

REVIEW AND OUTLOOK

31st January 2006

Ireland Faces an Unprecedented Challenge to Grow Knowledge-Intensive Jobs and Investment

“The pace of change in the global economy continues to increase. Firms in Ireland are facing competitive challenges more comprehensive and unremitting than at any point in our recent economic history and competition is set to be as intense at the high end as it is at the lower end. Many parts of China, India, South East Asia and Central Europe are now targeting the kinds of high-tech manufacturing and services activities - electronics, software, financial and other services and pharmaceuticals - that have driven Ireland’s growth over the last 15 years. For example, the number of foreign R&D units in China has increased from a standing start in 1993 to 700 today; China’s total spending on R&D climbed from \$21 billion in 1996 to an estimated €102.6 billion in 2004 (1.44 per cent of GDP) and, in absolute terms, is now behind only that of the USA (\$312.5 billion) and Japan (\$112.7 billion).”

“Ireland’s goal must be to sustain levels of competitive performance in line with the world’s best. We must focus squarely on our core strengths and on high value niche areas to achieve success in this increasingly competitive environment,” said Martin Cronin, Chief Executive, Forfás.

Enterprise Performance 2005

The Irish economy continued to perform very well in 2005. GNP is estimated to have grown by 5.0 per cent in 2005 compared with an OECD average of 2.7 per cent.¹ Rapid growth has lifted income per capita in this country to among the highest in the world. In 2004, GNP per capita measured €30,726, ranking Ireland above the EU average. In the ten years to 2004, Irish GNP growth averaged over seven per cent per annum in real terms, more than double that of the USA and close to triple that of the eurozone.

Total employment reached 1.99 million in the third quarter, and by the end of the year is likely to have exceeded two million for the first time. The public finances are in a strong position and in addition, a range of social indicators - from poverty to education levels and life expectancy - have moved in the right direction, as evidenced by Ireland’s progression on the UN’s Human Development Index.

There have been changes in the drivers of Ireland’s growth in recent years. In the early years of the “Celtic Tiger” growth was driven by strong performance in exports. While exports have remained at high levels Irish growth in more recent years has largely been driven by increases in domestic spending by households and by government on construction activity and on consumption. However, internationally-trading businesses continue to play a major role.

¹ OECD estimates

Employment levels in companies supported by the development agencies (Enterprise Ireland, IDA Ireland, Shannon Development and Údarás na Gaeltachta) increased in 2005 to 303,564. Traded services, including financial services and software, continue to grow in importance both in terms of employment and exports. Ireland's total market share in services has increased markedly from 0.4 per cent in 1993 to 2.2 per cent in 2004, making Ireland the 14th largest exporter of services in the world.

There has been a strong upward trend in R&D performance. However, it will be critical to our ambitions as a knowledge economy to actively promote further investment in R&D. Other knowledge economy indicators, such as early stage and high tech venture capital investments, patent applications and registrations and adoption of information and communications technologies (ICT), all confirm that Ireland still faces a significant challenge in bringing our domestic research and innovation capabilities to the levels that will be required to sustain our economic performance.

While overall economic performance remains strong, Ireland now faces an unprecedented challenge to grow the high-paid jobs and knowledge-intensive investment needed to sustain our performance into the future. In this context, the performance of companies supported by the development agencies was impressive. These companies recorded the highest net job increase since 2000, creating 27,606 full-time jobs which offset job losses of 24,211. They spent €34.2 billion on services, raw materials and payroll in 2004 and up from €33.9 billion in the previous year. There is evidence of continuing structural change in industry with traditional manufacturing sectors experiencing job decreases reflecting restructuring, productivity improvements and competition from lower-cost locations. There were net job increases in more modern sectors such as electrical and optical equipment (including medical devices) and pharmaceuticals and chemicals (see Appendix 1 for more detail).

Forfás Priorities 2006

Against this backdrop of change Forfás believes that Ireland's new phase of economic development requires a partnership approach to innovation oriented growth. Ireland's new economic direction has implications for how best to optimise the economic environment, how we promote education, how we invest and importantly how we can help to drive increased productivity and competitiveness. Forfás will strive to contribute to these goals by delivering policy advice in the following areas during 2006:

1. Advancing Coherent and Dynamic Enterprise Development Policies

Working with our sister agencies and the Department of Enterprise, Trade and Employment, Forfás will deliver coherence and responsiveness in Ireland's enterprise strategy, including:

Supporting the **Small Business Forum**;

- Contributing to greater understanding of Ireland's **productivity** performance;
- Supporting the Interim Board of the **National Consumer Agency**;
- Developing strategies for the **post-2006 State Aids Regime**; and
- Contributing to regional development by the delivering **Regional Strategic Agendas** in conjunction with the development agencies

2. **Improving Framework Conditions for Innovation and Enterprise Development**
Forfás will work with the National Competitiveness Council (NCC) and other partners to influence and support implementation of pro-innovation and pro-enterprise Government policies in areas of importance to enterprise, including:
 - Benchmarking the competitiveness of Ireland's **telecoms, electricity and waste management infrastructures** and markets to identify areas for improvement in the next **National Development Plan**
 - Assessing Ireland's reliance on **oil** as a key input into the Irish economy and determine the policy implications in terms of key areas such as energy, transport, spatial and technology policy.
 - Working closely with the Department of the Environment, Heritage and Local Government to identify what key actions need to be taken to drive the **implementation of the National Spatial Strategy**. A study outlining the key role of the gateway towns to the realisation of balanced regional development will be published in the early part of 2006.

3. **Human Capital Development to Support an Innovation Driven Economy**
Forfás will work with the Expert Group on Future Skills Needs, Government Departments and other relevant bodies to develop a widely shared understanding and vision of how education and training systems can best prepare people for the economy of the future, including:
Contributing to the development of a **National Skills Strategy**; and
 - Ongoing identification of **skills needs** for the economy with particular focus on skills for ICT, medical devices and internationally-traded services; and
 - Supporting, on an ongoing basis, the development of a **skilled immigration policy**.

4. **Capturing the Economic Benefits of Public Investment in Research**
Forfás will advise on the policies needed to maximise the economic impact of public investment in scientific research, technology development and innovation and promote their implementation, including:
 - Supporting and monitoring implementation the Government's **R&D Action Plan**;
 - Continuing to expand the ***Discover Science and Engineering*** programme and build on its achievements of 2005. It has set out to further increase the numbers of students studying the physical sciences by promoting a positive attitude to careers in science, engineering and technology and by fostering a better understanding of the value of science to society;
 - Ensuring best practices on **IP management** are adopted in universities and institutes of technology which is a key part of Ireland's science, technology and innovation development. Successful implementation of national codes of practice for managing IP is an important step towards this goal. Forfás will deliver template collaboration agreements, aligned with the principles and guidelines provided by the codes of practice to facilitate implementation; and
 - Completing the **Nanolreland** technology assessment project to identify investment options for the successful development and application of nanotechnology in Ireland.

APPENDIX 1

Enterprise Statistics

Expenditure

The economic impact of the companies supported by development agencies goes beyond direct employment creation.

- Total expenditure in the economy - on local services, raw materials and payroll - by these companies totalled €34.2 billion in 2004 (latest data), up from €33.9 billion a year earlier, with both manufacturing and services firms contributing to the increase.
- Irish-owned companies accounted for €16.2 billion (47 per cent) of the direct expenditure with raw material inputs accounting for the largest share - driven largely by the food and drink sector which purchases most of its raw material inputs domestically.
- Foreign-owned companies spent around €18.0 billion directly in the economy and this were spread quite evenly across payroll costs, raw materials purchases and services purchased in Ireland.

Tax Payments

- Agency-supported firms are estimated to have accounted for around €2.9 billion, or just over half, of the total corporation tax take in 2005.

Employment

- Overall employment levels in agency-supported companies stood at 303,564 in 2005, an increase of 3,395 on 2004 - the highest net jobs increase recorded since 2000 - and 23 per cent higher than it was a decade ago.
- Agency-supported companies created 27,606 "permanent full-time jobs" in 2005, more than offsetting job losses of 24,211.
- Job losses have decreased to their lowest level since 2000.
- The Border, Midlands and West regions experienced the highest jobs increases in 2005, with net employment additions of 3,034. Of the jobs created in 2005 by agency-supported companies, around 27 per cent were located in the Border, Midlands and West (BMW) region, compared to 22 per cent in 2004 and 20 per cent in 2000 (the peak of employment in agency-assisted companies).
- The sectoral employment breakdown shows evidence of continuing structural change in Irish industry. Employment in manufacturing companies fell back for the 5th successive year to 216,417, down 12 percent from its 2000 peak. Net job losses in 2005 were concentrated in traditional manufacturing sectors such as the food products and beverages (-1,261), non-metallic minerals (-889) and paper, publishing and printing (-502), reflecting on-going restructuring, productivity improvements and competition from lower-cost locations.

- There were net job increases in more modern sectors such as electrical and optical equipment (including medical devices) (+2,038) and chemicals (including pharmaceuticals) (+286).
- Net job losses in manufacturing in 2005 were more than offset by net job gains in internationally-traded services sector. Total employment in financial and other international services increased to 74,109 in 2005 (up 2,812), accounting for 24 per cent of all jobs in agency-supported companies in 2005, compared with just 10 per cent in 1996. Net job creation was highest in international services (+2,063), with the increase largely accounted for by firms in consulting, software and other computer-related services.

Research and Development

Growing market-led research and innovation efforts by Irish enterprises will be central to growing competitiveness of Irish industry in the face of intensifying challenges from lower cost locations.

- Business expenditure on R&D in 2004 increased to €1,150 million (0.93% of GNP), up from €988 million in 2002 (0.93% of GNP). While increasing significantly in absolute terms, the research intensity of Irish industry (research spending as a proportion of output) is at a level that is below the average for the EU-15 (1.17% in 2004) or the OECD (1.51%).
- Forfás estimates indicate that total national expenditure on R&D (combining R&D performed by the business, higher education and public sectors) in Ireland grew to €1.78 billion in 2004 (equal to 1.43% of GNP), up from €1.44 billion (1.35% of GNP) in 2002, compared with EU-25 and OECD averages of 1.85% of 2.24% respectively.