

National Competitiveness Council publishes Ireland's Competitiveness Challenge 2017

Competitiveness is the central pillar of a sustainable economic model for Ireland

12 December 2017

The National Competitiveness Council (NCC) has today published its Competitiveness Challenge 2017 report, outlining a range of actions designed to boost Ireland's international competitiveness. The Council has also published its submission to the Action Plan for Jobs (APJ) 2018.

Building on the Council's previous benchmarking reports, the *Challenge* highlights that, despite intense global competition and significant challenges in the external environment, Ireland's competitiveness performance is positive. Improved competitiveness is reflected in strong employment growth across sectors and regions. However, growth is putting upward pressure on costs and infrastructural investment is unable to keep up with the needs of this rapidly growing economy.

A significant challenge for policy is whether, in one of the world's most globalised economies, Ireland can avoid another boom-bust cycle of fast growth followed by recession by putting competitiveness at the centre of our economic model, thereby achieving a stable and sustainable economic growth rate.

Speaking at the launch of the report, Prof Peter Clinch, Chairman of the NCC noted that "As the economy continues to grow, maintaining our competitiveness is crucial as we face into challenges such as Brexit. Staying competitive will help us avoid another boom-bust cycle of fast growth followed by recession. Placing competitiveness at the centre of Ireland's economic model will ensure Irish businesses can compete successfully in international trade, protect the resilience of the Irish economy throughout the economic cycle, and provide the funds to improve public services such as health, education and social protection."

While acknowledging the remarkable performance of the Irish economy, the Council is concerned about the sustainability of our economic model. The sustainability of Irish economic performance is threatened by the reliance of the economy on a concentrated number of large, highly-productive companies. Professor Clinch stated "The sustainability of Irish growth is not only threatened by the potential for boom and bust, but the reliance of the economy on a small number of highly productive large companies. Many Irish-owned companies export a narrow range of products and services, and rely on a small number of export markets. Smaller companies, which provide the majority of employment, are far less productive, less likely to invest in innovation, least likely to be able to afford the management talent they need and most prone to cost increases, in particular, wage demands driven by increases in the cost of living, most notably, housing."

The Council believes that an innovative mix of responses is required to enable more SMEs to compete internationally, to innovate and to ensure they can survive the challenges of Brexit. This involves a relentless focus on innovation, product diversification, cost control, productivity and the pursuit of new markets.

Stressing the importance of positioning competitiveness as the central pillar of Ireland's economic policy, Professor Clinch said: "We are at a critical juncture. Ireland is ranked highly in terms of our competitiveness but it is the decisions we make now that will determine our competitiveness in the future and, consequently, our prosperity. We have difficult choices to make if we are to maintain growth, limit increases in the cost of living, and continue to support quality jobs and public services."

In this regard, the Council has identified a number of policy priorities:

- **Costs of Doing Business:** Relentlessly pursuing cost competitiveness across all business inputs is essential for our open, small, trade-dependent economy. While inflation is subdued, this is largely

due to currency effects and Ireland remains a relatively high-cost location. Higher international oil prices would exert a significant influence on energy and transport prices. The recent appreciation of the euro relative to sterling shows how vulnerable Irish enterprise is to external shocks. The impact of Brexit will be felt particularly among firms that are most embedded in the domestic economy. Many are small companies with low profit margins with limited room to manoeuvre. The affordability of credit, particularly working capital, remains a major issue. As the economy continues to grow, it can be expected that upward pressure on labour costs will intensify as the labour market tightens. To maintain cost competitiveness, it is vital that growth in our labour-cost base is in line with productivity developments at sectoral level and not significantly out of line with our competitors across the OECD. A determined effort from Government, enterprise and trade unions is required to ensure that Irish wage levels do not move in a manner that outstrips growth in productivity and labour cost growth in competitor economies. In the face of growing supply side constraints, we must avoid past mistakes where rising costs outstripped productivity gains and pushed up prices and eroded competitiveness. This will be aided by a relentless focus on keeping the cost of living down so as to limit the natural desire for wage increases. In this regard, the cost of housing is a major threat to Ireland's competitiveness.

- **Residential Property:** The shortage and cost of residential property is damaging competitiveness. It impacts upon our attractiveness for mobile investment and talent. High rents affect decisions around labour mobility and entering employment. Given the urgency and scale of the challenge and the complexity of the market, it is important that interventions by the State are not pursued in a piecemeal fashion.

Productivity and Innovation: The Council considers that a focus on improving the drivers of productivity performance is urgently required to ensure growth is sustainable and balanced in the medium term. The narrow base of firms driving productivity performance, tax receipts and economic growth leaves Ireland vulnerable to shocks and highlights the scope to enhance productivity at sector and firm levels. There is a need to increase productivity across many sectors and firms, particularly in the indigenous sectors of the economy. Irish enterprise needs more effective investment in infrastructure, a competitiveness-based approach to supporting start-ups and scaling, and enhanced management practices to drive productivity performance at firm level. Ireland must move to the forefront of digital and innovative activity. Ireland requires closer synchronisation between research endeavour in HEIs, Government agencies, and industry. We need more investment in R&D, not only by the State, but by the private sector; the presence of high-quality scientific research institutions; extensive collaboration in research between universities and industry; and sophisticated business practices and effective clusters.

- **Enhancing and diversifying Ireland's export base:** Brexit has exposed how Irish export markets are geographically concentrated and the range of products and services exported has likewise become increasingly concentrated. Our Brexit response requires further company-led expansion into new markets and a deepening of trade links with the world's leading emerging economies. We must support exporters, particularly SMEs to intensify their efforts to scale and diversify sustainably and to reduce, strategically, exposure to external economic shocks. Despite intense competition, Ireland has maintained a remarkably strong performance in terms of jobs and investments from inward investment. Deepening and broadening the FDI base and maintaining Ireland's competitive advantage as a location for new and existing mobile investment will not be easy but must remain a cornerstone of enterprise policy.

Prof Peter Clinch concluded that "Improving competitiveness is the key to our continuing pursuit of a sustainable economic model. While it will be the businesses and their employees who will largely determine Ireland's future economic success, government policy is an essential enabler of competitiveness. We believe

the actions recommended by the Council in this year's Competitiveness Challenge provide the basis to maintain and improve our competitiveness as a response to the serious and imminent danger presented by Brexit, a narrow economic base, rising costs, and infrastructural deficits. Placing competitiveness at the heart of Irish economic policy is critical to secure future jobs, wages and the quality of our public services."

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NOTES TO 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.

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 Council also regularly publishes Competitiveness Bulletins on specific competitiveness issues.

The members of the Council 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
Declan Hughes	Assistant Secretary, Department of Business, Enterprise and Innovation
Jane Magnier	Joint Managing Director, Abbey Tours
Danny McCoy	Chief Executive Officer, 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 Council 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.