

Ireland's competitiveness rankings decline as international economic storm clouds gather

Headline economic figures mask serious threats to Ireland's competitiveness

19 December 2018

The National Competitiveness Council (NCC) – the Government's independent advisory council monitoring the competitiveness of the Irish economy – published its annual report *Ireland's Competitiveness Challenge 2018*, today (19 December 2018). This report outlines the main competitiveness challenges facing the Irish economy, and the areas for action to address these challenges.

Speaking at the launch of the report, Professor Peter Clinch, Chairman of the National Competitiveness Council, said *'Headline economic conditions continue to improve, and Ireland remains a competitive economy. However, against the backdrop of a less favourable international economic climate, a closer look at the statistics reveals fragilities in the economy. Ireland is facing a significant competitiveness loss as the economy heats up and prices and living costs rise. The overall performance of the economy, and government finances, are dependent on a small number of firms in a small number of sectors. Moreover, the majority of Irish-owned firms export a small number of products to a small number of destinations. The narrow base of enterprises in high value-added sectors, and within sectors, disguises many underperforming firms where productivity growth is stagnant or falling. In order to support sustainable jobs, wage rates and public services, the Government must position competitiveness and productivity as central pillars of Ireland's economic policy. The loss of competitiveness in the run up to the global financial crisis left Ireland particularly vulnerable. That must not happen again.'*

The Competitiveness Challenge finds that – despite the turbulence of the Brexit negotiations, a less favourable outlook for the global economy, the hardening global attitudes towards international trade and the evolving international taxation landscape – Ireland's overall economic performance and competitiveness position remains strong. Ireland has recorded fast growth rates, and unemployment continues to decline as the number of people in jobs approaches a record high. However, the outlook is less positive. On closer inspection, there have been some very concerning developments this year, recognised internationally through Ireland's fall in the major global competitiveness rankings.

Professor Peter Clinch said *'The vulnerabilities in the fabric of the Irish economy, coupled with the challenging global environment, endanger the sustainability of the economic model. It has never been more important that the Government recognises, and diagnoses, these vulnerabilities and acts now to strengthen our productivity performance and competitiveness to secure our future prosperity.'*

As a small open economy, Ireland is particularly exposed to shocks that are outside of our control. Global attitudes to international trade have soured. Brexit is the clearest, and most damaging, example of this. The evidence demonstrates that the UK's departure from the EU would damage the Irish economy regardless of the form it takes – hard or soft. Additionally, changing attitudes to the international taxation landscape and the return to protectionist trade policies in key global economies are also threats to Ireland's prosperity.

These external threats are compounded by issues in the domestic economy. The Irish economy is beginning to suffer from capacity issues as evidenced by rapid house price inflation and traffic congestion. Warning signs like these were ignored prior to the economic crisis. Unsustainable growth will ultimately lead to a return to boom and bust.

Addressing these challenges requires the involvement of business, workers and the government to focus on improving productivity and maintaining cost competitiveness to ensure a virtuous circle between productivity, the cost of living and wage rates.

The Competitiveness Challenge identifies a range of recommendations that addresses both immediate competitiveness issues, and more medium-term challenges aimed at enhancing Ireland's competitiveness and productivity performance under three overarching themes:

- **Theme 1:** Ensuring the sustainability of the economic model
- **Theme 2:** Maintaining Cost Competitiveness
- **Theme 3:** Narrowing the productivity gap between the "best and the rest"

Amongst a broad range of recommendations, the Council considers that addressing the following challenges must be an urgent economic priority, if we are to remain competitive in the medium-term, and ensure Ireland's prosperity:

Productivity of indigenous enterprises: We need to narrow the productivity gap that exists between the most productive firms and the 'followers' for sustainable growth for indigenous firms, which can be achieved through deeper links between the indigenous and foreign sectors, improving management quality, and upskilling the workforce.

Housing: The severe shortage of available and affordable accommodation is a substantial threat to Ireland's competitiveness. While the Council acknowledges the measures introduced over the last few years to address this challenge, the problem continues to grow, and it undermines our economic development and potential. Fixing this structural vulnerability is not easy and will take time.

Climate Action: Ireland is falling considerably short in meeting our international carbon emission reduction commitments for 2020 and, if our current trajectory continues, it will bring us further away from achieving longer-term targets. To future-proof our competitiveness, it is incumbent upon the Government to step-up its efforts and make some difficult decisions, including gradually raising the carbon tax to encourage businesses and households to successfully transition to sustainable sources of energy as well as introducing other measures that incentivise behavioural change in a cost-effective manner.

Infrastructure: The Government faces a significant challenge in delivering high-quality, future-proofed infrastructure projects under Project Ireland 2040, in a way that does not contribute to overheating the economy and ensures value for money. The delay (and possible high cost) in the full roll out of the National Broadband Plan across the country remains a clear, and ongoing, competitiveness concern. Reliable, high-speed broadband is essential to increase the attractiveness of regional areas for investment. Delivering improved connectivity can enhance the growth prospects of small and micro businesses and create opportunities arising on a regional basis, such as, remote working, cloud computing and business efficiencies, all of which serve to diversify the rural economy.

Talent: The competition for mobile talent and skills is intense, particularly for the types of skills needed to improve productivity and deepen Ireland's economic resilience. Although Ireland is ranked 5th in the world in the IMD World Competitiveness Yearbook 2018 in terms of attracting and retaining talent, increasing demand and chronic under-investment in the higher education sector is endangering our competitiveness performance. This is illustrated by the fact that not a single Irish third-level institution has been ranked in the top 100 in the latest international university rankings for 2018. A future-proofed funding model for higher education, which will guarantee a steady output of well-educated graduates with the necessary skillsets for the evolving workplace of the 21st century, and which will ensure that Ireland stays ahead of the competitiveness curve, remains a priority.

Brexit: The uncertainty associated with Brexit, and the implications in all areas of economic activity, including potential tariff and non-tariff barriers, delays associated with deterioration in landbridge traffic, lack of adequate port capacity, security of energy supply, among many others, require urgent action to help enterprise to adapt to the shift in the UK trading and regulatory environment.

Professor Peter Clinch concluded '*We are at a critical time in Ireland's economic development where decisions will determine whether we return to a boom and bust cycle. High growth figures must not lead us to be complacent. The international climate has become more challenging for small open economies, and Ireland has lost ground in the international competitiveness rankings. To avoid repeating the mistakes of the past, it is critical that competitiveness and productivity are positioned as a central pillar of Ireland's economic policy.*

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Notes to the Editors

The full report is available [here](#).

About the National Competitiveness Council

The National Competitiveness Council reports to the Taoiseach and the Government on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position. In accordance with the European Council recommendation of September 2016 on the establishment of National Productivity Boards by Eurozone countries, in March 2018, the Government mandated the National Competitiveness Council as the body responsible for analysing developments and policies in the field of productivity and competitiveness in Ireland.

Each year the NCC publishes three annual reports.

1. The Costs of Doing Business in Ireland report highlights areas where Irish enterprise costs are out of line with key competitors.
2. Ireland's Competitiveness Scorecard provides a comprehensive statistical assessment of Ireland's competitiveness performance.
3. Ireland's Competitiveness Challenge uses this information along with the latest research to outline the main challenges to Ireland's competitiveness and the policy responses required to meet them.

The NCC also regularly publishes Competitiveness Bulletins and reports on specific competitiveness issues.

The members of the NCC are:

Professor Peter Clinch	Chair, National Competitiveness Council
Pat Beirne	Chief Executive Officer, Mergon Group
Kevin Callinan	Deputy General Secretary, IMPACT Trade Union
Micheál Collins	Assistant Professor of Social Policy, University College Dublin
Isolde Goggin	Chair, Competition and Consumer Protection Commission
Cathriona Hallahan	CEO/Managing Director (Ireland), Microsoft
David Hegarty	Assistant Secretary, Department of Business, Enterprise and Innovation
Jane Magnier	Joint Managing Director, Abbey Tours
Fergal O'Brien	Director of Policy and Chief Economist, Ibec
Seán O'Driscoll	President, Glen Dimplex Group
Margot Slattery	Country President, Sodexo Ireland
Martin Shanahan	Chief Executive, IDA Ireland
Julie Sinnamon	Chief Executive, Enterprise Ireland
Ian Talbot	Chief Executive, Chambers Ireland
Patrick Walsh	Managing Director, Dogpatch Labs
Jim Woulfe	Chief Executive, Dairygold Co-Operative Society Limited

Representatives from the Departments of the Taoiseach, Agriculture, Food and the Marine, Communications, Climate Action and Environment, Education and Skills, Housing, Planning and Local Government, Finance, Justice and Equality, Public Expenditure and Reform, Transport, Tourism and Sport and Employment Affairs and Social Protection attend NCC meetings in an advisory capacity. The work of the NCC is underpinned by research and analysis undertaken by the Department of Business, Enterprise and Innovation.