

Press Release

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Council Highlights Areas Vital to Enhancing Ireland's Competitiveness

National Competitiveness Council Launches its Annual Reports

We need to stimulate vigorous productivity growth, develop greater innovation across the economy and restore cost competitiveness in major markets. These are the key requirements for maintaining and promoting Ireland's competitiveness according to the National Competitiveness Council (NCC).

Today the Council launched its annual competitiveness reports - *Ireland's Competitiveness Challenge* and *Benchmarking Ireland's Performance*. *Ireland's Competitiveness Challenge* identifies the key competitiveness challenges facing enterprise in Ireland and proposes policy actions for continued success. This report is underpinned by the benchmarking report which assesses Ireland's performance in over 140 competitiveness indicators.

Launching the report, Minister for Enterprise, Trade and Employment Micheál Martin, TD, commented "Economic growth and social progress are inextricably linked and Ireland's economic successes have yielded many benefits. These reports reinforce that our economy is continuing to perform strongly. We have achieved significant increases in employment and improvements in living standards. Ireland's competitiveness remains a key priority for Government and there is no doubt that we have more work to do. We have entered a period of more challenging economic conditions. I am confident, however, that building on our current position and with the implementation of the NDP and the significant investment that is being made through the *Strategy for Science, Technology and Innovation* that we will be able to meet these challenges, that our economy will continue to perform well, and that we will be able to continue to improve living standards for everybody in Ireland."

"I would like to thank the members of the National Competitiveness Council for their work and for the Council's invaluable advice to Government on competitiveness issues," he continued.

The reports from the National Competitiveness Council show that while Ireland has made remarkable economic progress over the past 15 years, our competitiveness has weakened in recent years. Presenting the findings of the Council, Dr Don Thornhill, Chairman, said, "the slowdown in domestic sectors of the economy, which have driven economic growth in more recent years, underlines the importance of focusing on our exporting sectors as key drivers of growth and living standards. The NCC believes that Ireland is well placed to face the challenge of ensuring sustainable growth through our exporting sectors. We have significant resources available to us - a skilled workforce and a strong enterprise base. We also have a healthy fiscal position and a range of important strategies in place to drive future growth."

In this report, the NCC focus on three broad challenges where significant issues remain. These are:

1. Supporting Cost Competitiveness

Cost competitiveness is vital to the success of our exporting sectors. The continuing appreciation of the euro and relatively high inflation in pay and non-pay costs in Ireland are affecting our cost competitiveness. Irish consumer price levels are almost 20 percent higher than the EU-15 average and inflation, influenced by a number of domestic factors, has been growing at a faster rate than the EU-15 average. For enterprise, high property, utility (e.g. energy, waste and water) and domestic services costs are of particular concern.

The NCC believes it is appropriate to develop a national programme to restore cost competitiveness. This should include setting a national inflation target close to the ECB two percent target. In the up-coming social partnership wage talks, it will be critical that we manage our labour costs to enhance productivity, to support employment creation and to safeguard competitiveness. This will require coordination to manage both consumer and pay inflation. Specific actions to manage the costs of property, utilities and non-internationally traded services are also critical.

2. Enhancing Productivity Growth

Productivity levels in Ireland remain strong but our productivity growth rates have weakened in recent years. In 2006, Irish productivity growth was below the OECD average. The NCC welcomes the Ministers of Finance's recent comments on the importance of bringing productivity growth to the centre of the Government's economic policy.

Re-invigorating productivity growth requires a number of actions across a broad range of areas. In particular, policies that enhance competition and reduce barriers to market entry should be pursued vigorously, particularly in locally traded sectors of the economy where inflationary pressures are greatest. Ireland's productivity growth has been strongest in a small number of high-tech manufacturing and services sectors. It is important that we have a business environment that supports the development of the existing firms, that encourages the development and attraction of new firms, and promotes the emergence of new sectors. In terms of improving public sector productivity, the NCC makes a number of recommendations with respect to public sector management, existing organisational structures and the system of local government.

3. Building Innovative Enterprises

Developing an innovation driven economy will enable Ireland to be at the forefront of international competitiveness. Ireland has made significant progress in recent years, as state investment in research and development has grown substantially. At a company level, investment and innovation activity is also increasing.

Promoting an innovation agenda is multi-faceted and there are a number of factors which can influence its development. In particular, equipping people with the skills to succeed in an innovative economy through life long learning and developing high performing higher level educational institutions are critical. Increasing participation in life long learning may require additional policy initiatives (e.g. individual learning accounts and brokerage services). Adequate funding is essential to enabling Irish higher education institutions to achieve excellence. The

NCC would support an 'investment needs' analysis to determine the funding required to meet the goal of building up a "best in class" higher education and research system which meets Ireland's current and future economic and social development needs.

Government investment in research and development is critical. Building on the base of research in place, it is important that research priorities for publicly funded R&D are sufficiently aligned with the needs of enterprises and developing clusters. A major challenge to be addressed is the transformational change needed in businesses to enhance their ability to innovate, to respond to market needs and to absorb knowledge and ideas from all sources, including publicly and privately funded research in Ireland and abroad. Finally, potential exists to make greater use of public procurement to promote demand for innovative products and services. For example, the Government's ambitious environmental targets (e.g. renewable energy) have the potential to drive innovation.

This is not a time to be pessimistic

Dr Thornhill added "This is not a time for pessimism about the outlook for the Irish economy. The last thing anyone of us should do now is talk down the strength of the economy and damage economic and public confidence. Our economy continues to perform well. Living standards and quality of life are improving and we have built up considerable economic strengths. We have experienced a prolonged period of exuberant economic growth. We now face a more challenging and uncertain external environment. The Council believes that implementation of the policy directions in our report will enable us to successfully meet these challenges."

Key Findings from Benchmarking Ireland's Performance

1. Sustainable Growth

- **Income:** Ireland has made significant progress in recent years. Irish output per capita (GDP) is now among the highest in the OECD while income per capita (GNP), a better measure of Irish living standards, is close to the OECD average.
- **Quality of Life:** Ireland's recent performance in the Human Development Index has been very strong. The index covers indicators of economic, educational and health progress. Ireland ranked fifth in 2005, an improvement of thirteen places since the 2000 report, driven by strong economic growth.
- **Environmental Sustainability:** Ireland's performance in relation to environmental sustainability remains mixed. The composite environmental performance index places Ireland ninth in the OECD

2. Essential Conditions

- **Business Performance:** Ireland remains an investment-intensive country. Domestic investment levels are among the highest in the EU, driven by investment in construction. Despite a continued reduction in the levels of FDI relative to GDP, Ireland continues to attract high numbers of foreign direct investment projects, as overseas investors continue to earn a relatively high rate of return in Ireland. Growth in total exports remained relatively weak between 2000 and 2006, while growth elsewhere in the OECD accelerated. As a result, Ireland's overall share of world trade is falling, driven by a steady fall in share of merchandise trade. On the positive side, Ireland's share of services trade, much of which is very high value added, continues to increase.
- **Productivity and Innovation:** Ireland's productivity levels are now on a par with some of the highest in the world. However, Irish productivity growth has slowed significantly in recent years. Average productivity growth over the 2003-2006 period was 1.4%, below the OECD average of 1.7%. Productivity is highest in a narrow range of high tech sectors in manufacturing and services. Growth has slowed in these sectors while many domestic services sectors continue to perform poorly. More Irish firms engage in innovation activities than the EU-15 average. However, the returns or turnover from innovation lags leading countries.
- **Prices and Costs:** Ireland has experienced a loss of international price competitiveness, reflecting higher price inflation and an appreciation of the euro against currencies of our trading partners. Ireland is now the second most expensive location for consumers in the EU-15 and has the third highest inflation rate. Non-pay costs in Ireland compare poorly with other countries across a range of cost types. These include property costs - both purchase and rental, utilities costs from electricity to water and waste, mobile communications costs, and a range of domestic services, such as accountancy, information technology and legal services. Dublin is particularly expensive.
- **Labour Supply:** Ireland's labour force continues to grow strongly, driven by both natural increases in the Irish-born population and high levels of inward migration

3. Policy Inputs

- **Business Environment:** Ireland's business environment compares well on average to OECD counterparts. The taxation regime is favourable to corporations and workers. Our low company tax rates have given us a tax take from corporations, which as a percentage of GNP is well above the OECD average. In relation to competition legislation, perceived efficiency has weakened relative to other countries in recent years and competition remains weak in many sectors of the economy, including utilities and professional services. Labour market regulations are perceived to be increasing in Ireland, with the employment framework here seen to be less flexible than in economies such as the UK and Denmark. Overall, access to capital in Ireland is not perceived to be a barrier to enterprise in Ireland. Finally, social capital, such as trust in political and social institutions, is good.
- **Physical infrastructure:** Ireland's physical infrastructure remains a source of serious competitive disadvantage, with a lack of investment in the 1980s combining with huge growth in the economy and the population since the 1990s to bring about infrastructural bottlenecks. Across transport networks, energy, information and communication technology

and housing, Ireland's stock of infrastructure lags those of comparable countries elsewhere in the OECD. These deficits are being addressed. Government investment in infrastructure is significantly higher in Ireland than in most developed economies.

- **Knowledge Infrastructure:** Ireland's knowledge infrastructure fares well in international comparisons. Average educational attainment in Ireland has increased steadily in the last two decades, with younger cohorts of the population now as well qualified as their OECD counterparts. However, participation in pre-primary education in Ireland is well below the EU-15 average and although participation rates in life long learning in Ireland have increased significantly in recent years, there is still a significant gap between Ireland and the leading countries.

While educational participation rates are generally strong, except for pre-primary and lifelong learning, concerns remain about the quality of the outputs. At primary education level, the amount of time spent on the key subjects of maths, science and technology lags most other OECD countries. At secondary education level, where international benchmarks exist, reading, mathematical and scientific literacy of Irish students ranks 6th, 16th, and 13th consecutively in the OECD. The use of ICT also remains relatively poor in Irish education. At third and fourth level, Ireland's institutions supported by state investment are making strong progress in the latest international ranking carried out by the Times Higher Educational Supplement. Trinity College Dublin has moved up to 53rd place, while University College Dublin (UCD) has broken into the top 200 for the first time, climbing to 177th. UCC and DCU are also doing well.

Ireland can be regarded as an impressive latecomer in recognising the importance of sustained investment in R&D. Nonetheless current employment and expenditure on R&D remain well below comparator countries, in both higher education and in enterprise. In terms of global triadic patents granted (per million of population), which is one measure of output from R&D, Ireland ranks 19th in the OECD.

Sample Findings from ACR Volume 1, *Benchmarking Ireland's Performance, 2007*¹

<i>Area & Indicator</i>	<i>Group Ranking</i>	<i>Change in Group Ranking</i>
Living Standards		
<ul style="list-style-type: none"> Levels of GDP per Capita, 2000-2006 UN Human Development Index 	GDP 4 th in the OECD-28 GNP 15 in the OECD-28 5 th in the OECD-28	Up two places since 2000 Up 4 places since 2000 Up 13 places since 2000
Productivity		
<ul style="list-style-type: none"> Growth in Output per Hour Worked, 2000-2006 	GDP 22 nd in the OECD-28 GNP 18 th in the OECD-28	Down 18 places since 2000 Down 10 places since 2000
Innovation		
<ul style="list-style-type: none"> Percentage of Firms Engaged in Innovation Activity 	4 th in the EU-15	NA
Prices and Costs		
<ul style="list-style-type: none"> Price Level, 2006 Inflation 2003-2007 Growth in Labour Costs, 2000-2007 Percentage Change in the Trade weighted Exchange Rate 2000-2006 	14 th in the EU-15 12 th in the EU-15 13 th in the EU-15 24 th in the OECD	Down 3 places since 2000 Up three places since 2000 Down 5 places since 2000-03 Down 5 places since 2001
Taxation		
<ul style="list-style-type: none"> Top Standard Tax Rate on Corporate Income, 2000-2007 Total Tax Wedge 2006 	1 st in the EU-15 1 st in the OECD-28	No change since 2000 Up 5 places since 2000
Regulation		
<ul style="list-style-type: none"> Level of Regulation 2007 Product Market Regulation 	9 th in the OECD-28 5 th in the OECD-28	Down four places since 2000 Up 2 places since 1998
Infrastructure		
<ul style="list-style-type: none"> Overall Infrastructure Quality 2007 Government Gross Fixed Capital Formation 2005 	25 th in the OECD-28 GDP 5 th in the EU-15 GNP 2 nd in the EU-15	No change since 2001 No change since 2000 Down 1 place since 2000
Education		
<ul style="list-style-type: none"> Percentage of 20-24 Year olds with at Least Upper Secondary Education 2006 Participation of Four Year Olds in Education Life Long Learning 2006 PhD Graduates per 1000 of Population aged 25-34, 2005 	3 rd in the OECD-28 13 th in the EU-15 9 th in the EU-15 9 th in the EU-15	Up 1 place since 2000 No change since 2000 Down 1 place since 2000 Up 1 place since 2000
Research and Development		
<ul style="list-style-type: none"> Gross domestic Expenditure as a Percentage of GDP, 2005 Business Expenditure as a Percentage of GDP, 2005 	GDP 21 st in the OECD-28 GNP 17 th in the OECD-28 GDP 19 th in the OECD-28 GNP 15 th in the OECD-28	No change since 2000 Up two places since 2000 No change since 2000 Up two places since 2000

¹ In interpreting the ranking for each indicator, a low ranking (i.e. close to 1) implies a healthy competitiveness position, while a high ranking implies an uncompetitive position. Changes in rankings refer to the change in Ireland's position, generally since 2000. (Up) refers to an improvement in Ireland's competitive position, so up 4 means an improvement of four places in Ireland's OECD ranking, while down refers to a fall in Ireland's ranking.