

Press Release

**SHIFT TOWARDS HIGHER-SKILLED, KNOWLEDGE-INTENSIVE PROJECTS
THE KEY TO ACHIEVING WELL-PAID, SUSTAINABLE EMPLOYMENT AND
HIGHER LIVING STANDARDS OVER THE NEXT DECADE -**

FORFÁS STATES IN *ENTERPRISE 2010* REPORT

Ireland needs to accelerate progress towards building a knowledge-based economy with a greater proportion of high income, high value-added jobs if it is to successfully achieve growth in living standards in a more competitive international environment, Forfás, the policy and advisory board for industrial development and science and technology in Ireland, says in a major new economic report entitled '*Enterprise 2010*' and published today (Thursday, 27 January 2000).

Introducing the report, the Chairman of Forfas, Mr. Peter Cassells said its objective is to provide a framework for action by the public and private sectors to ensure that Ireland builds on the economic gains of recent years. Mr. Cassells said the report points the way to challenging but achievable goals that have the potential to sustain a high level of growth and lead to long term economic and social advances for people in communities in all parts of Ireland.

The report states that while Ireland is unlikely to be able to sustain the exceptional economic performance of the past five years, annual economic growth rates of 5% are achievable over the next decade. However, with labour force and employment growth likely to slow to 2% per annum over the next decade, productivity growth of 3% each year will be required to sustain a GNP growth rate of 5% per annum over the period.

Productivity growth will have to come from both shifts in employment towards higher value added activity and from increasing the productivity of existing employees in all sectors of the economy.

Forfás says that the appropriate objective for the development agencies will be to increase employment in the internationally-traded sector of the economy (manufacturing and internationally-traded services) from 310,000 in 1998 to 400,000 in 2010. Employment in locally-traded services should grow from 845,000 in 1998 to 1,150,000 in 2010.

More importantly, the agencies will need to target a sustained increase in productivity growth in the internationally traded sector over the period to 2010.

If the overall national target of 3% productivity growth is to be achieved, productivity growth of approximately 7% per annum in the internationally-traded sector which is in line with recent performance, and productivity growth of approximately 2% per year in local services and public administration, which is double recent performance, will be required.

'Enterprise 2010' also notes that with a slowing of the natural increase in the labour force and a reduction in the pool of women and unemployed people available to work, a sustained increase in net migration will be needed to meet shortages and prevent spiralling wage inflation.

Forfás says that the enterprise sector must remain the main engine of economic growth over the next decade. If the objectives contained in 'Enterprise 2010' are achieved, Irish GNP per capita should exceed the EU average before 2010.

Achieving the objectives will require the following:

·Acceleration of the shift towards high-growth, high-tech, high-productivity activities and a shift from production-type activities to services-type activities

·A gradual shift in employment to higher value added sectors

·An increase in labour productivity in existing companies

·A deepening of the base of companies performing research and development

·Reversing the trend of economic activity concentrating around a restricted number of major urban centres in favour of a more balanced spatial and regional development

·A shift in development agency assistance from "capacity" support (e.g. support for buildings and equipment) to "capability" support in areas such as human resources development, R&D, marketing and market development

The report says that future public policies will need to focus on upgrading the environment for business development and on supporting productivity growth as the operating

environment for the enterprise sector will change over the next decade. Tight domestic labour market conditions, reduced Structural Fund support and increasing global competition are producing new challenges.

Institutions, policies and physical infrastructure need to provide a coherent and comprehensive support framework for enterprise so as to develop a high productivity, high value added economy based on world class skills, technology and production systems.

Other measures required to create the right environment for enterprise to flourish include:

·A comprehensive programme of regulatory reform, including the areas of business services and public transport

·The funding opportunities available to small and medium sized enterprises need to be improved by encouraging greater competition in the banking market

·Continued control of Government expenditure needs to be maintained to keep the burden of taxation as low as possible

·Alternative forms of remuneration, such as profit sharing and share option schemes, need to be developed and more widely adopted to assist enterprises in the attraction and retention of high-skilled employees

·A greater commitment to research, development and technological innovation by firms must be promoted and encouraged

·Accelerated investment in high-quality, efficient infrastructure requires to be sustained over the period of the next National Development Plan

·Institutional reform of the planning process needs to be quickly put in place to ensure effective implementation of infrastructure projects

The report notes that as a small, open economy, Ireland is more exposed than most economies to changes in the international environment. While the external economic environment has been relatively benign for the past decade, this cannot be assumed for the future.

It points out that Ireland has high exposure in sectors of the economy that would be affected by technological change in information and communications technologies and bio-technology. Over 160,000 people are employed in sectors such as software, electronics, food and chemicals that would be impacted directly by such changes.

'Enterprise 2010' says that e-business will affect all sectors of the economy and the emergence of global value-chains will continue to see more lower value-adding, lower

skill activities moving to lower cost locations. The jobs that will replace them will be knowledge-intensive and require a highly skilled, creative and flexible workforce.

While growth and employment has been strong in all regions, some regions have witnessed over-concentration of development leading to environmental degradation and higher locational costs for both businesses and workers. A comprehensive, national spatial strategy is required to address the imbalance now apparent in economic activity among the regions. The future environment for the enterprise sector will be dominated by a tight labour market. Increased output will have to depend more on productivity growth than on labour input growth.

Turning to the promotion of enterprise development in Ireland, Forfás makes the following recommendations:

·The national budget for expenditure on enterprise development requires to be reduced in line with EU State aid guidelines, with a reduced level of promotional activity as full-employment is achieved and with improvements in the business environment in Ireland

·The proportion of financial support for promotional purposes allocated to improving business “capabilities” of firms in indigenous industry (e.g. in areas such as marketing, training and R&D) should be increased from 40% in 1998 to 65% in 2003

·To achieve a greater spatial balance in the location of FDI projects over the next decade, 50% of all new greenfield, foreign direct investment employment should be located in the Objective One region

·Business expenditure on R&D needs to be increased as a percentage of GDP from 1.11% at present to 2% by 2010, with a doubling of the number of firms which undertake significant R&D activity over the period

·Training expenditure for all enterprises as a proportion of labour costs needs to be increased from 1.5% currently to the best international practice of 3% to 5% by 2010.

Speaking at the launch of 'Enterprise 2010', the chief executive of Forfás, Mr John Travers, said that the emphasis of the report is clear. "Public policy generally must increasingly shift focus from quantity to quality. In promoting employment in manufacturing and international services, for example, this means giving increased weighting to its productivity, flexibility and added-value impact. This is necessary to create a dynamic in the enterprise sector for self-sustaining growth in the knowledge-based global economy of the future".

He said that “the internationally traded goods and services sector is a highly important sector of the economy. On its success in holding and increasing market share, at home

and abroad, depend whether or not the people living in Ireland are provided with the resources which can sustain a standard of living among the highest in the developed world.”. ‘Enterprise 2010’ report sets out a clear strategy for the development of the enterprise sector which will bring this about.

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