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Thank you Mr. Chairman and thank you for inviting me to serve as respondent to this morning's presentations.

I would first of all like to congratulate the authors on their fine contributions this morning and for sharing the drafts of their papers with me in advance. These have been expansive in nature from both temporal and content perspectives. Each contribution offers a particular focus ranging from a consideration of indigenous Industrialization, an analysis of the development of Ireland's taxation policy to an examination of the ongoing Apple Case. However, there are overlapping elements to the contributions which serve to ensure an overall completeness to the coverage of this morning's topic.

David critically considers the era of import substituting industrialization (ISI) and the subsequent export led industrialization (ELI). He highlights that Ireland's embrace in the 1930s of ISI reflected a widespread practice of the time on the part of many economies. While ISI yielded some initial success, he argues that it was in the latter part of the protectionist period and subsequently that the failure of the way in which ISI was implemented in Ireland became apparent. He notes that industrial employment was largely unchanged from that of the 1930s thus reflecting the limits to Ireland's version of ISI. He further argues that the Irish government should have adopted either a more interventionist policy, more active and selective in its choice of industries to support, or a less interventionist policy leaving to the market more of the

determination of what industries should be set up. Using the example of the car assembly industry, David concludes that either a more or less interventionist approach to the industry would have been preferable. Noting that the Irish market was too small to enable economies of scale, he suggests that producing for export was not feasible given that the transport cost of the finished product would have priced Irish-produced cars out of foreign markets.

And yet, the high cost of transportation did not price Japanese or Korean cars out of much further distant markets in Europe and the USA, albeit benefiting from larger protected domestic markets than in the case of Ireland.

David argues that a policy that focused on support for activities that had:

relatively low logistic costs;

relatively high local content of material or human inputs, including skills, knowledge or enterprise;

the existence of, or potential for, differentiation from competing products or services;

and some linkage with other local enterprise so that there was a degree of embeddedness of the production in the local economy

would have constituted and even today constitute a potentially better approach. However, I would argue that even so, there were, and to a large degree there still are, more fundamental issues at play. There are a combination of the dominant culture, the cost structure of the Irish economy and prevailing mindset,

The dominant culture has long been one of clientilism and crony capitalism. Within such a culture, the interests of powerful special interests hold sway over policies that might contribute to sustainable economic development with benefits for all citizens.

The excessive high cost structure in certain sectors of the economy notably professional services and energy where we continue to be one of the most expensive countries in Europe are a consequence of this dominant culture. In fact the Troika was supposed to produce the reform of legal services but left with zero change achieved in that area. The National Competitiveness Council has repeatedly over the years pointed to those excessive costs that undermine competitiveness and in my view act as a major retardant to the development of a vibrant indigenous sector. The prevailing mindset has been largely bereft of vision and imagination– in fact, during the course of the Celtic Tiger era I maintained that the country was mired in a visionless malaise. Equally well, a lack of ambition and paradoxically, given the extent to which our economy is one of the most globalised in the world, a worldview that at its core, is essentially parochial have constituted serious inhibitors to the development of successful indigenous industries.

The contrast in mindset insofar as it relates to vision, ambition and world view with those East Asian Economies that have developed from naught global competitive industries could not be more stark.

Turning now to David's coverage of ELI. While acknowledging the successes that have flowed from this approach, he argues that "the light regulatory hand that has always been part of the Irish commitment to FDI, particularly as applied in banking and finance was clearly an element in the collapse of the Irish banks that were the trigger for the bailout." Given the emergence of the Progressive Democrats (PDS) with its ideology of unfettered free markets encompassing light touch regulation which in practice as we know to our cost essentially meant zero regulation, and the provision of tax incentives to developers and others - largely high income professionals, the collapse of the banks would have occurred regardless of FDI policy considerations. Paul does highlight the role of the PDs

and property related tax incentives in his addressing of what he calls “The Third Fiscal Crisis”.

In the light of the evidence that David presents in his paper of the outsize role of FDI in the economy and the possible vulnerabilities associated with such a position, he raises the option of seeking alternative, indigenous means of generating employment in indigenous sectors.

Unfortunately the historic examples he considers of indigenous firms namely those that operated in the software supply sector and the furniture sector do not give cause for optimism. In the case of the software supply sector, the privatisation of the national telecom provider Telecom Eireann and the subsequent looting of the firm by private equity interests was “disastrous.” With underinvestment in critical infrastructure, crucial access to the Internet was not available. Even today, large parts of the country do not have access to high speed broadband serving to significantly restrict the development of indigenous industries.

Contrast this situation with the case of Korea. As long ago as 2001 when I was in Seoul to act as rapporteur for the ASEM meeting, Korea was already a fully wired country with all households and businesses across the entire country having access to high speed Internet.

In the case of the furniture industry instanced by David he attributes the demise of the industry to defective policy intervention. While this perspective may have some basis, it is important to note that since China’s admission to the WTO, the furniture industry in many economies has been decimated by the onslaught of Chinese competition. For example, the industry in the USA is today a tiny fraction of what it was pre the early 2000s.

In his conclusion David raised the matter of pursuing policies that contribute to firms becoming or remaining “sticky places in slippery space” quoting Markusen.

If those policies are to have any impact, they must address areas of deficit in critical infrastructure such as broadband, focus on reducing costs in those protected sectors where costs are grossly excessive and they should be underpinned by vision and a mind set that is both ambitious and globally centred. They should also prioritise sectors where Ireland has a natural advantage. For example, the creative, cultural and artistic sectors where relatively little investment can generate high returns. Here we should look to the example of Iceland which with relatively little investment has spawned booming cultural and creative sectors. Likewise tourism is a sector where returns are high and where imaginative and creative approaches yield impressive returns. Just think of the Wild Atlantic Way.

Turning now to Paul's contribution that focused on the development of Ireland's taxation policy. He considers three crises where he argues fiscal policies pursued by government have either created or contributed substantially to those crises. In addressing the most recent crisis he states on page 5 "The last crisis in 2010 was so destructive that with the Irish state had to be bailed out by a Troika of IMF, EU and ECB." More tellingly on page 11 he states that "Most importantly perhaps, was the key but unstated objective that Irish taxpayers were to the save the private European banks from contagion by bailing out the Irish private banks." He further states on page 12 "A great deal of these funds were to pay off all the creditors (other foreign banks) of the failed private Irish banks in full and on time, to 'avoid bank contagion' in Europe". One could also add here, that it was not just the interests of European banks that were paramount but also Wall Street interests.

Paul raises a very important question on page 7 of this contribution. He states "If, as is the official mantra "our low

Corporation tax is the cornerstone of industrial policy" why did it not work until the 1990s? And was it tax that worked?"

The answer I believe stems from the changed behaviour of firms. From the 1980s onwards executives embraced the maximization of shareholder value as their guiding star driving their decisions and behaviour. By the 1990s the embrace of the dogma of shareholder had taken root across the vast majority of firms. It is that context and the context of the introduction of the Single European Market and the prevailing concern at the time about the emergence of a "Fortress Europe" and the globalization of production that led to the slicing and dicing of supply chains that were the overarching drivers of large flows of FDI not only into Ireland but into Europe more generally. Ireland offered firms the opportunity to engage in tax arbitrage thus contributing immeasurably to the maximization of shareholder value. Ireland's tax regime was particularly advantageous to firms as they transformed the global configuration and coordination of their supply chain activities. The importance of the Single Market is noted by Paul later in his contribution on page 16. It was the conjunction of those circumstances that helps explains what happened in the 1990s. Of course this is not to say that there were no pull factors at play. Undoubtedly there were and these played a role. But their importance pales relative to the contexts that I just described. The following quote from Jack Welch amply demonstrates the corporate mindset of the times:

""The ideal strategy for a global company would be to put every factory it owned on a barge and float it around the world, taking advantage of short-term changes in economies and exchange rates" - Jack Welch, former CEO GE"

I would suggest that the role of the twin oil crises merit greater significance than perhaps apparent in Paul's analysis of the

second fiscal crisis. In relation to the more recent crisis, he expertly pinpoints the critical role of property tax subsidies and tax shifting in “fuelling the crisis”.

Turing to current developments relating to taxation policy, the matter of the renewed push on the part of the Commission and some member states notably France for the Common Consolidated Corporation Tax Base (CCCTB) is raised. He notes that “it is clear that Ireland will greatly loose out under this system”. My view strongly concurs with this conclusion. CCCTB will see a sharp fall in corporation tax receipts to the Irish Exchequer which in turn will put pressure on the public finances. It is only a matter of time before this system starts to be introduced. In fact Stewart in this contribution points to examples of where CCCTB is already in effect happening on a bilateral basis. Given the impact of CCCTB on already fragile public finances, it would seem prudent for Irish representatives to be proactive in raising with the Commission and our EU partners the need for initiatives from the EU to offset the serious negative consequences for Ireland and its public finances from the introduction of CCCTB. While the introduction of CCCTB is unlikely to have major impacts on the existing stock of FDI in Ireland, it is likely to have the effect of making Ireland less attractive for future FDI. This then raises the question of how Ireland’s attractiveness as a location for FDI can continue to be maintained.

While Shareholder value continues to dominate the decisions and behaviour of firms, talent remains today a crucial consideration for the type of FDI we seek to attract. This has a number of implications for policy.

Education: Greater investment in Education is required as a matter of urgency if Ireland is to be attractive to future FDI. The crucial importance of investment in education simply cannot be overstated.

Quality of life issues: The provision of top quality infrastructure, housing, schools and health care are significant areas that impact considerations of quality of life. Both IBEC and TASC has been consistently calling for greater investment in infrastructure for a number of years now. Given the gravity of the shortfalls in the above areas, it is surprising that policy makers are proposing to allocate the proceeds from the recent sale of AIB shares to reduction in long term debt rather than investing in the above areas of critical need.

Finally turning to Stewart's contribution on the Apple Case where the Commission has invoked competition policy and the attribution of selective state aid to Apple on the part of the Irish authorities via its approach to the taxation of Apple.

Jim highlights the difference between the CSO reporting of the number of employees in US firms in Ireland and that of the IDA for 2015. The actual difference is 21,800 employees.

Might it be that in the case of the CSO, they do not include workers who are working for a US firm but are in fact contracted by a different firm to that US firm. Whereas the IDA may be including those contractor firms' staff working at the US firm.

An example of such contracting practices was presented in a recent expose in the Guardian in relation to Facebook and its content moderators and those some forty working in the counter terrorism unit in Dublin whose personal details were exposed on Facebook. The Guardian reported that these workers are contracted by the global outsourcing company CPL Recruitment for low pay to Facebook where in the words of one of the contractors "they were not treated as equals to Facebook employees but as second class citizens".

Given the data presented by Jim in his contribution, it is clear by any reasonable assessment, that Apple has been subject to an extraordinary low burden of taxation on its global income.

It is nonetheless of interest to consider the matter of state aid in the context of the global triad and the severe limitations on state aid enforced under competition policy by the Commission and the extent to which state aid is applied in the other two competing legs of the triad namely East Asia and the USA.

Take the case of Apple and China. Until very recently Apple's presence there was focused on sales and marketing including a limited number of retail outlets. However, its biggest supplier contract manufacturer Foxconn has a huge presence in China employing in excess of one million people. Foxconn can be considered as a captive supplier to Apple. Whereas Apple does not own Foxconn, it effectively dictates much of its actions and benefits enormously from Foxconn and the degree of state aid that it has received for its operations in China. Take the case of the giant Foxconn operation in Zenghou that assembles about half of the global output of iPhones. Massive amounts of state aid were provided to cover the construction costs of the factory and worker accommodations, subsidize energy costs, tax and social insurance relief, assistance with recruitment and training of workers and subsidization of logistics costs to name most but not all the elements of state aid provided. The value of aid provided in this single instance to Foxconn are likely to extend into the billions.

Staying with Foxconn and turning to the other leg of the triad, the USA, Foxconn's chairman Guo has indicated that he is planning the construction of a large flat panel display plant there. However, this is subject to one of the seven possible states that he is considering locating in providing a sufficiently generous package of aid. In this scenario as in others, states in the USA have enormous leeway in providing aid to attract investment. If Chairman Guo is successful he is likely to secure

aid to the value of potentially billions of dollars for his proposed US 10 billion dollar investment.

My point in introducing the two other legs of the Triad is as follows. Europe competes with those legs of the Triad for Investment while its firms also compete with firms from there who are in receipt of munificent amounts of state aid. Europe's policies on state aid places Europe and its firms at a considerably competitive disadvantage. Irish representatives and policy makers should be engaging with other member states to seek the institution of industrial policies that reflect the realities of global competition. With the Irish indigenous sector currently facing grave challenges arising from Breixt and its associated uncertainties, there is a pressing urgency for the EU to bring forward such policies to support the Irish economy and its indigenous sector.

There is much more to be said from these extremely rich and insightful contributions. I commend the authors for their excellent work and I encourage its continuation.

Thank you for your time and your attention.