



# Ireland's Competitiveness Challenge

Dublin Chamber of Commerce  
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NCC Chair





# Key questions for the presentation

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1. What is National Competitiveness?
2. What can we learn from Ireland's changed growth patterns?
3. What's happening globally that will affect Ireland's future growth?
4. What can we do?



# What is National Competitiveness?

Ability of firms in Ireland to achieve success in international markets

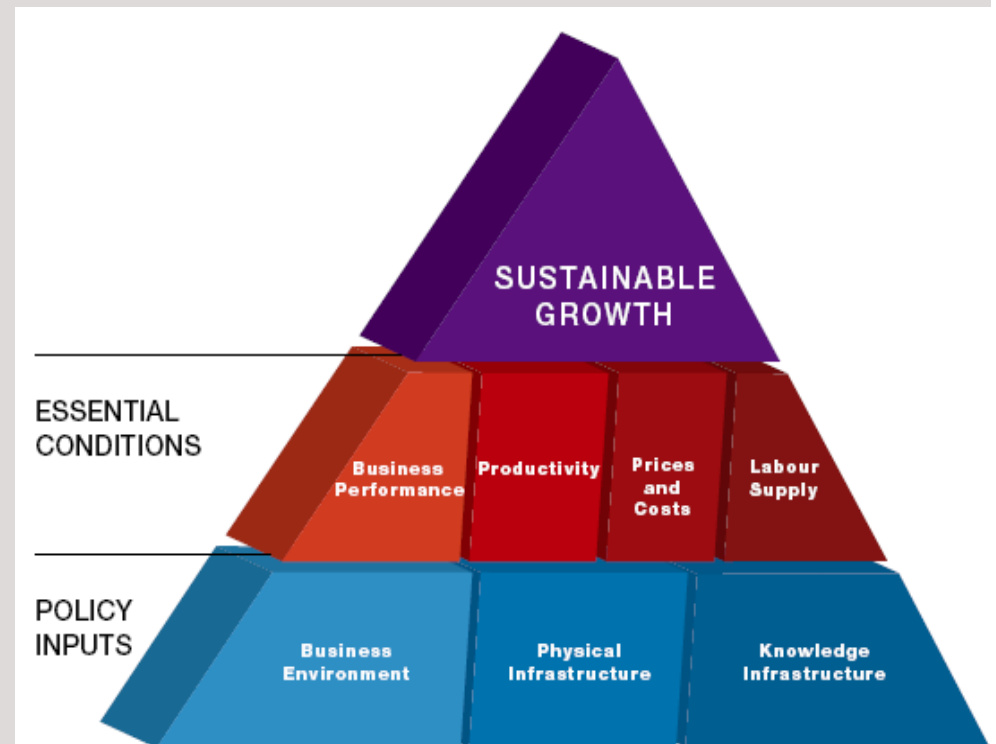
Competitiveness is partly about costs, prices and wages...

...but more about better business performance through innovation and productivity

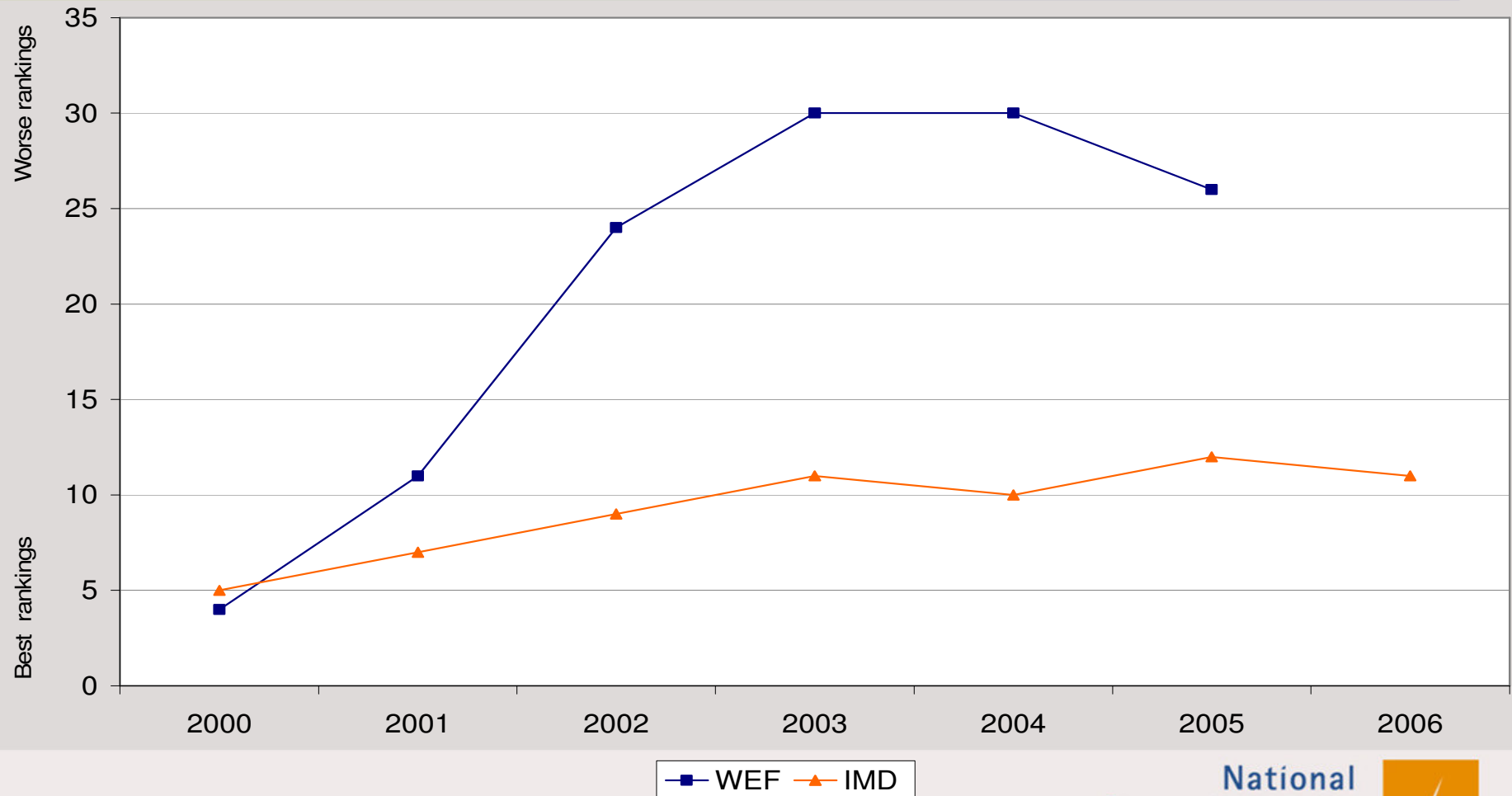


# NCC and Competitiveness

- ‘Competitiveness pyramid’ illustrates the framework used by the National Competitiveness Council for understanding national competitiveness.
- It distinguishes between the ‘inputs’ to national competitiveness and the ‘essential conditions’ for national competitiveness.



# Where does Ireland Stand Internationally?



[www.competitiveness.ie](http://www.competitiveness.ie)

National  
Competitiveness  
Council












# Where does Dublin Stand Internationally?

1. London
2. Paris
3. **Dublin**
4. Madrid
5. Stockholm
6. Barcelona
7. Munich
8. Helsinki
9. Zurich
10. Luxembourg
11. Stuttgart
12. Copenhagen / Øresund Region
13. Lyon
14. Vienna
15. Amsterdam
16. Gothenburg
17. Oslo
18. Frankfurt
19. Valencia
20. Brussels

Source: European Regional Economic Growth Index (EREGI)



# Benchmarking Ireland's Performance

Key Areas	  	  	  
Sustainable Growth	8	4	3
Business Performance	7	7	2
Productivity	3	4	2
Prices and Costs	0	9	8
Labour Supply	8	2	0
Business Environment	4	6	3
Physical Infrastructure	2	8	8
Knowledge Infrastructure	3	15	7
<b>Total</b>	<b>35</b>	<b>55</b>	<b>33</b>



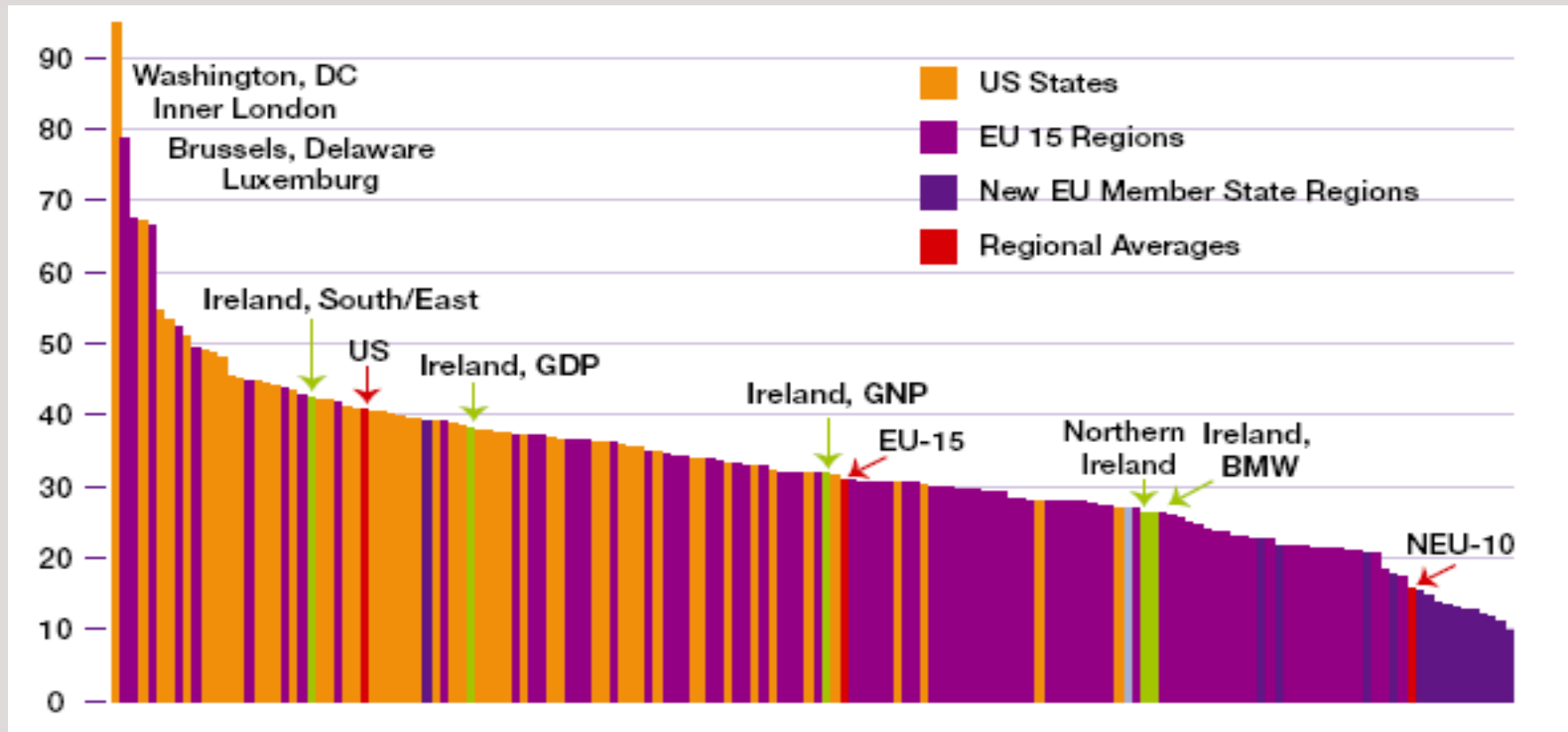
# Ireland's success is remarkable...

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- Economic Growth
- Quality of Life



# Levels of GDP per Capita, US States and EU Regions, 2003/04 (US\$ 000s)





# New Challenges

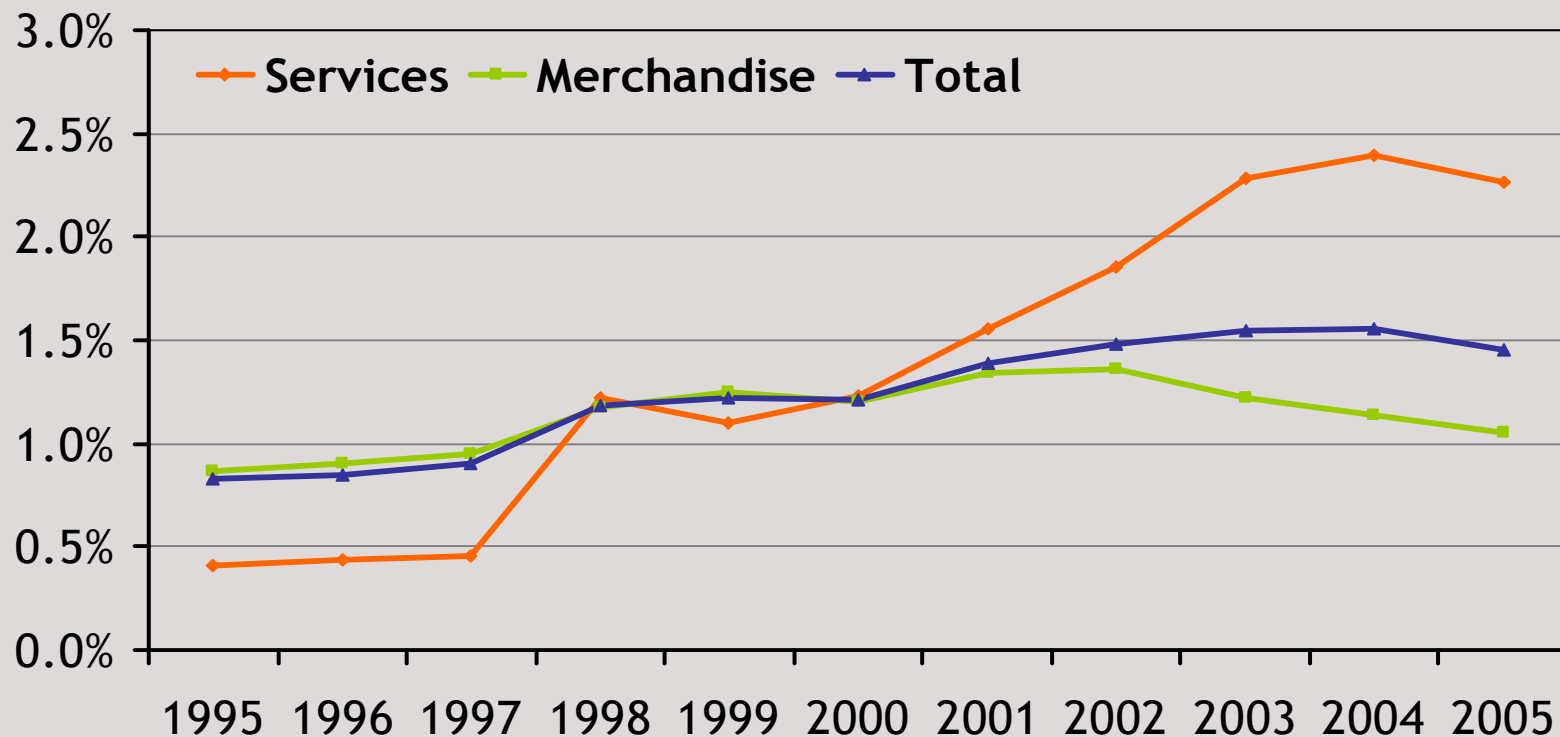


- We have new challenges - including those of success
- The successes of past competitiveness should not necessarily be assumed to be the seeds of future growth
- Growth no longer driven by international competitiveness
- Grounds for concern:



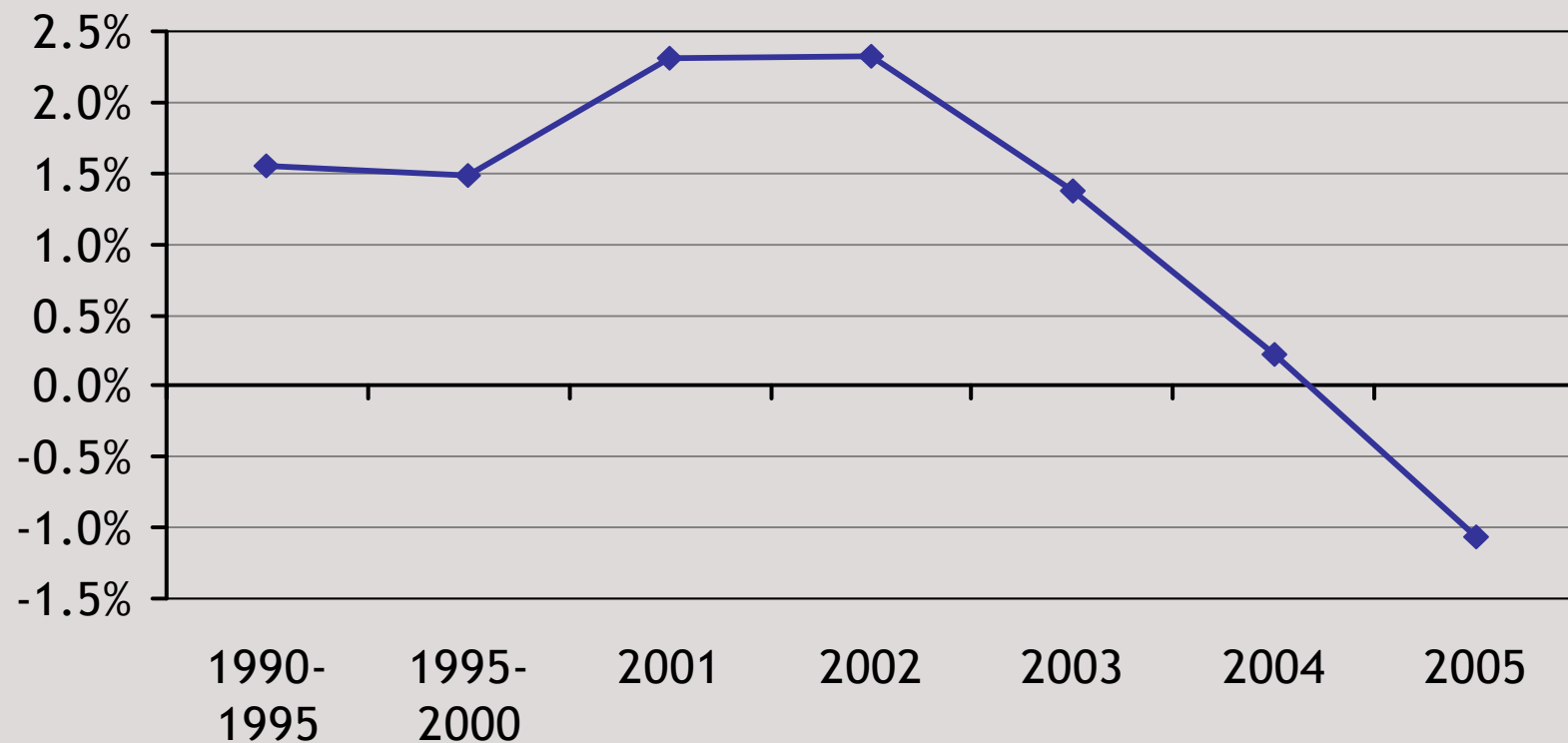
# 1. Ireland is losing its share in world markets...

Ireland's Share of World Trade, 1995-2005

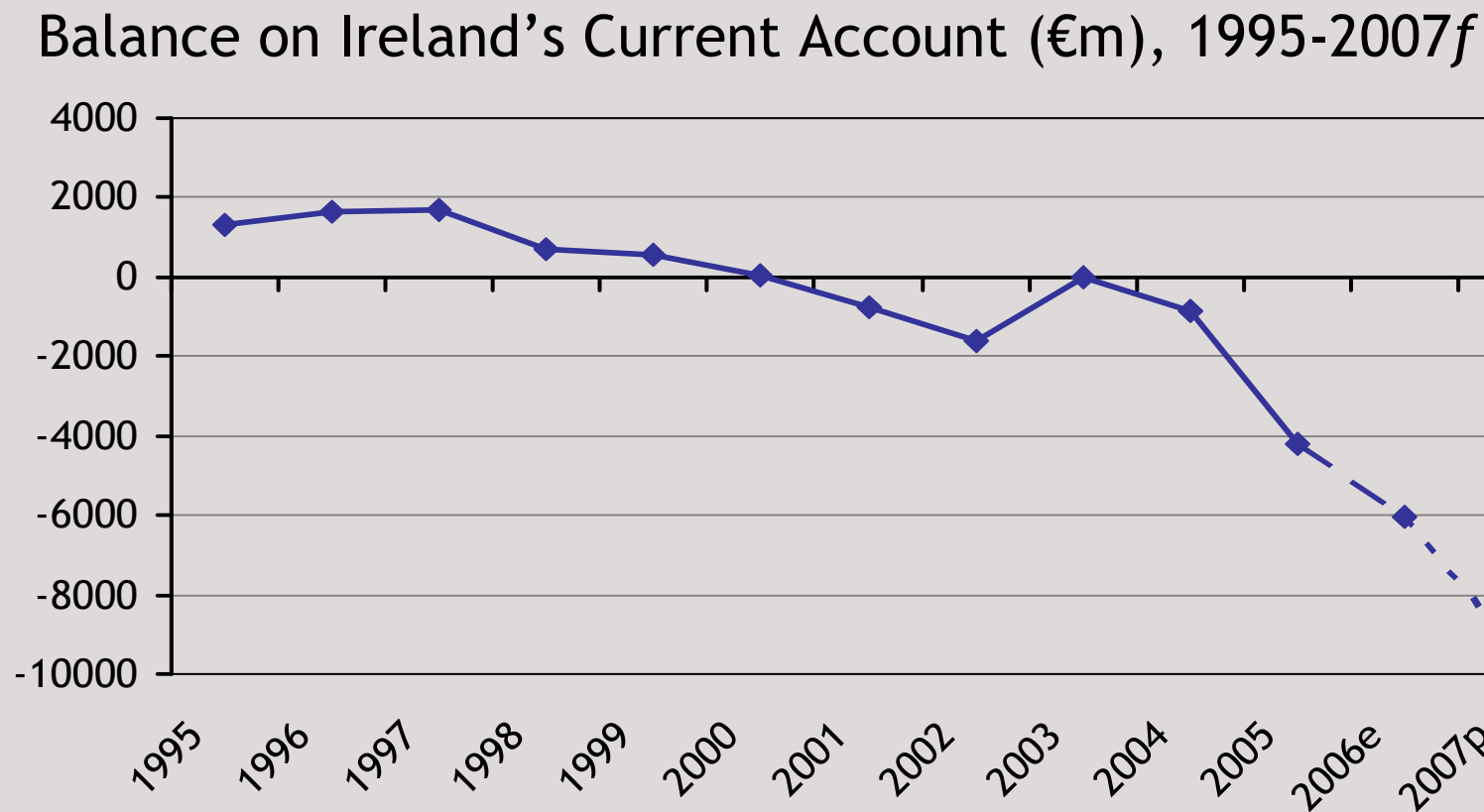


## 2. Trade's contribution to growth is declining...

Contribution of Net Exports to Economic Growth, 1990-2005

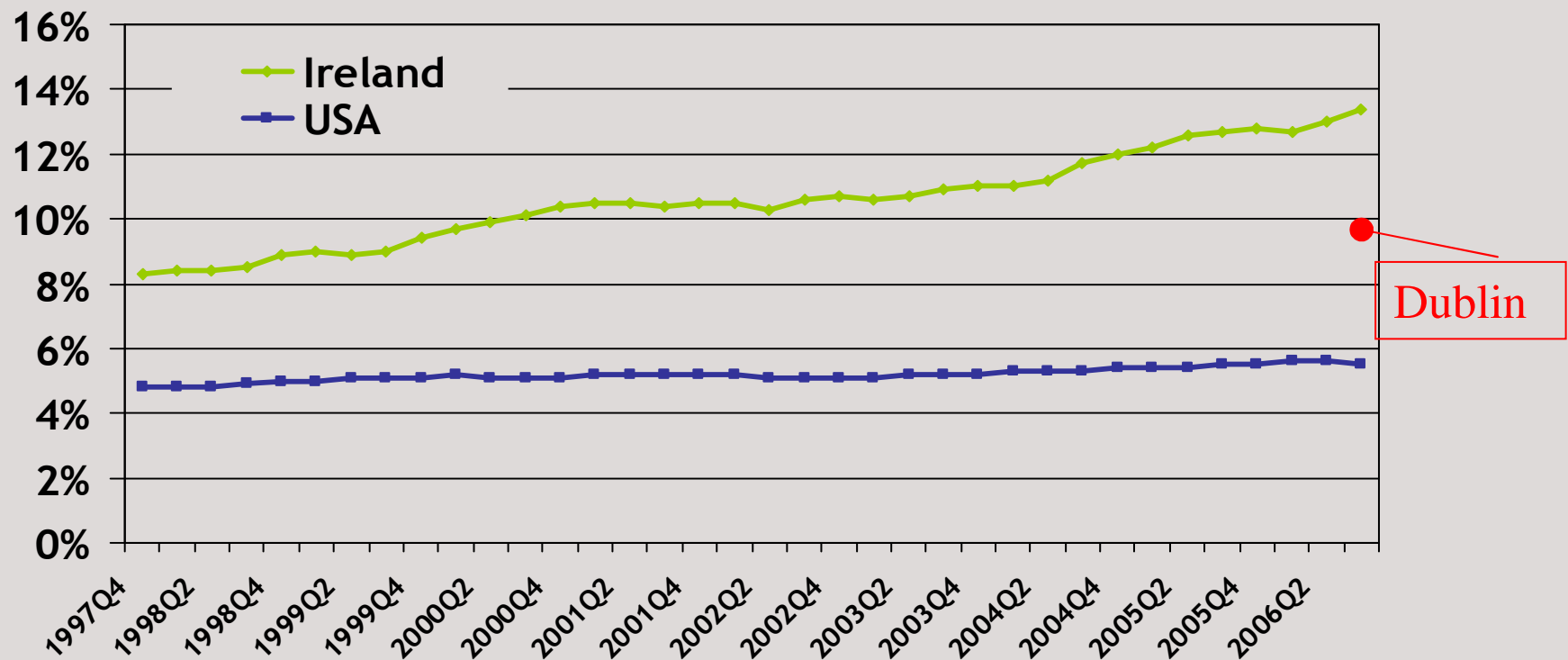


### 3. Ireland's Current Account deficit is growing...



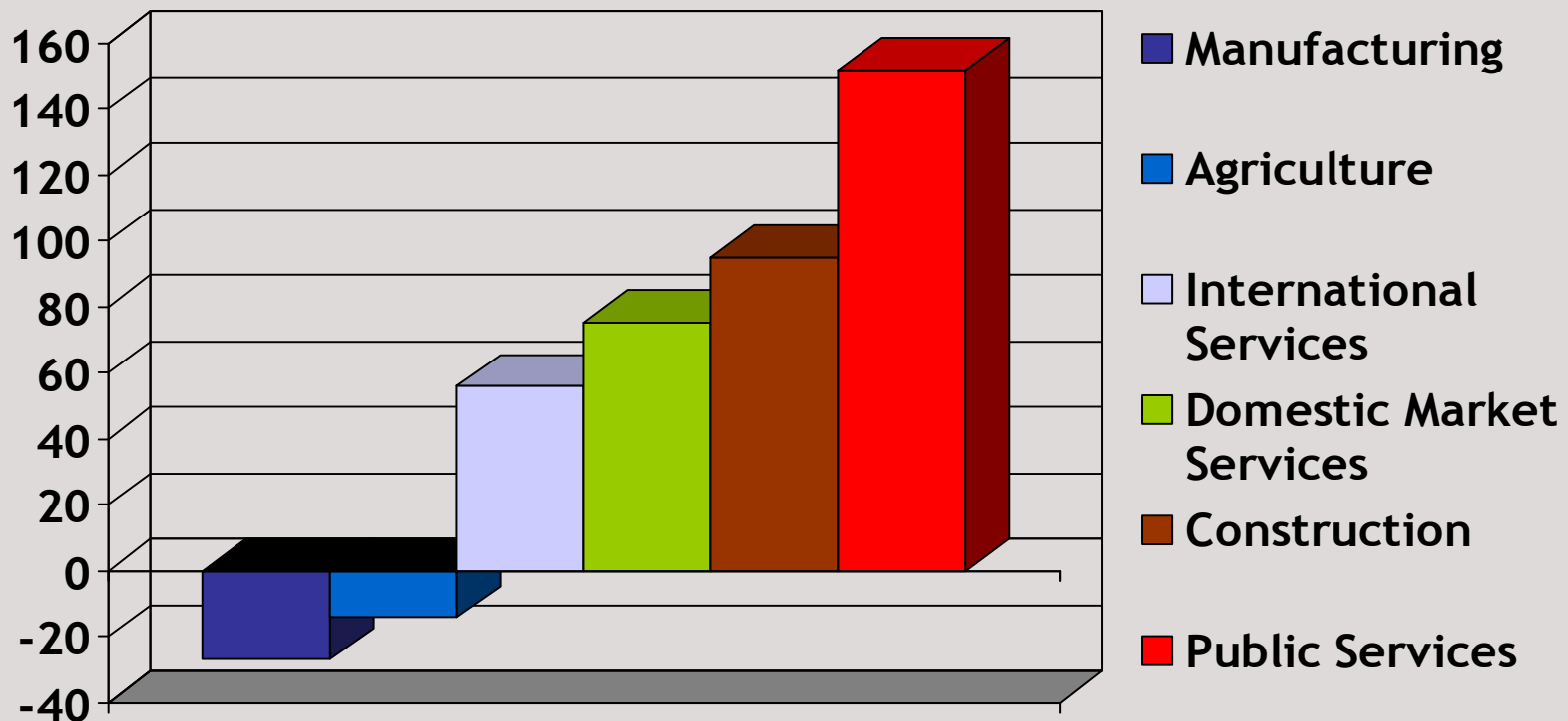
## 4. We are overly dependent on construction for jobs...

Share of Construction in Total Employment, 1997-2006



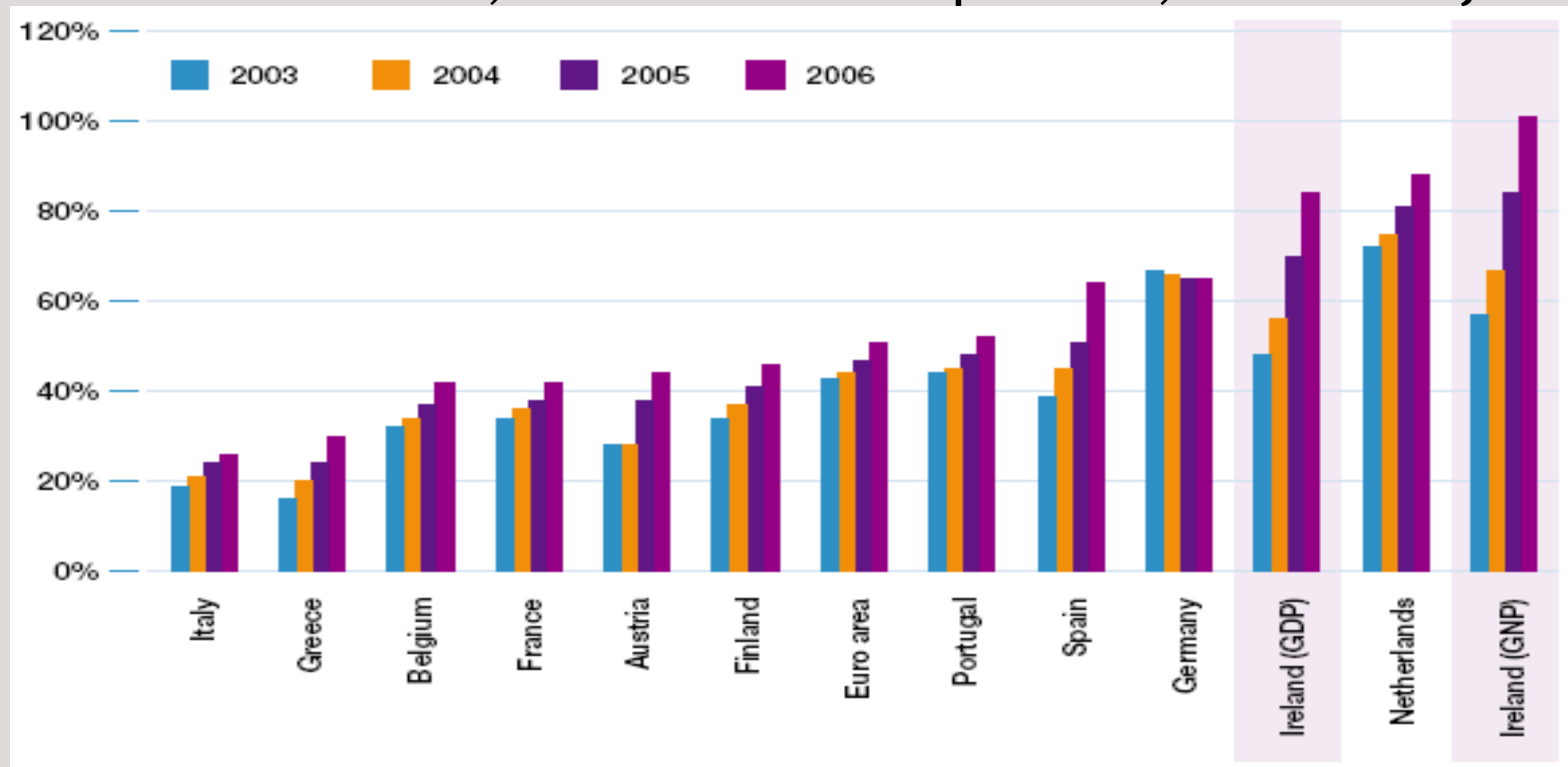
## 4. ...and on construction and public services for jobs growth...

Net job creation by sector, 2006 compared to 2000



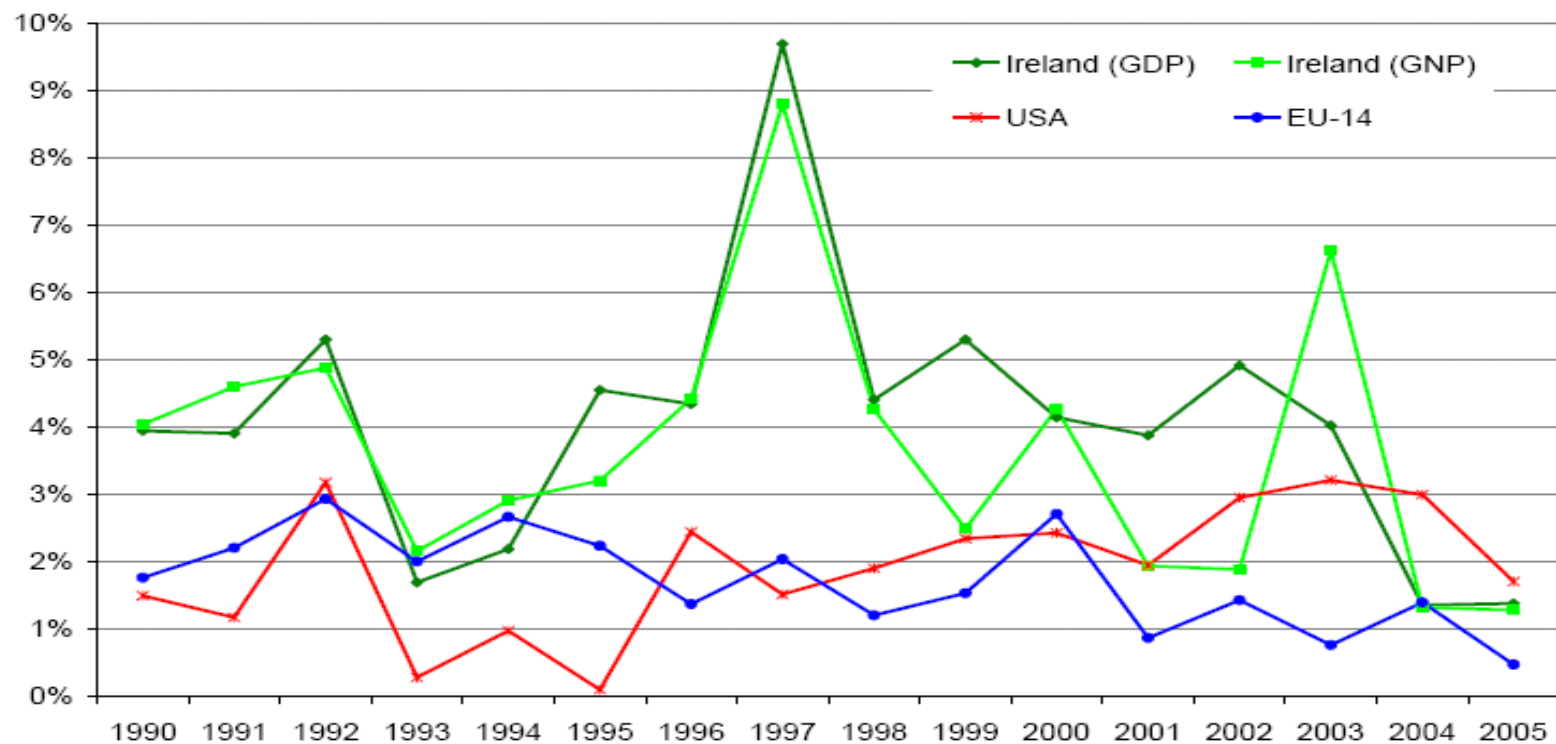
## 5. Our debt burden is large and growing fast...

Household debt, as % of national product, 2003-2006<sup>f</sup>



## 6. While Irish productivity levels are high productivity growth is slowing.

Productivity growth, Ireland, USA & EU, 1990-2005





# Ireland's Competitiveness Challenge

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- Ireland's growth pattern has changed in the last five years
- And, the global environment has changed, impacting on Ireland's ability to remain competitive internationally:
  - Globalisation in the 21<sup>st</sup> Century
  - Macroeconomic developments: the 'global imbalances' story
  - Climate change & its implications for energy
  - Other international developments: EU, tax



# Ten Key Policy Areas

- 1 Labour Force
  - 2 Social Capital
  - 3 Public Income & Expenditure
  - 4 Regulatory Environment
  - 5 Infrastructure
  - 6 Productivity of Irish-Based Enterprise
  - 7 Education System
  - 8 Innovation, Research & Development
  - 9 Costs of Doing Business in Ireland
  - 10 Energy
- } Knowledge Economy



# Knowledge Economy: Status

- Formal Education: a lot done, more to do!
  - Ireland 2<sup>nd</sup> lowest of EU 15 in pre-primary enrolment
  - Mathematical and scientific literacy 16<sup>th</sup> and 13<sup>th</sup> in OECD
  - PhD graduation rates 11<sup>th</sup> of EU 15
- Innovation, Research & Development:
  - Significant improvement in government investment in higher education and SSTI is now in place
  - Ireland in bottom half of OECD for researchers as proportion of total employment
  - Behind leaders in patents and scientific publications



# Knowledge Economy: Policy Recommendations

- **Formal Education:**
  - Pre-primary education - high returns potential
  - Secondary school participation: a cross-departmental goal
  - Higher Education: graduated re-introduction of fees & loans
  
- **Innovation, Research & Development:**
  - PhD graduates from abroad central to capacity for SSTI
  - Measuring return on investment: annual SSTI progress report
  - Services Innovation Policy
  - Innovative Government Services

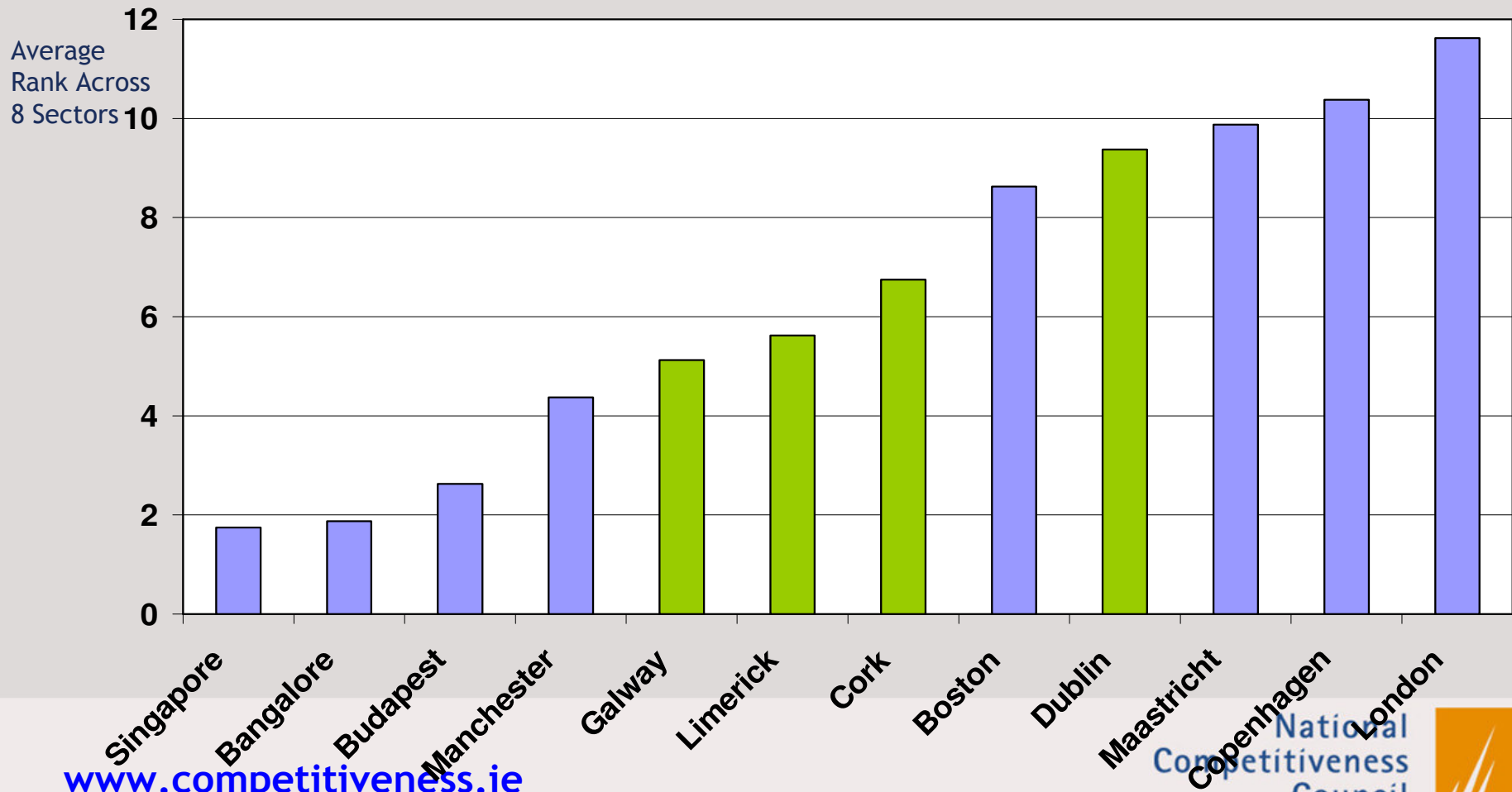


# Costs of Doing Business: Status

- Consumer prices - high and deteriorating:
  - 2<sup>nd</sup> highest price level in the EU-15
  - 5<sup>th</sup> highest inflation rate in the EU-15
- Exchange rate - Irish exports more expensive:
  - 5<sup>th</sup> strongest appreciation in OECD, 2000-2006
- Pay costs:
  - Labour costs grew by 3<sup>rd</sup> highest level in EU 15, 2000-2005
- Non-pay costs:
  - NCC research shows that the costs of property, utilities and key professional services high in Ireland



# City Cost Competitiveness - Composite Ranking



# Costs of Doing Business: Policy Recommendations

- Fiscal Policy:
  - Inflationary impact of current spending must be considered
- NDP 2007-2013:
  - Selection and timing must use clear cost-benefit analysis and bear in mind macroeconomic conditions. Potential to attract overseas contractors?
- Pro-competitive Regulation:
  - Regulations that restrict competition across a wide range of sectors should be tackled. Formal response to CA reports?
- Land Planning:
  - Effective supply of zoned and serviced land needed



# Energy: Status

- Price and economic competitiveness:
  - Annual inflation in electricity of 5.1% over last decade
  - Ireland now 17% dearer per 100 Kwh than EU 15 average
- Security of supply:
  - Per capita oil consumption 3rd in EU 25
  - Ireland 4th most 'oil vulnerable' of 19 countries
- Long-run sustainability:
  - 13th of EU 15 for proportion of energy from renewables
  - Among the highest 10 CO2 emitters, per capita, in OECD



# Energy: Policy Recommendations

- Supply of Affordable energy:
  - Transmission Infrastructure: support separation from generation
  - Price regulation: transparency where not controllable, efficiency where controllable
  - Security of Supply: through NDP, accelerate connection to N. Ireland, the UK and Europe
- Environmental sustainability:
  - Large potential in improved energy efficiency and to promote investment and research in renewable energy
  - Addressing Transport - a problem sector: land use, public transport, National Spatial Strategy



# Role of Dublin: Status

- Dublin is a relatively small city on the margins of North-West Europe.
- Success of Dublin remains critical to the performance of the Irish economy.
- In a globalising economy, Dublin (and other Irish regions) compete primarily against other internationally competitive regions for trade, investment and people; not against other regions of Ireland.
- The principle guiding regional development should be about maximising the inherent growth potential of each of region, not re-directing economic growth away from Dublin.



# Role of Dublin: Policy Questions

- Is there a clear vision for Dublin? Who should develop it?
- Does Dublin have distinct competitive advantages?
- Economy is shifting to services - is Dublin ready in terms of educational, research and ICT infrastructure?
- Growing importance of quality of life issues - Dublin as an international city.
- Need for continuing investment in Dublin and the role of transport and land planning.



# Conclusions on National Competitiveness

- Current phase of domestically-driven growth a vulnerable platform
- Return to export-led growth only means for long-run wealth generation
- To do that, we must address a range of areas, including:
  - Ireland's Knowledge Economy
  - Costs of doing business in Ireland
  - Energy
- How do these national challenges relate to Dublin - are there other critical issues for Dublin?



## Some questions -Ireland and Dublin?

- In addition to the “conventional” policy prescriptions are new policies required e.g.
  - Stimulating education exports
  - Explicit and aggressive policy for increasing long term factor income inflows?





*END*

Thank you





# *Ireland's Competitiveness Challenge:*

## Appendix of policy areas and recommendations



# Ireland's Strengths & Weaknesses

Strengths	Weaknesses
<ul style="list-style-type: none"><li>• Existing base of high performing firms</li><li>• Growing international services sector</li><li>• Business friendly operating environment</li><li>• Membership of EU</li><li>• Only English speaking member of Eurozone</li><li>• An adaptable labour force</li><li>• An expanding labour force, reflecting both natural demographic growth and immigration</li><li>• Competitive personal and corporate tax rates</li><li>• An international reputation for flexibility and responsiveness</li><li>• A culture of openness - to trade, investment, ideas and people</li></ul>	<ul style="list-style-type: none"><li>• Increasing cost base, particularly for property, utilities (energy, waste disposal, etc.) and locally traded services</li><li>• Weak productivity growth in locally trading, mainly services sectors</li><li>• Congested transport infrastructure and under-developed ICT infrastructure</li><li>• A small domestic market</li><li>• Limited management expertise in innovation and international sales and marketing</li><li>• Underdeveloped national scientific research system</li><li>• Vulnerability to global demand swings and exchange rate volatility</li><li>• High dependency on imported fossil fuels</li></ul>

# Labour Force: Key Stats

<i>Indicator</i>	<i>Year</i>	<i>Group</i>	<i>Rank</i>
Unemployment	2006	OECD	2 (↑7)
Participation Rates	2004	OECD	21 (↓1)
Workers per dependent	2004	OECD	3 (↑6)
Stock of Foreign Labour	2004	OECD	5 (↑5)
Life-long learning	2005	OECD	10 (↓3)

1 = best, ↑ = improvement, ↓ = disimprovement



# Labour Force: Policy Recommendations

- Participation rates:
  - Target specific groups - improve incentives - tax and childcare
- Upskilling through training:
  - Improving the skills set of older and less qualified workers
- Attracting skills from abroad:
  - Are the Employment Permits Act and the Immigration and Protection of Residents Bill complementary?
  - Recognition of immigrants qualifications



# Social Capital: Key Stats

<i>Indicator</i>	<i>Year</i>	<i>Group</i>	<i>Rank</i>
Trust in Political Institutions	2000	Of 12	3 (↑4)
Trust in Social Institutions	2000	Of 12	6 (↓3)
Perceived Corruption Levels	2006	OECD	17 (↓1)
Member of local organisations	2000	Of 12	7 (↑1)
Member of other nonprofits	2000	Of 12	8 (↑4)

1 = best, ↑ = improvement, ↓ = disimprovement



# Social Capital: Policy Recommendations

- Work-life balance:
  - Importance of coordinated urban and transport planning
- Integration policy:
  - Enabling immigrants to integrated into Irish society
- Trust:
  - National hallmark of corporate social responsibility
- Active Citizenship:
  - Taskforce on Active Citizenship welcome
  - Scope for improved policy coordination, regulation and funding



# Public Finances: Key Stats

<i>Indicator</i>	<i>Year</i>	<i>Group</i>	<i>Rank</i>
Tax Wedge on Earnings	2005	OECD	2 (↑4)
Top Corporate Tax Rate	2006	EU-25	2 (na)
Corporation tax receipts	2003	OECD	6 (--)
Education Services	2003	Of 21	5 (na)
Health Services	2003	Of 21	10 (na)

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# Public Income & Expenditure: Policy Recommendations

- Sustainability of Ireland's Tax Regime:
  - Continue to shift tax incentives away from property
  - Broaden revenue base - use new taxes/user charges to reduce tax burdens on more traditional sources
- Public Sector Efficiency:
  - Establish cross-departmental objectives (e.g. sustaining Ireland national competitiveness)
  - Evidence-based and transparent benchmarking
  - Measurement of public sector productivity
  - Decentralisation needs to be carefully managed to minimise disruption to the provision of public services



# Regulation: Key Stats

<i>Indicator</i>	<i>Year</i>	<i>Group</i>	<i>Rank</i>
Level of Regulation	2005	OECD	4 (↑1)
Labour Market Regulation	2006	OECD	12 (↓3)
Product Market Regulation	2003	OECD	5 (↑2)
Hours filing corporation tax	2005	OECD	3 (na)
Administrative costs	2005	EU-25	5 (na)
Costs of starting a business	2005	OECD	14 (na)

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# Regulation: Policy Recommendations

- Existing regulations:
  - Agenda for measurement and reduction of administrative costs of regulations needs to be developed
  - Need to focus on national requirements - SCM or other?
  - Scope for consolidation, removal, rationalisation and direct reduction of administrative costs
  - Single Windows is one example
- New regulations:
  - New regulation may have hidden costs (e.g. on competition)
  - RIA progress reports and review welcome



# Productivity: Key Stats

<i>Indicator</i>	<i>Year</i>	<i>Ireland</i>	<i>USA</i>
GDP p/hr worked	2003	€ 39.90	€ 36.28
Growth in GDP p/hr worked	04/05	1.4%	2.4%
<i>Sector</i>	<i>Year</i>	<i>Ireland</i>	<i>USA</i>
Modern manufacturing	2003	€ 121.59	€ 53.33
Traditional manufacturing	2003	€ 31.80	€ 36.64
Tradable services	2003	€ 57.24	€ 43.46
Non-tradable services	2003	€ 32.42	€ 35.78



# Productivity: Policy Recommendations

- General improvement of the business environment - infrastructure, R&D, skills, etc.
- Management Development:
  - Take-up by SMEs is low
  - Need for measures to stimulate demand
- Use of ICT:
  - Voucher scheme very welcome
  - Needs to be accompanied by other measures, including initiatives to encourage staff training in ICT



# Infrastructure: Key Stats

<i>Indicator</i>	<i>Year</i>	<i>Group</i>	<i>Rank</i>
Overall quality	2005	OECD	22 (↑3)
Public capital stock	2004	Of 21	17 (na)
Government investment	2005	EU-15	2 (↓1)
Total housing stock	2004	EU-15	14 (↑1)
Housing completion	2004	EU-15	1 (--)

1 = best, ↑ = improvement, ↓ = disimprovement



# Infrastructure: Policy Recommendations

- Expenditure priorities:
  - R&D, pre-primary and energy as described later
  - Broadband and waste are two other key issues
- Selection and timing:
  - Transparency is required so that highest return projects are prioritised
- National Spatial Strategy:
  - Special fund for gateway and cross-border development
- Public Private Partnerships:
  - Enable best use of private sector competencies



# Education: Key Stats

<i>Indicator</i>	<i>Year</i>	<i>Group</i>	<i>Rank</i>
Pre-primary participation	2004	EU-15	14 (--)
Computers per student	2003	OECD	20 (↑1)
Reading Literacy	2003	OECD	6 (↓1)
Mathematical Literacy	2003	OECD	16 (↓1)
Scientific Literacy	2003	OECD	13 (↓4)
Expenditure (3 <sup>rd</sup> level)	2002	OECD	11 (↓2)

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# Innovation, R&D: Key Stats

<i>Indicator</i>	<i>Year</i>	<i>Group</i>	<i>Rank</i>
Expenditure on R&D	2004	OECD	19 (--)
Business R&D	2004	OECD	17 (--)
Higher Education R&D	2004	OECD	16 (↑7)
Researchers in employment	2004	OECD	16 (↑2)
PhD graduation rate	2002	EU-15	11 (↓2)

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# Knowledge Economy: Policy Recommendations

## ➤ Formal Education:

- Pre-primary education - high returns potential
- Secondary school participation: a cross-departmental goal
- Skills for the Knowledge Economy: ICT, maths and science in schools
- Higher Education: graduated re-introduction of fees & loans

## ➤ Innovation, Research & Development:

- PhD graduates from abroad central to capacity for SSTI
- Measuring return on investment: annual SSTI progress report
- Services Innovation Policy
- Innovative Government Services



# Prices & Costs: Key Stats

<i>Indicator</i>	<i>Year</i>	<i>Group</i>	<i>Rank</i>
Price Level	2004	EU-15	14 (↓3)
Inflation	2004-06	EU-15	11 (↑4)
Growth in Labour Costs	2000-05	EU-15	13 (na)
% change in trade-weighted exchange rate	2000-06	OECD	24 (na)

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# Prices & Costs: Policy Recommendations

- Fiscal Policy:
  - Inflationary impact of current spending must be considered
- Infrastructure Spending:
  - Selection and timing must use clear cost-benefit analysis and bear in mind macroeconomic conditions. Potential to attract overseas contractors?
- Pro-competitive Regulation:
  - Regulations that restrict competition across a wide range of sectors should be tackled. Formal response to CA reports?
- Land Planning:
  - Effective supply of zoned and serviced land needed



# Energy: Key Stats

<i>Indicator</i>	<i>Year</i>	<i>Group</i>	<i>Rank</i>
Oil Consumption per capita	2004	EU-25	23 (--)
Oil Vulnerability	2005	Of 19	16 (--)
CO2 emissions per capita	2003	OECD	21 (↑1)
Energy from Renewables	2004	EU-15	13 (↓1)
Market share of incumbent	2004	EU-15	11 (↑2)

1 = best, ↑ = improvement, ↓ = disimprovement



# Energy: Policy Recommendations

## ➤ Supply of Affordable energy:

- Market Structure: consider Deloitte & Touche options  
Competition versus natural monopoly?
- Transmission Infrastructure: separation from generation
- Price regulation: transparency where not controllable, efficiency where controllable
- Security of Supply: through NDP, accelerate connection to N. Ireland, the UK and Europe



# Energy: Policy Recommendations

## ➤ Environmental sustainability:

- Large potential in improved energy efficiency and to promote investment and research in renewable energy
- Addressing Transport - a problem sector
  - Land use issues
  - Public transport network
  - National Spatial Strategy

