

# Opportunities & challenges on our western front

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Deflation worries in the Eurozone, an economic slowdown in China, geopolitical concerns within the Middle-East and the Ukraine have caused us all to look eastwards in recent months. However, the recent talk of a potential Argentine default, last week's 4<sup>th</sup> July celebrations and of course the World Cup in Brazil have helped to divert our attention westwards. So what are the economic opportunities and challenges for the Northern Ireland economy stemming from the Americas?

Our largest company, Moy Park, employing almost 11,000 people, may be Brazilian-owned, but Northern Ireland's trade with Brazil remains relatively small. Indeed, despite much focus on Brazil as one of the so-called BRIC countries (*Brazil, Russia, India & China*), local firms export over 12 times more manufactured goods to North America than they do to Central & South America combined.

Canadian aerospace firm Bombardier, one of our flagship exporters, has something to do with this. But it is the United States of America that is, after the Republic of Ireland, Northern Ireland's most significant source of FDI and key export market.

As of last year, there were 185 US-owned companies operating in Northern Ireland, employing almost 23,000 people. Clearly Northern Ireland, along with businesses the world over, stands to benefit from a sustained US economic recovery.

Some of the US firms here, such as Asda (*owned by Walmart*) and McDonalds, will be more familiar to us than others. They include global industrial giants Seagate, Caterpillar and the power company AES, alongside some lesser known names such as AVX and forklift manufacturer NACCO.

In recent years, however, the services industry has accounted for the lion's share of new US inward investment and the expansion of existing investment. Allstate NI and Citigroup are two companies that have continued to expand since their arrival on these shores.

Last week the US indulged in its annual 4<sup>th</sup> July Independence Day celebrations. However, Northern Ireland has been celebrating US inward investment for most of the year. So far, 2014 has been a bumper year for US investment, whether its new investment, expansion of existing investment, acquisitions of property assets, or the takeover of local companies. In recent weeks, Hughes Insurance, Northern Ireland's largest independent insurance broker, was bought by US firm Liberty Mutual. County Down manufacturing firm, Whale, has also just been sold to the US-based Brunswick Corporation.

One of the most significant US investments this year though, was the sale of NAMA's £4.5bn Northern Ireland loan book to Cerbrus Capital Management. Cerebrus, whose Chairman is former Vice President Dan Quayle, secured the deal ahead of another US bidder PIMCO. Meanwhile Belfast's Obel tower, the tallest building in Ireland, was recently sold to New York headquartered firm Marathon Asset Management. Too much property was concentrated in the hands of too few institutions, and the dilution of property ownership into new hands with less constrained balance sheets can only be good for the local property market.

Meanwhile US healthcare company, CVS Caremark, is creating 100 new 'high-end' technology jobs. Back in April, Californian firm Concentrix announced plans to add another 1,000 jobs to its existing workforce of 800.

Despite the lack of a 12.5% corporation tax rate, as in the Republic of Ireland, Northern Ireland has been an attractive inward investment location for North-American firms, particularly within the ICT, software and financial service industries. Can this trend continue? There are certainly opportunities for further growth in these sectors. However, the key limiting factor cited by the CEO's of a number of these firms will be the supply of skilled graduates.

Two other key challenges facing existing North-American investment (*and indeed all foreign-owned investment*) are the significant fall in US energy costs and changes to EU State Aid rules. According to a recent study by the Boston Consulting Group, the US is the rising star in terms of manufacturing competitiveness and is now ranked second after China for manufacturing competitiveness. This is due to the 50% fall in natural gas prices over the last decade due to the shale gas revolution. This is encouraging many manufacturing plants to return to the US in what is termed 're-shoring'. Meanwhile, Northern Ireland's energy costs are one of the highest in Europe. This combination of factors makes it more difficult for Northern Ireland's energy intensive multinationals to stay internationally competitive.

In terms of the new EU State Aid rules, which came into force on 1 July, these will restrict the ability to provide selective financial assistance for expansions or 'repeat assistance' to firms already in Northern Ireland. This could impact on the viability of a range of North-American FDI.

Reducing subsidies and removing barriers to trade is also the focus of the Transatlantic Trade Investment Partnership (TTIP) initiated from Washington. This is the trade agreement between the EU and the US currently being negotiated. The sixth round of trade talks between the EU and the US will be held in Brussels next week. Clearly TTIP will present trade opportunities for local firms. However, the potential reduction / elimination of EU agricultural subsidies will have a big impact on local farmers.

Overall, Northern Ireland has availed of many opportunities from the west. And that includes in areas that might not have seemed likely even 10 or 15 years ago. The HBO TV series Game of Thrones is a big hit around the world and, as the biggest TV production in Europe, its filming here has been a big hit for the local economy too. But can 2014's bumper year of US investment continue? The change to State Aid rules and energy costs are threats to the further expansion of existing North-American investment. Similarly, the lack of a sufficient supply of skilled graduates will limit growth opportunities in the software / ICT sphere. There are certainly challenges on the western front.

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