banking and insurance.

Deloitte (2004) estimate the employment allocation across categories as follows:

- Funds/Asset Admin 42 percent
- Banking 37 percent
- Insurance 21 percent

While the marketing and management of funds is handled from the world's major financial centres, the associated administration is frequently offshored. Ireland now rivals Luxembourg in the area of fund administration, while FÁS (2005) reports a slow movement up the value chain towards fund management.

Similar to fund administration, treasury management involves routine back-office tasks like handling payments and receipts and coordinating lending and borrowing between different divisions of a company. Many IFSC-based treasury operations are recognizable names in other industries, e.g. companies such as Bristol-Myers Squibb, Ericsson and Volkswagen. The Netherlands and Belgium are seen as the main competitors in the area of treasury operations

The IFSC is also a corporate banking center, providing loans to corporations and governments for very large purchases. Here Ireland competes with Luxembourg, the Isle of Man and Jersey, while Dublin has come to rival London as a leading center for aircraft leasing.

Finally, the IFSC houses a significant number of life and non-life insurers. EU regulatory changes enacted during the mid-1990s allowed life insurers headquartered in one EU country to sell insurance elsewhere in the EU. This provides the IFSC with an advantage over other offshore centres such as Guernsey and the Isle of Man, which also specialise in insurance, since these are not classified as within the EU. Ireland's international life sector in 2001 overtook Luxembourg in terms of gross premia written, while recent statistics indicated that it may now also have overtaken the Isle of Man. In spite of this strong recent growth in life insurance, non-life insurers remain more prevalent in the IFSC.

In terms of educational attainment, the IFSC is found to be more education-intensive than the overall economy, though less education-intensive than the software sector; Table 12.

Table 12: Comparison of educational attainment (proportion of workforce with third-level qualifications) in IFSC and software MNCs, median size classes

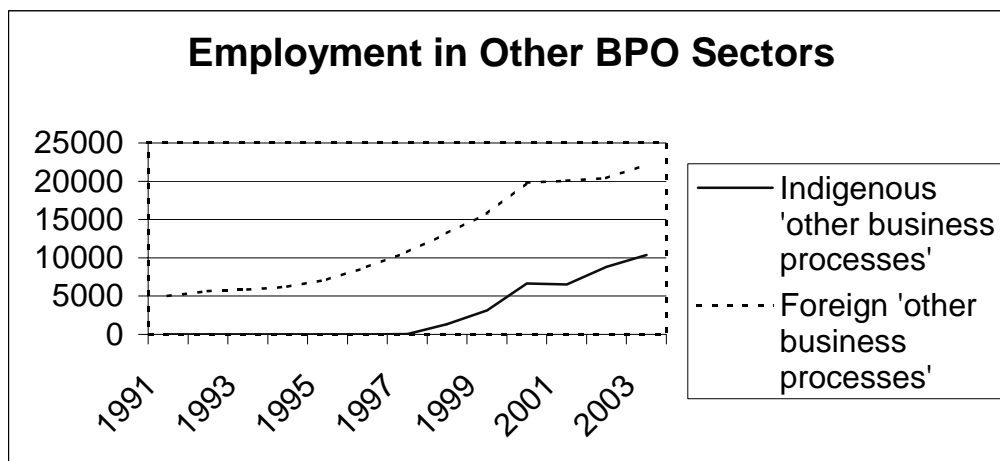
Firm Size	IFSC		Software	
	<70%	70% +	<70%	70% +
1-10 employees	10.5	32.6		
> 50 employees			20.4	49

6. Other Business Process Offshored (BPO) activities in Ireland

Other business process offshored activities, (i.e. apart from finance and software) includes front-office functions (call/contact centres), back-office functions (shared services), supply-chain management, sales and marketing, intellectual property licensing, professional consulting, internet based business and regional headquarters.

Sixty companies, mainly from the US, use Ireland as a base for their European call centres, of which Ireland accounts for one third of the European total. Call-centre employment stands at a level somewhere between 12,000 and 19,000.⁸ On the basis of the latter number CM Insight (2004) calculates that Ireland has the highest proportion of call centre staff of any European country as a proportion of its working population, at 3.6%, compared to its nearest competitors, the UK at 2.8 and the Netherlands at 2.5. In the assessment of UNCTAD (2004, p 161) Ireland is also the leading location for shared service centres among developed countries.

Figure 8



The Industrial Development Agency (IDA) introduced its call centre programme in 1992. In addition to the existing grants and tax incentive schemes, the country offered the cheapest rates in Europe for international freephone calls. The IDA's target to reach 3000 jobs by 2000 was achieved by 1996 and by mid-1998 there were around 50 call centres employing 6000 persons, of whom females comprised around 70 percent.

⁸ The lower number comes from UNCTAD (2004, footnote 44, p 179) and the higher one from Datamonitor (2002).

American firms account for over 80 percent of employment in the sector. Among the major firms which have established call centres in Ireland (in areas outside sales and marketing of IT, some of which may be classified as part of the software segment) are American Airlines, Best Western, ITT Sheraton, Global Reservations, Korean Air, Radisson Hotels, Rand McNally and UPS.

The IDA has promoted the low-level call centre sector in order to encourage firms which have established such operations in Ireland to add on additional functions such as financial management and software development. Already Ireland has achieved some substantial success in these “shared services” back-office activities.⁹ The term ‘call centre’ generally embraces sales and marketing shared services and information technology shared services such as online technical assistance. The remaining shared services are largely financial in nature. Among companies which have located elements of their financial administration in Ireland are the US investment bank Bankers Trust, advanced storage and retrieval firm EMC, Merrill Lynch, Microsoft, Morgan Grenfell, National Instruments, Novell, Scottish Amicable and home appliances firm Whirlpool.¹⁰

If educational attainment levels in the Irish call centre sector were as low as in the UK sector (Holman and Wood, 2002), the sector would be less education-intensive than the average sector in Ireland. A UK report by CM Insight (2004, p 160), however, finds that Ireland attracts more high-value, less price-sensitive contact centre activity than other offshore locations. The report notes the substantial element of technical and software support in the Irish sector as well as a relatively high ratio of team leaders to agents, the latter suggesting a focus on quality and more complex (less scripted) contact centre functions.

The educational requirements of the various segments of the call-centre sector differ substantially. The low-skill segments of tele-business activities are in Reservations and Financial Services. These comprise less than one-third of firms in the Irish sector however. The other two segments – comprising tele-business in the computer and professional services sectors – are, on the basis of the available evidence, more high-skill than the average for the economy. Given the make-up of the Irish sector, shown in Table 13, there is the possibility that even within this globally fairly low-skill sector, the Irish segment may be more education-intensive than the average for the entire economy.

⁹ Shared services centres (called managed services centres in the United States) perform key functions for global corporations, dealing with technical support for staff and business customers as well as HR, payroll, accounting, insurance and legal, and internal communications (such as running companies’ inter and intranet sites). Some are operated by outsourced suppliers, but most in Ireland are managed by the companies they serve.

¹⁰ Fahy et al. (2002) present a case study of Whirlpool’s shared services operations.

Table 13: Sectoral breakdown of firms in the Irish call centre industry

Sector	Percentage
Technology	35
Travel & tourism	16
Financial services	12
Outsourcing bureaux	12
Other	25
Total	100

Source: TMA (2002), from Datamonitor (November 2000).

Concluding Comments

Ireland's continued strong showing in the fields discussed in the present paper is demonstrated by the number of new FDI projects it has captured in recent years, as illustrated in Table 14.¹¹ The table also illustrates the experiences of a number of other EU countries that have also made a strong showing in these sectors.

Table 14: Number of FDI Projects by Destination Countries, 2002-2003

	Call centres	Shared services	IT services	Regional HQ
EU15	169	38	198	185
Irl	29 (17% of EU15)	19 (50%)	14 (7%)	15 (8%)
UK	43	7	73	64
Germany	20	1	34	22
Netherlands	13	3	16	20

Source: UNCTAD (2004, p 162).

Appendix: Compound Annual Growth Rates in US FDI-Related Aggregates

Table A1: US outward FDI stock on a historical cost basis

	All industries		Manufacturing		PSTS		Information	
	CAGR 99-02	CAGR 99-03	CAGR 99-02	CAGR 99-03	CAGR 99-02	CAGR 99-03	CAGR 99-02 ¹	CAGR 99-03 ¹
All countries	9.6	10.1	1.2	3.7	5.2	7.9	-7.4	-1.3
Europe	10.6	11.3	-0.9	2.1	7.7	8.6	-9.2	-2.0
Ireland	22.8	21.9	21.9	19.3	-2.4	1.4	28.5	30.8
UK	3.4	5.9	-4.6	-2.6	9.4	10.2	-25.0	-17.6
EU15	9.9	10.6	-1.5	1.2	8.4	9.1	-4.5	1.6

Source: Authors' calculations based on US Bureau of Economic Analysis (direct investment position data) available at <http://www.bea.gov>.

¹¹ The Finance Act 2004 established a new headquarters regime aimed at attracting international corporations to establish their regional HQ in Dublin. This would often serve to attract other activities including shared services and treasury management; Finance Dublin Yearbook (2004).

This shows that US FDI in Ireland in the Information category (which includes information services and data processing) has grown more rapidly than total investment. Furthermore, the total outward position in this category declined, and also in Europe and the United Kingdom. However, growth in the category PSTS was very slow.

Table A2: Indicators of US multinational activities abroad

Employment CAGR 99-02				
	All industries	Manufacturing	PSTS	Information
All countries	1.8	-0.3	4.8	5.3
Europe	1.4	-1.3	1.3	3.8
Ireland	0.3	-2.6	11.6	11.3
UK	1.9	-4.7	-0.5	10.6
EU15	1.3	-2.2	1.4	3.7
Value added CAGR 99-02				
	All industries	Manufacturing	PSTS	Information
All countries	2.6	0.0	-0.2	3.8
Europe	1.8	-2.1	2.8	8.3
Ireland	16.6	15.0	97.7	26.9
UK	0.6	-6.4	2.3	18.2
EU15	0.9	-2.9	2.6	8.9
Sales CAGR 99-02				
	All industries	Manufacturing	PSTS	Information
All countries	4.7	3.0	0.6	3.7
Europe	2.7	0.2	2.2	3.6
Ireland	13.7	10.7	25.6	14.3
UK	2.4	-2.7	2.2	10.2
EU15	1.7	-0.2	1.4	3.6

Source: Authors' calculations based on US Bureau of Economic Analysis (financial and operating data) available at <http://www.bea.gov>.

Table A3: Indicators of French multinational activities abroad: total stock of French outward FDI

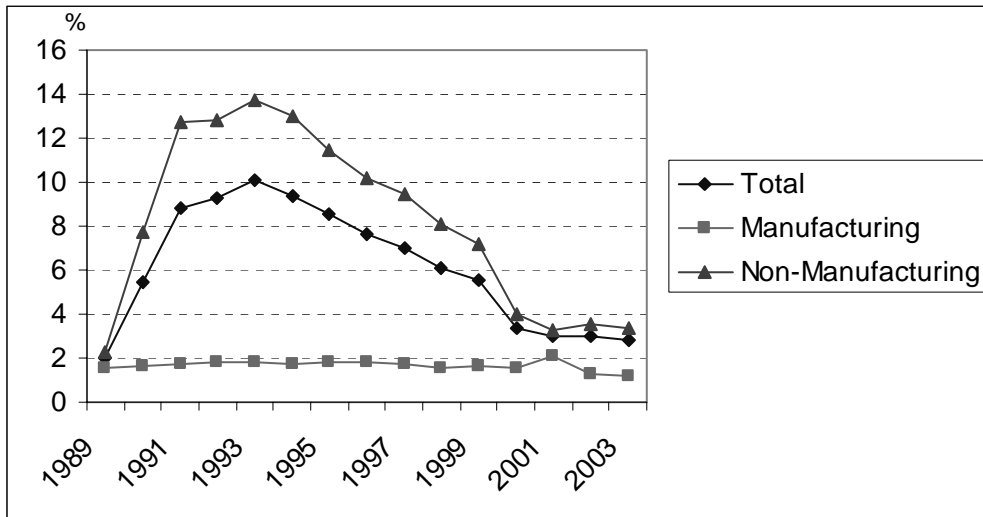
Shares (%)	EU in world	IRE in EU	UK in EU
1989	56.55	0.02	26.82
1990	61.25	0.01	25.61
1991	61.59	0.11	19.71
1992	62.26	0.12	19.84
1993	63.02	0.15	20.27
1994	65.86	na	21.89
1995	66.21	0.56	22.26
1996	63.66	0.52	21.03
1997	66.40	0.75	23.95
1998	64.97	0.74	21.64
1999	65.20	0.47	19.30
2000	71.80	1.43	19.13
2001	73.68	1.42	20.50
2002	73.16	1.31	23.11

Source: Authors' calculations based on OECD International Direct Investment Yearbook.

Table A4: Indicators of French multinational activities abroad: total stock of French outward FDI – average annual growth rates

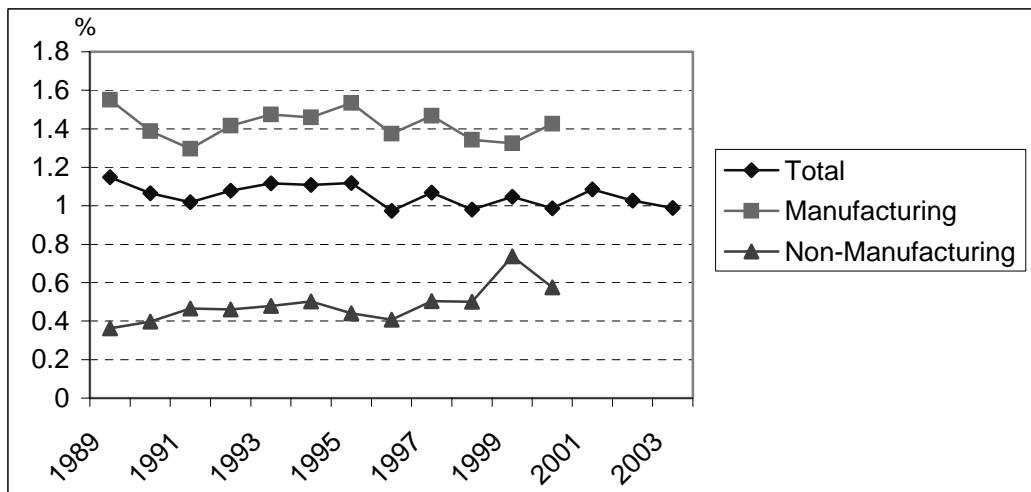
CAGR (%)	Ireland	UK	EU	World
1989-2002	62.2	16.9	18.3	16.0

Figure A1: Indicators of German multinational activities abroad: Share of Ireland in EU15: outward FDI stock



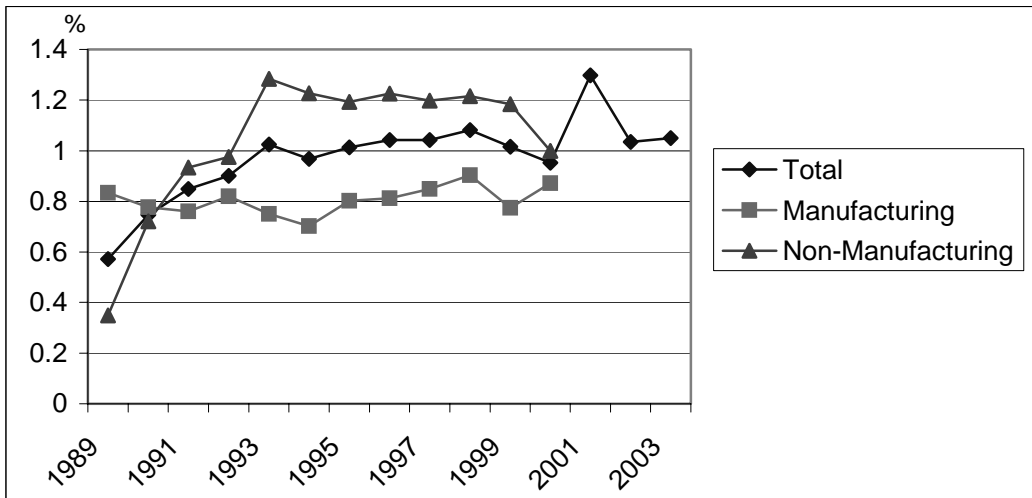
Source: Authors' calculations based on Bundesbank (2005): Kapitalverflechtung mit dem Ausland, April 2005.

Figure A2: Indicators of German multinational activities abroad: Share of Ireland in EU15: employment



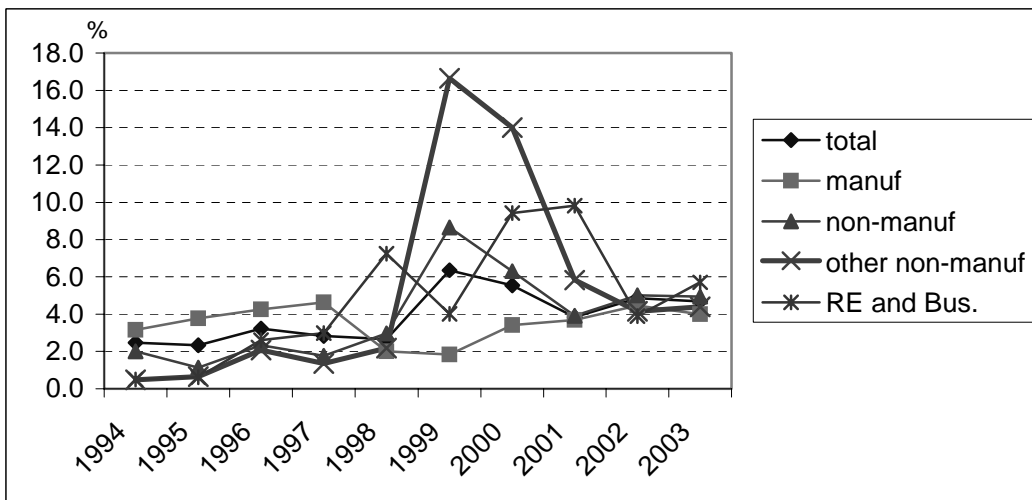
Source: Authors' calculations based on Bundesbank (2005): Kapitalverflechtung mit dem Ausland, April 2005.

Figure A3: Indicators of German multinational activities abroad: Share of Ireland in EU15: turnover



Source: Authors' calculations based on Bundesbank (2005): Kapitalverflechtung mit dem Ausland, April 2005.

Figure A4: Indicators of UK multinational activities abroad: Share of Ireland in EU15 in global UK outward FDI stock¹



1. Where non manufacturing includes trade, transport and communication, financial services; other non-manufacturing includes property owning and managing, real estate and business services, unallocated.

Source: Authors' calculations based on Foreign Direct Investment – Business Monitor MA4, various years.

Table A5: Indicators of UK multinational activities abroad: total stock of UK outward FDI – average annual growth rates

CAGR 94-03	total	manuf	non-manuf	other non-manuf	RE and bus
Ireland	24.9	14.5	31.5	42.9	45.0
Global	16.4	11.5	18.9	11.8	10.6

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