

COMPETITIVENESS IS PART OF THE DNA OF SUSTAINABLE JOBS

- Ireland's national competitiveness refers to the ability of enterprises in Ireland to compete in international markets
- As a small, open, trade-dependent economy, policies which enhance competitiveness are essential to support the creation of sustainable employment and to improve living standards
- Competitiveness matters for all enterprises, regardless of size, ownership or sector
- We must ensure that the foundations for sustainable competitiveness & growth are in place over the medium term
- The same urgency and commitment that went into bringing down the government deficit, stabilising debt levels and securing the banking system must now go into maintaining and improving competitiveness

INTRODUCTION

The National Competitiveness Council (NCC) reports to the Taoiseach and the Government, through the Minister for Jobs, Enterprise and Innovation, on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position.

WHAT IS COMPETITIVENESS

The NCC takes a broad definition of competitiveness: "**Competitiveness refers to the ability of enterprises to compete in international markets**". Competitiveness is translated into sustainable growth and improved living standards for all. National competitiveness is a broad concept that encompasses a diverse range of factors and policy inputs including education, entrepreneurship and innovation, Ireland's economic and technological infrastructure, regulation and taxation.

Competitiveness and Jobs

National competitiveness provides Ireland's people with the opportunity to **improve their living standards and quality of life**. Improving living standards depends on, amongst other things, **raising incomes and providing employment**. To raise incomes and grow employment, **productivity gains** are necessary but in an economy with a small domestic market, this requires a healthy exporting sector to achieve economies of scale necessary for productivity gains. **For a vibrant exporting sector, Ireland must maintain its national competitiveness.**

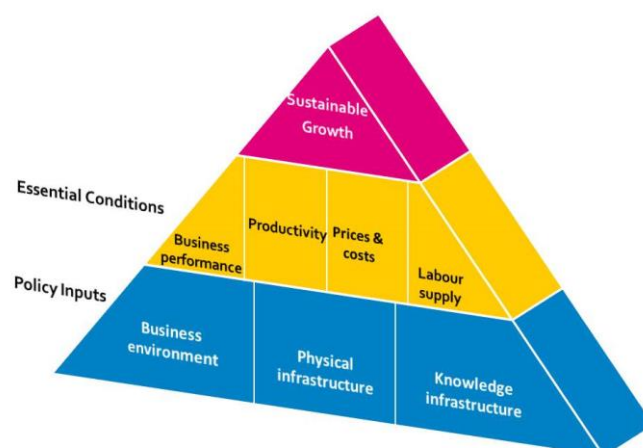
Competitiveness matters for all enterprises, regardless of size, ownership or sector. A continuous flow of new startups that can survive and thrive strengthens the national enterprise base not only through the creation of new businesses, products and services but also by stimulating improved performance in existing businesses. Competitiveness is also essential for Irish entrepreneurs and SMEs whose main focus is on the domestic market, for instance, cost competitiveness, management skills, use of ICT all impact upon the ability of such enterprises to compete. Ultimately, the Council believes that competitiveness is part of the DNA of sustainable jobs.

THE NCC COMPETITIVENESS FRAMEWORK

The NCC uses a pyramid (Figure 1) to analyse and understand competitiveness. This distinguishes between: the 'inputs' to national competitiveness; the 'essential conditions' for national competitiveness; and the ultimate objective of sustainable growth.

The **inputs** (bottom row of the pyramid) represent the foundation stones of the economy and are the primary drivers of competitiveness. It is within these particular areas that policymakers can have the greatest impact on competitiveness.

Figure 1: The NCC's Competitiveness Framework



Source: NCC

If the inputs are in line with best practice, this should be reflected in the metrics relating to **essential conditions** (middle row). These metrics include relative price and cost competitiveness, and productivity performance. Competitive gains at these lower levels of the pyramid are ultimately reflected in the **sustainable growth** metrics at the apex of the pyramid, measuring factors such as the standard of living and quality of life.

HOW IRELAND PERFORMS

Ireland's improving competitiveness performance over the period 2011-2014 has been central to the recovery in employment and economic growth. The drivers of growth are

becoming more balanced. While exports remain the key contributor, consumption, government expenditure and public and private investment are making increasing contributions to overall growth, albeit from low bases¹. The exporting sectors of the economy continue to perform strongly and many of Ireland's traditional strengths (such as our attractive taxation regime, highly skilled workforce, and generally pro-enterprise regulatory regime) remain in place.

As a result, since 2011, Ireland's relative international competitiveness as measured by a range of international indices has improved. Ireland moved from 24th to 16th in the IMD's World Competitiveness Yearbook, and from 29th to 24th in the WEF Global Competitiveness Report. The World Bank's "Doing Business 2016" report ranks Ireland 17th out of 189 countries, an improvement of two places on an annual basis. The legacy of the domestic property crash, banking issues and global recession is still evident - thus far, Ireland's rankings have still not returned to their pre-crash peak.

Emerging Threats

Much of this improvement has arisen, however, as a result of **benign external factors** including a **weak euro**, **low international energy prices** and a degree of recovery in our key markets. Such favourable factors could be quickly reversed. Indeed, **a range of risks to Irish competitiveness are already clear**. **Cost pressures** have emerged in key areas and Ireland remains an expensive location in which to do business, relative to some of our key competitors. A number of **upward domestic cost pressures** are now emerging, particularly in relation to **labour**, **property** and **business services**.

Infrastructure bottlenecks and **skills mismatches** are again immediate challenges and a series of labour market challenges (i.e. relating to long term and youth unemployment and labour force participation) persist. Increasing productivity across all sectors and occupations, particularly in the indigenous economy remains a significant issue. Our **export base** is narrow, increasing the risk from external shocks. Issues relating to **debt** and **access to finance** persist. Continuous action is required to protect recent gains and to narrow the gap with the world's most competitive countries who are constantly improving their competitiveness performance. The Council's key message is that there is no room for complacency.

A RENEWED FOCUS ON COMPETITIVENESS

While growth prospects for the Irish economy are strong, we must continue to deliver aggressively the structural reforms required to support competitiveness, growth and jobs. As well

as addressing the immediate, short term challenges which confront us, we must also look towards the **medium term** and ensure that the foundations for **sustainable** competitiveness are in place. In the medium term, productivity improvements must be the primary driver of Irish competitiveness. A number of other competitiveness challenges remain:

- Maintain a balance of **sustainable budgetary positions** while increasing **capital investment to enhance competitiveness**. A significant ramping up of capital expenditure in physical and knowledge infrastructure is required, above and beyond the commitments contained in the recent Capital and Investment Plan 2016-2021.
- The tax base must be broad and sustainable. We must **protect and enhance Ireland's international tax competitiveness** - not just our corporate tax offering. To attract high skilled individuals and deliver upon our ambitions to develop further an innovation driven economy, we must ensure that we provide a competitive income tax regime.
- **A range of skills shortages and the relatively large cohort of workers with relatively low levels of educational attainment must be addressed**. It is vital that urgency is brought to bear in relation to the implementation of the new National Skills Strategy².
- To maintain and sustain economic growth, an economic plan for Ireland is now required. Securing and enhancing competitiveness must be at its core as this is the best way to ensure we can continue to improve living standards and public services, and provide secure jobs. The plan should include clear actions, time-bound targets with a focus on the medium term regardless of the political cycle.

The recent economic crisis demonstrated how international and national authorities were watching the wrong indicators and missed significant economic threats emerging. **The same urgency and commitment that went into bringing down the government deficit, stabilising debt levels and securing the banking system must now go into maintaining and improving the competitiveness of the Irish economy.**

Further Reading: The policy positions summarised herein are drawn largely from the Competitiveness Challenge 2015. See www.competitiveness.ie.

The NCC reports to the Taoiseach on key competitiveness issues facing the Irish economy. This Bulletin has been issued by the Chair and Secretariat.

¹ In 2015, the Council published two benchmarking reports. The Costs of Doing Business report benchmarks key business costs across over 50 indicators. Ireland's Competitiveness Scorecard analyses Ireland's competitiveness performance vis-à-vis 19 competitors.

² Department of Education and Skills, Ireland's National Skills Strategy 2025, January 2016