

SERIOUS ISSUES FACING IRELAND'S COMPETITIVE POSITION – NATIONAL COMPETITIVENESS COUNCIL

Second Annual Report warns that Ireland's economic success faces danger from a series of converging issues, which include skills shortages, poor transport infrastructure, inadequate housing supply and unbalanced regional development

Despite achieving remarkable economic success over the 1990s, Ireland must now bridge a significant gap in relative income levels and economic and social infrastructure at a time where the pressures of success are posing a serious threat to the sustainability of Ireland's growth performance over the medium-term, the National Competitiveness Council (NCC) says in its second annual report, published today (5 May 1999).

The Council, which was established by the Government in May 1997 is part of the Partnership 2000 Agreement, is required to report to the Taoiseach on key competitiveness issues for the Irish economy together with recommendations on policy actions required to enhance Ireland's competitive position. Forfas, the policy and advisory board for industrial development in Ireland, provides the Council's secretariat.

In its latest annual report, the council says that five key messages can be drawn regarding the present state of Ireland's international competitiveness:

- A complex set of interrelated issues including serious skills shortages, poor transport infrastructure, underdeveloped environmental infrastructure, inadequate housing supply and unbalanced regional development are now working together to threaten the capacity of the economy to fulfil its medium-term economic potential – the basis for future social progress.
- Ireland's growth performance has been strongly engineered by a highly successful industrial development strategy based on attracting foreign investment. In aggregate terms, Ireland is far less well-placed in achieving enduring competitive advantages anchored in the indigenous sector of the economy, in particular, in terms of overall positioning in key growth sectors, operational scale and capabilities in research and development and innovation.
- While recent developments in the sector are encouraging, Ireland lags behind more advanced economies in telecommunications infrastructure – a prerequisite for future success in key growth sectors and in particular e-commerce.
- Regulatory reform and competition policy must become more central to efforts to boost the competitiveness of the Irish economy. Market liberalisation has the potential to deliver sustained increases in productivity and living standards in the economy.

- In the transformed competitive environment for the Irish economy in EMU, competitiveness policies, particularly those relating to human resources, R&D and innovation, trade and investment, infrastructure and telecommunications, focused on boosting the economy's potential hold the key to closing the wealth gap with other advanced economies.

In assessing Ireland's exceptional recent economic performance, the NCC says it is essential to differentiate clearly between the rapid progress that certainly has been achieved and Ireland's absolute standing in terms of key measures of national well-being. GNP per person in Ireland remains around 10% lower than the EU average and up to one-fifth lower than that of the small high-income EU economies.

Ireland's unemployment rate, while low by reference to the EU average and historically low by Irish standards, remains high (even at the peak of Ireland's economic cycle) when compared to that of most other small EU member states.

The Chairman of the National Competitiveness Council, **Mr Brian Patterson**, said that Ireland's remarkable economic transformation was in the main, the consequence of policies adopted and implemented over a long period of time. "This highlights a key requirement of competitiveness strategy to straddle all dimensions of economic performance across time".

Mr Patterson said that Ireland's competitiveness strategy should, in the short-term, be based on endeavouring to remedy pressing competitive weaknesses, particularly in the area of economic infrastructure, while continuing to bolster and build on our competitive advantages.

In the medium-term, the strategy should be based on constructing a regulatory and competitive framework in the economy that boosts productivity and potential supply in the economy and helps Ireland to achieve consistent top quartile rankings for key measure of international competitiveness.

The longer-term aim should be to transform the Irish economy into a source of international best practice through continued investment in the capabilities of the Irish people, the development of a true enterprise society and the creation of so-called knowledge assets through the promotion of research, development and innovation.

“In all, the task is to focus relentlessly on the big issues and to push for actions which will sustain our competitiveness in the rapidly changing world of global competition”, he added.

Looking at current issues facing Ireland’s competitive position, Mr Patterson warned that the whole system of social partnership was now under strain due to the marked acceleration in wage costs and expectations of the pay terms of Partnership 2000 across all sectors of the Irish economy. In the new EMU environment, acceleration of wage costs and/or increased industrial unrest would lead to a deterioration in Ireland’ external competitiveness, curtailing the prospect of further increases in Ireland’s export market share.

He said that the major challenge in preparing the ground for the next agreement was to design a new form of partnership which, while building on the achievements of the last decade, was consistent with a more flexible, dynamic and competitive economy and also the core objectives of social partnership.

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