

Annual Competitiveness Report 2010

Volume 2: Ireland's Competitiveness Challenge



Annual competitiveness reports



- ▶ Volume 1: *Benchmarking Ireland's Performance*



- ▶ Volume 2: *Ireland's Competitiveness Challenge*

What is competitiveness?

Competitiveness encompasses all those factors which impact on the ability of firms in Ireland to compete on international markets in a way which provides our people with the opportunity to improve their quality of life.

Context

- ▶ Restoring competitiveness is essential to improving living standards and quality of life through enhancing the capacity of Irish enterprises to trade successfully in international markets
- ▶ Irish competitiveness has improved significantly but considerable challenges remain
- ▶ The challenge is to construct a vision for a prosperous economic future with:
 - *robust economic performance and return to prosperity;*
 - *high levels of employment; and*
 - *the capacity to achieve social progress.*

NCC Priorities - three broad themes

- ▶ Put in place the structures to support sustainable competitiveness
- ▶ Plan for the longer term to support sustainable growth and prosperity
- ▶ Continue to focus on the basics - especially to bring essential infrastructures up to world class standards

Priority competitiveness challenges

1. Tackling unemployment
2. Driving productivity growth
3. Sustaining and deepening competitive advantage in key sectors
4. Broadening our export base
5. Delivering further improvements in cost competitiveness
6. Building a stronger physical and knowledge infrastructure base
7. Restoring macroeconomic stability
8. Delivering on public sector reform and implementation

1. Tackling unemployment

- ▶ Strengthen activation measures to ensure that those most at risk of long term unemployment are kept close to the labour market.
- ▶ Maintain incentives to stay in or return to the labour market:
 - Ensure a competitive tax wedge to incentivise employment and attract workers.
 - Replacement ratios should be at a level that protect those on low income while ensuring there is still incentive to labour market participation.
- ▶ Improving national competitiveness will support job creation over time.

2. Driving productivity growth

- ▶ Reduction in our cost base can play an important role restoring our competitiveness but we also need to increase productivity across the economy.
- ▶ Irish productivity growth rates are below the OECD average and our historical performance
 - Productivity growth has been low or negative in a range of sectors including manufacturing (modern and traditional), mining and telecommunications.
- ▶ Improving productivity across all sectors of the economy (private and public, locally and internationally traded) should be central to future policy and budgetary decisions.

3. Sustaining and deepening our competitive advantage in key sectors

- ▶ Quickly addressing sector specific challenges would result in tangible improvements in the competitiveness of these important sectors, e.g. completing the upgrade of road infrastructure in and to the west for the medical technologies sector.
- ▶ Government structures need to be responsive to new sectoral dynamics and provide the necessary supports to service-based enterprises e.g. shift scarce resources to support the sectors with stronger sustainable growth prospects.

4. Broadening our export base

- ▶ A fundamental priority of enterprise policy must be to expand and grow our export base by promoting the internationalisation and scaling up of Irish-owned firms:
 - *Ensure access to credit*
 - *Deepen linkages between domestic and exporting firms*
 - *Build closer trade relationships between our indigenous enterprise community and emerging economies*
 - *Ensure efficient use of public expenditure to support Irish based firms*
 - *Support networks and organisations to improve the competitiveness of key clusters in Ireland.*

5. Delivering further improvements in cost competitiveness

- ▶ Manage Irish inflation in the euro area-
 - while monetary policy is outside government control, government policy can seek to address other factors driving inflation - in particular high price levels and inflation in administered and locally traded sectors.

- ▶ Administrative costs (prices controlled, directly influenced, or set by Government) need to be reduced.

- ▶ Reduce high costs in locally traded sectors (property, energy, waste, local authority charges, legal costs)
 - A systematic, planned approach to ensure that competition law₁₁ applies to all sectors of the economy is necessary.

6. Building a stronger physical and knowledge infrastructure base

- ▶ Continue to improve infrastructure capacity and services
- ▶ Address longer term infrastructure challenges
 - *Deliver future infrastructure investment more efficiently*
 - *Increase the density of Irish cities*
 - *Make our infrastructure smarter*
 - *Prepare for climate change:*
- ▶ Continued focus on improving the quality of education is required
- ▶ Ensure adequate resourcing for higher education

7. Restoring macroeconomic stability

- ▶ Improve the fiscal planning framework
 - In-built risk assessment and risk management capacity
 - Establishment of an independent fiscal council
 - Longer term planning

- ▶ Broaden the tax base (e.g. valuation based tax on property and other user charges for treated water and third level education)

- ▶ Ensure that we never again have a property speculation bubble
 - High level independent review commission
 - Valuation based property tax

8. Delivering on public sector reform and implementation

- ▶ Deliver public services improvements e.g. embedding merit based promotion and open recruitment at all levels.
- ▶ Improve public sector productivity
 - More integrated approach across government departments and agencies
 - Periodic reviews to assess regulators
 - Introduce mandatory, independent five year external reviews of the performance of government departments
 - The NCC endorses many of the reforms identified in the OECD's review of the Irish public service.

Conclusion

- ▶ While the Irish economy faces unprecedented challenges, we continue to have significant competitiveness strengths and opportunities
- ▶ An ambitious agenda of reform to enhance competitiveness is central to future economic growth and prosperity
- ▶ The report can be downloaded at http://www.competitiveness.ie/media/ncc101130-challenge_2010.pdf