

# National Competitiveness Council

**Ireland's Competitiveness Challenge, 2007**  
**Benchmarking Ireland's Performance, 2007**

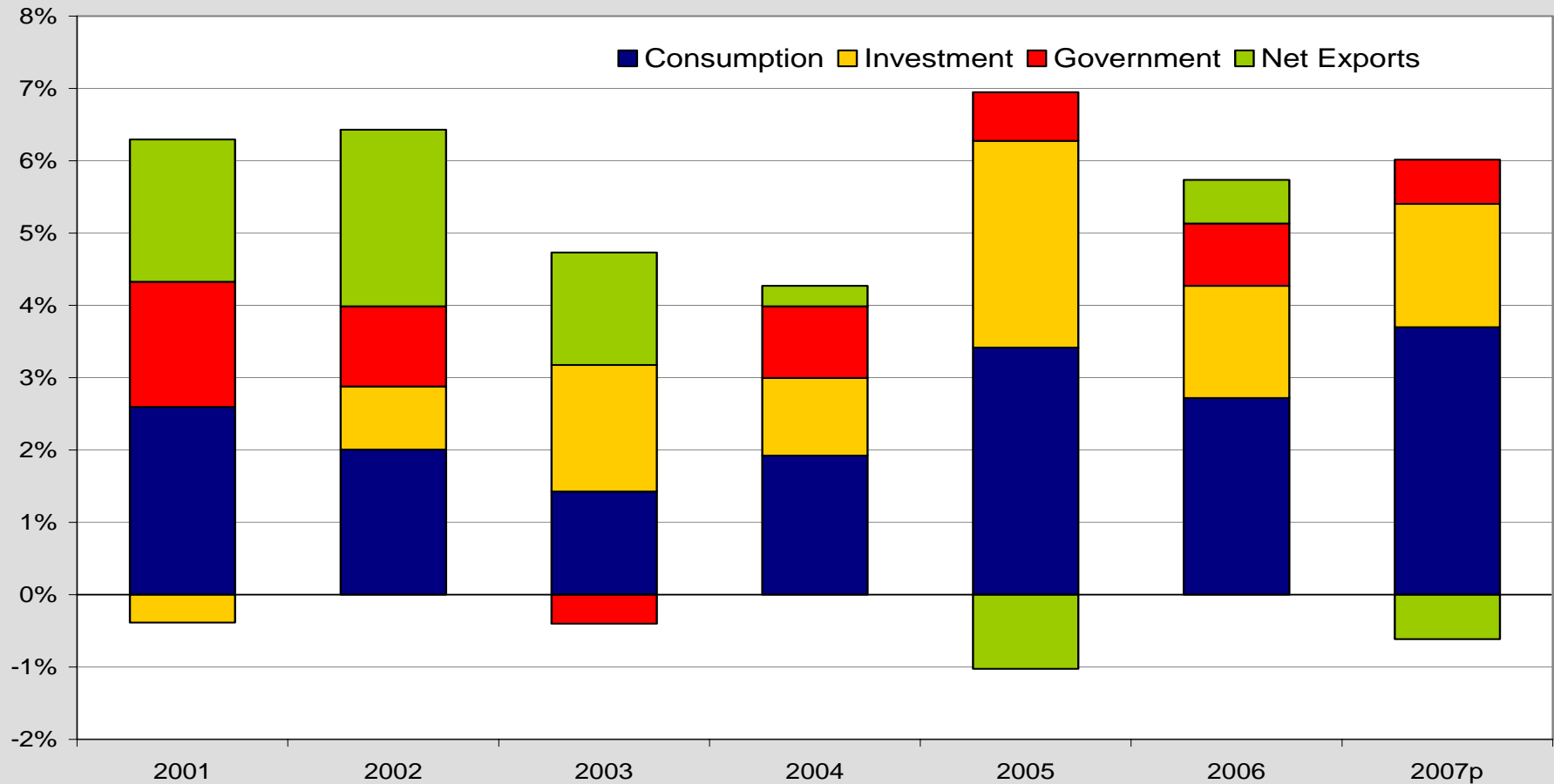
# About the National Competitiveness Council

- Definition of competitiveness ... *‘ability to achieve success in markets leading to better standards of living for all’.*
- 16 Members and 8 Advisors
- Each year the NCC prepares:
  - *Benchmarking Ireland’s Performance*
  - *Ireland’s Competitiveness Challenge*
  - Statements of issues of relevance to competitiveness:
    - Costs of Doing Business in Ireland
    - Ireland’s Productivity Performance
    - Competitiveness and Wellbeing

# 1. Performance of our Economy

- Remarkable economic progress over the past 15 years and current growth rates remain strong.
- Domestic factors, rather than international competitiveness, have driven our economic growth over the past five years.
- Maintaining and improving our living standards will depend on reinstating exports as a key driver of growth. This rebalancing of the drivers of growth depends on remaining competitive.
- We have significant resources in place to deliver this.

# Contribution of Growth in Net Exports to Irish Economic Growth (GDP), 2001 – 2007(p)



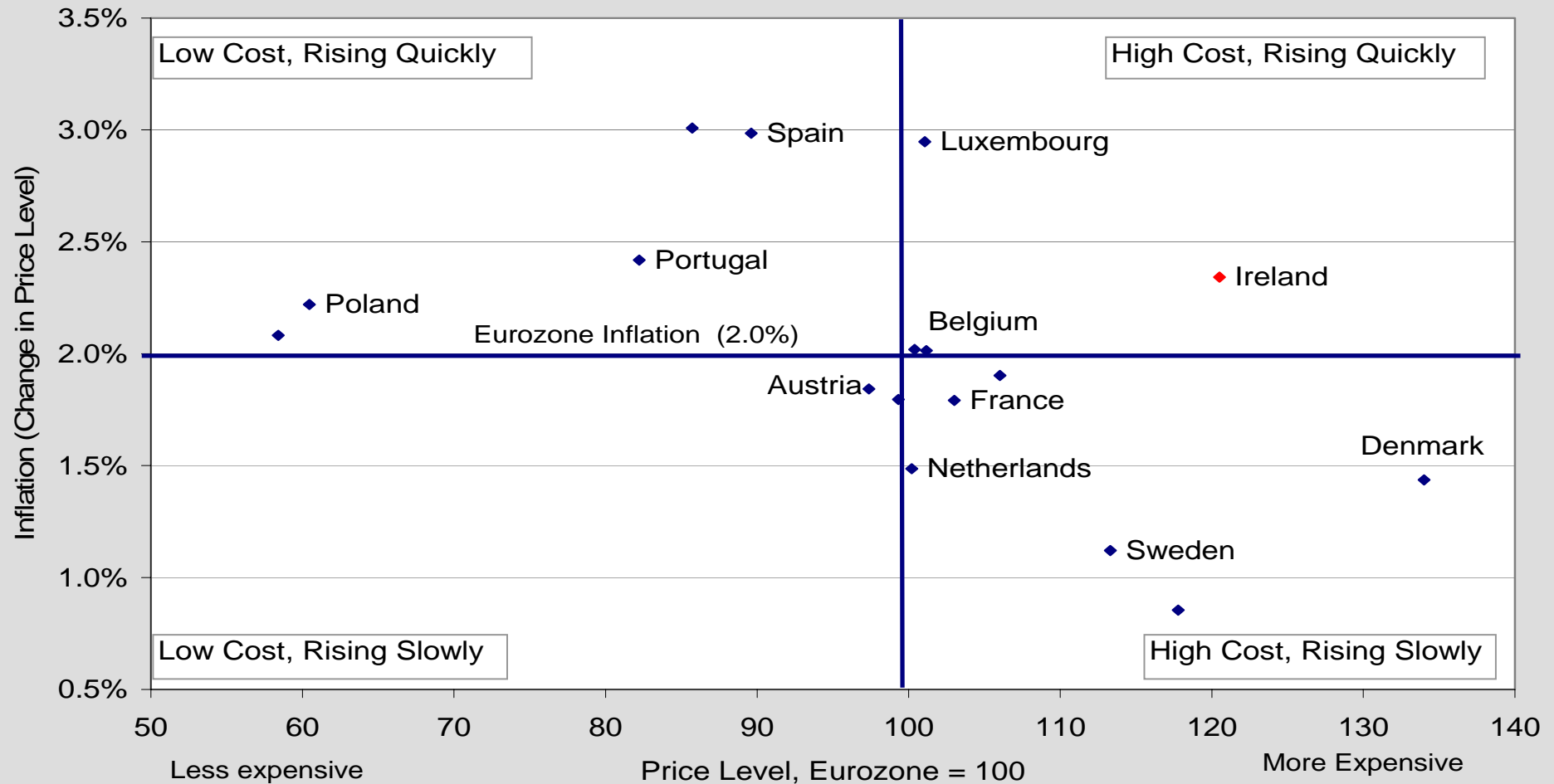
## 2. Key Policy Areas Addressed in Challenge 2007



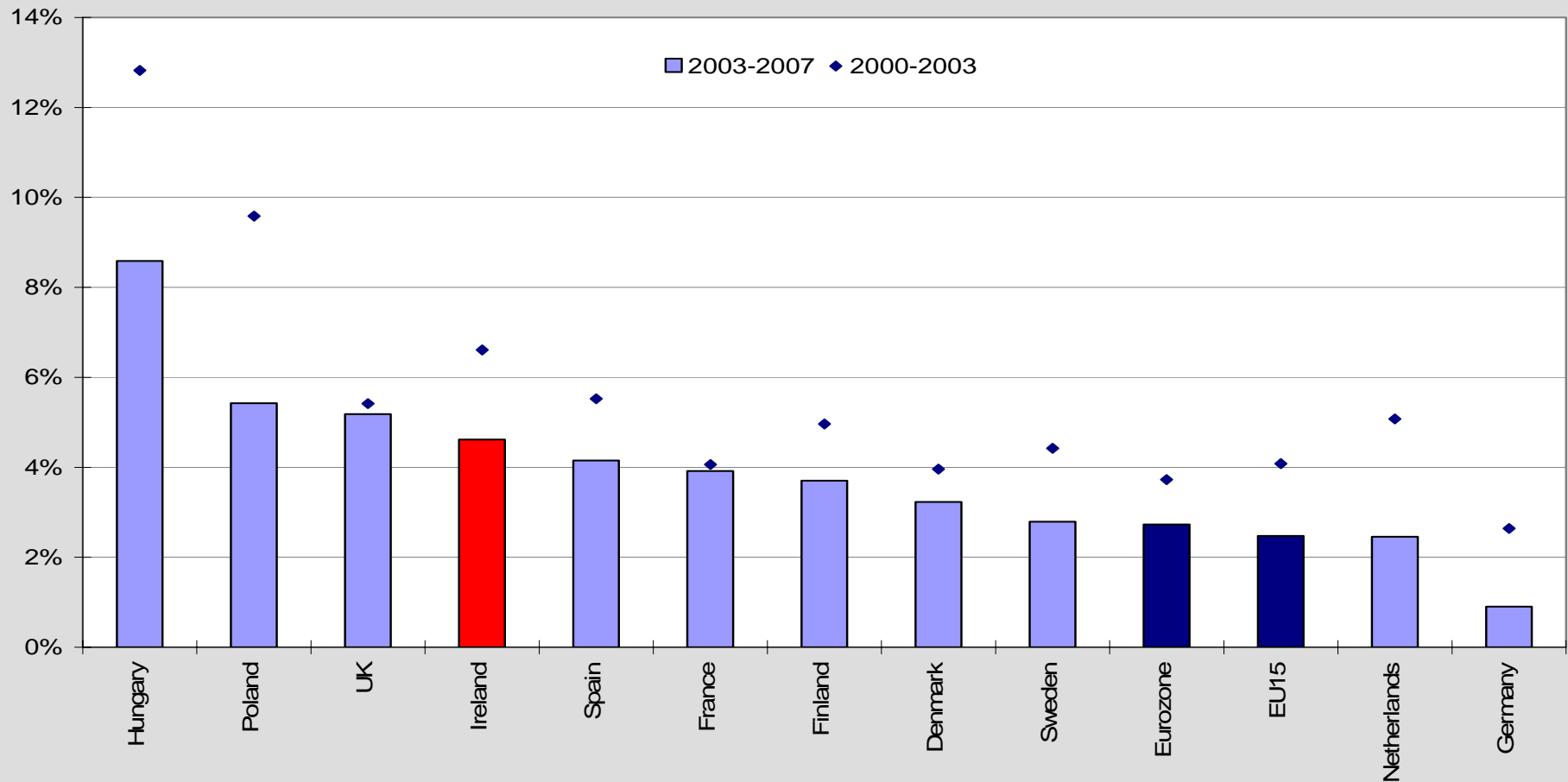
## 2.1 Supporting Cost Competitiveness

- **Business Costs:** Dublin is expensive relative to competitor cities. Ireland's regional cities are relatively more cost competitive. Property costs, utility costs and a range of domestic services are weakening our price competitiveness performance.
- **Pay Costs:** Irish wage inflation is growing by more than double the Eurozone average in a range of domestically trading sectors, including utilities, construction and other services sectors.
- **Consumer goods and services:** Irish price levels are almost 20% higher than EU-15 average while inflation has also been growing faster than the EU-15 average. When oil and housing costs are taken out, domestically trading services sectors which are not exposed to international competition are driving inflation.

# Consumer Prices 2006, and Inflation 2003-2007



# Average Growth in Labour Costs, 2000-2007



# Supporting Cost Competitiveness: Policy Actions

- 1. Setting Inflation Expectations**
- 2. Managing Labour Costs**
- 3. Promoting Competition to Reduce Domestic Services Sector Costs**
- 4. Managing Government Spending**
- 5. Tackling a Range of Specific Cost Categories**

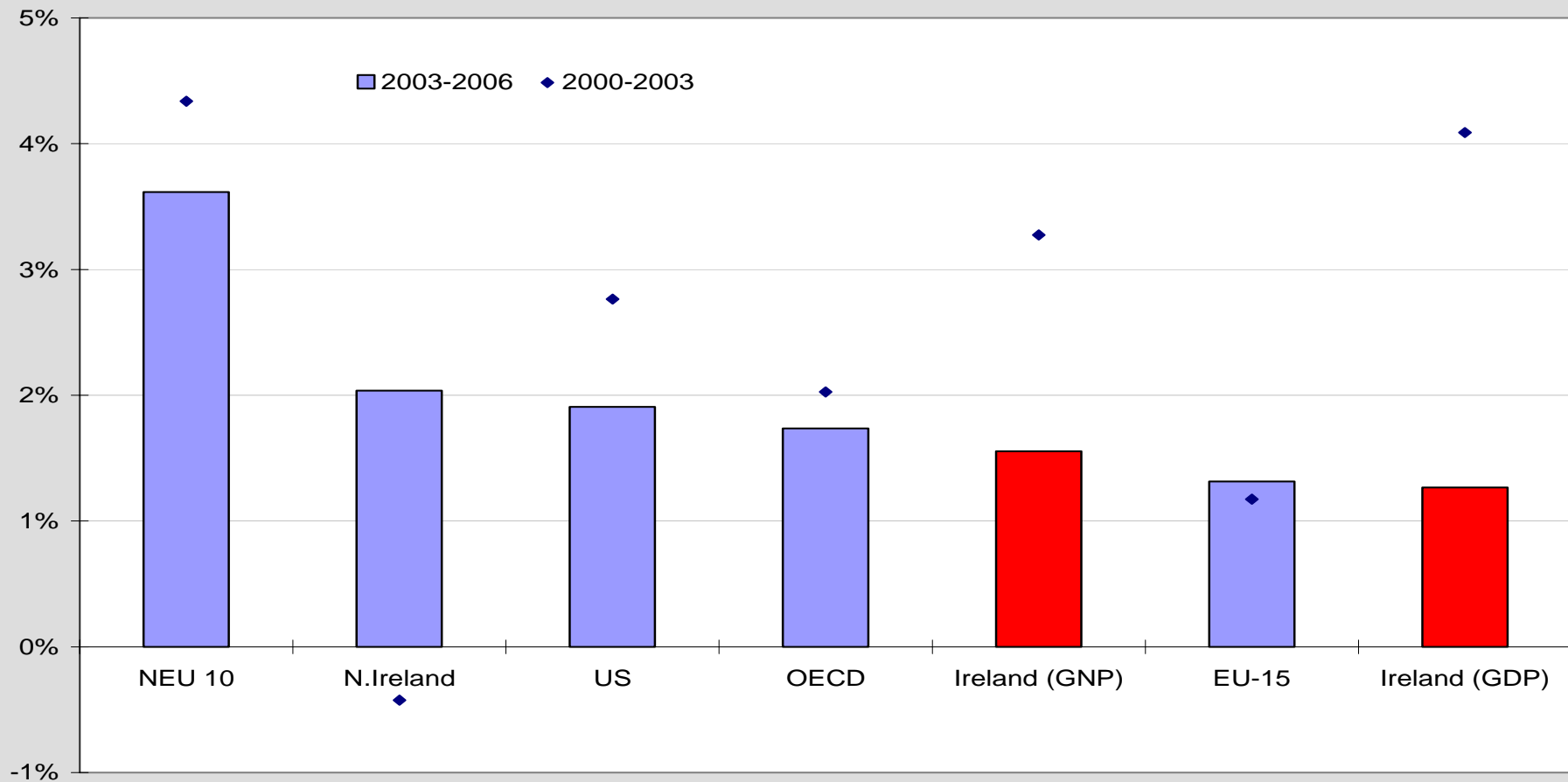
# But managing labour costs is not an end in itself - it is necessary but .....not sufficient

- Ireland's economic success has been driven by increases in the numbers employed and growth in productivity.
- Productivity growth will be the most important long term driver of Ireland's competitiveness.
- Productivity growth is essential to enabling pay increases while maintaining our cost competitiveness.

## 2.2 Enhancing Productivity

- Irish productivity levels have converged to the OECD average.
- However, productivity growth rates have slowed and are now below the OECD average.
- **Why?**
  - Productivity **growth** in some of Ireland's most productive, generally high-tech sectors has fallen.
  - Few of Ireland's large **locally traded** sectors have achieved productivity growth rates in line with the national average.
  - Employment growth has been highest in Ireland's least productive sectors.

# Growth in Labour Productivity, 2000-2006



# Enhancing Productivity: Policy Actions

- 1. Increasing Competition**
- 2. Improving Management Capabilities to Support Productivity Improvements**
- 3. More Effective Use of Information and Communications Technology (ICT)**
- 4. Improving Productivity in the Public Sector**
- 5. Emerging Opportunities for Productivity Growth**
- 6. Enhancing our Understanding and Measurement of Productivity**

## 2.3 Building Innovative Enterprises

- **Overall innovation performance:**
  - Total innovation expenditure by enterprises in Ireland was €5.72 billion in 2004. 52 percent of Irish enterprises are ‘innovation active’.
  - Returns from innovation remain relatively low. In Ireland, 5.6 percent of total turnover was derived from new to market product innovations in 2004.
- **Entrepreneurship and company development:**
  - Ireland has relatively high levels entrepreneurialism. Ireland has a limited number of indigenous firms with real scale.
  - Ireland’s traditional strengths have been in our low cost base and competitive tax rates. Going forward we need to maintain and develop existing and new competitive advantages.

# Building Innovative Enterprises: Policy Actions

- 1. Promoting Entrepreneurship, Enterprise Development and New Export Markets (e.g. internationalisation of education)**
- 2. Developing People with the Capacity to Innovate**
- 3. Investment in Research and Development**
- 4. Supporting Business Research and Development**
- 5. Technological Infrastructure**
- 6. Promoting Access to Finance and Demand for Innovative Products (including eco-innovation).**

# New Export Markets - an Example

## Internationalisation of Education:

- Significant growth opportunity for development in terms of growing exports and foreign earnings. Export value in UK worth £3.74 billion.
- Ireland has many potential strengths in this area: English speaking, well regarded education system, membership of EU and strong US links.
- Ireland has made progress (total income generated by international students in 2005/6 was €335 million) but other countries have moved ahead.
- Priority attention needs to be given to the creation of a proactive, consistent and supportive policy framework in this area.

# Summary: Key Policy Areas

## Challenges

## POLICY AREAS

### Supporting Cost Competitiveness

Setting Inflation Expectations

Managing Labour Costs

Promoting Competition to Reduce Domestic Services Sector Costs

Managing Government Spending

Tackling a Range of Specific Cost Categories (Property, Utility and Waste Costs)

### Enhancing Productivity

Increasing Competition

Improving Management Capabilities to Support Productivity Improvements

Promoting the More Effective Use of ICT

Improving Productivity in the Public Sector

Emerging Opportunities For Productivity Growth

Enhancing Our Understanding and Measurement of Productivity

### Building Innovative Enterprises

Promoting Entrepreneurship, Enterprise Development and New Export Markets

Developing People with the Capacity to be Innovative

Investment in Research and Development

Support in Business Research and Development

Technological Infrastructure

Promoting Access to Finance and Demand for Innovative Products (Including Eco-Innovation)

# To sum up -1

- We have experienced a period of unprecedented sustained economic growth which has transformed our economy ...and our society.
- We have successfully addressed and reversed economic and social situations which were seriously damaging our economy and had the potential to wreck our society – including serious fiscal imbalances and high levels of emigration.
- We are now a country where other people want to live – this is what net inward migration means.

## To sum up - 2

- We have huge strengths – which we detail in the report (e.g. stability of public finances, labour market strength, flexibility of Ireland's market and regulatory framework etc.)
- Our competitiveness is not just a matter of low taxes – take the pharma industry as an example.
- The track record of Irish pharma plants on Good Manufacturing Practice inspections and customer audits is world class.
- The competencies of the companies in this area gives Irish companies a key competitive advantage against industries in other regions around the world.

# This is not a time for pessimism

- Our history should teach us that pessimism does not work
- Clear eyed optimism does
- We cannot ignore the apparently unpredictable external environment, but we are well placed to address the challenges successfully if we pursue the right policies.

Thank You

# Appendix 1. Performance of our Enterprise Base

## Strengths

- Existing base of high performing manufacturing firms with a strong track record in large scale facility construction and operation.
- A growing internationally trading services sector.
- High rates of entrepreneurship.
- An adaptable work force which exhibits flexibility, creativity and a 'can do' attitude.
- A deepening pool of human capital.
- An international reputation for flexibility and responsiveness.
- A culture of openness to new ways of working, ideas and people.
- A reputation as a secure location to manage IP and regulatory matters.

## Weaknesses

- Limited management expertise in innovation and international sales and marketing.
- Adoption of best practice management techniques remains relatively low.
- Many firms have limited ability to increase output prices, despite growing input costs.
- Restrictive mandates from some overseas headquarters to add functions to MNCs in Ireland.
- Dependence of many indigenous exporters on a limited number of international markets and customers.
- A limited number of Irish services companies have grown real scale.
- Under exploitation of ICT, particularly among small firms.
- Limited capabilities to adsorb the output from State funded R&D.