

COMPETITIVENESS RANKING FALL UNDERLINES IRELAND'S COMPETITIVENESS CHALLENGE

- Ireland's competitiveness ranking as benchmarked by the IMD has fallen from 6th to 12th most competitive economy. As benchmarked by the IMD, Ireland is the 3rd most competitive economy in the Euro area.
- The IMD Report underlines the importance of maintaining competitiveness in the context of intense competition internationally for exports, mobile investment and talent and the increasing pressures of a fast-growing economy.
- The fast growth of the economy is beginning to manifest itself in cost pressures and capacity constraints, impacting on our national competitiveness. The fall in Ireland's ranking is a timely reminder about the need to continuously implement policies to improve national competitiveness.
- Urgently improving the key foundations of Ireland's competitiveness performance is the only response to the serious and imminent danger presented by Brexit, a narrow economic base, rising costs, and infrastructural deficits.

Introduction

As the Irish economy continues to grow strongly, ensuring competitiveness is sustained takes on heightened importance. On May 23rd the Institute for Management Development (IMD) published its 2018 World Competitiveness Yearbook. After several years of improvement, Ireland's IMD competitiveness ranking declined from 6th to 12th out of 63 benchmarked economies.

Context

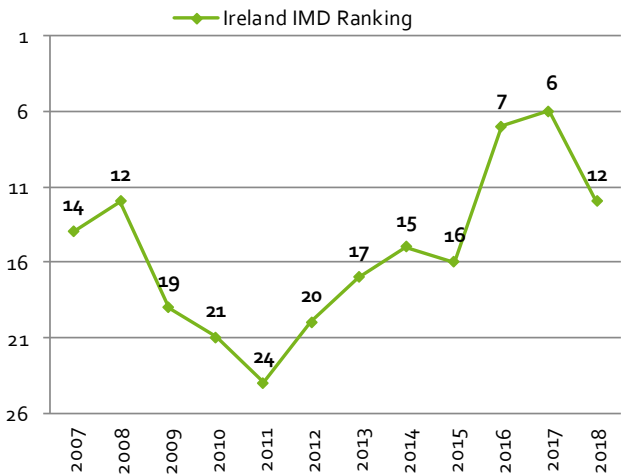
The IMD defines national competitiveness as how an economy manages the totality of its resources and competencies to increase the prosperity of its population. The IMD report uses a blend of quantitative data and qualitative survey responses to assess and rank the competitiveness of economies.

How Ireland performs

Ireland's competitiveness ranking declined from 6th to 12th in 2018 representing the 3rd most competitive economy in the Euro area. While rankings have their weaknesses, this change is significant. The top-ranking economies, their scores (out of 100), and change in their ranking since 2017 are summarised below.

Rank	Economy	Score	2017 rank
1	US	100	(4 th)
2	Hong Kong SAR	99.16	(1 st)
3	Singapore	98.55	(-)
4	Netherlands	97.53	(5 th)
5	Switzerland	97.14	(2 nd)
6	Denmark	96.38	(7 th)
7	UAE	95.65	(10 th)
8	Norway	95.42	(11 th)
9	Sweden	95.04	(-)
10	Canada	94.33	(12 th)
11	Luxembourg	93.13	(8 th)
12	Ireland	92.14	(6 th)

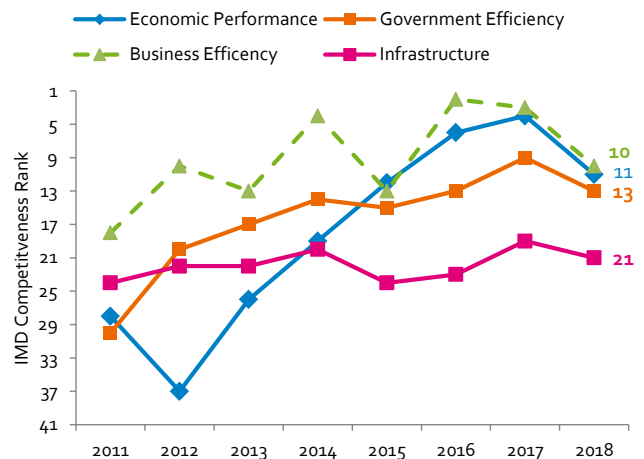
Figure 1: Ireland's Competitiveness Ranking, 2007-2018



Source: IMD

Figure 1 shows Ireland's overall performance in the rankings has generally followed an upward trajectory since 2011 when Ireland was ranked 24th.

Figure 2: Breakdown of Ireland's Ranking 2011-2018



Source: IMD

Figure 2 shows that, across the four key competitiveness dimensions assessed by IMD, particularly with regard to economic performance and Government efficiency, Ireland has improved since 2011 despite the fall this year.

Ireland's performance can be summarised as follows:

- **Economic Performance-11th (down 7 places).** Ireland performs well in real GDP growth (1st), inflation (3rd), exports of commercial services (4th), and inward investment flows (5th). Ireland is ranked poorly in export concentration by partner and product (55th and 50th) and apartment and office rent affordability (51st and 53rd). The economic performance decline is in part due to distortions to Ireland's GDP figures and gross fixed capital formation.
- **Government Efficiency-13th (down 4 places).** Ireland's strengths lie in perceived attractiveness for investment incentives (1st), corporate tax rate (4th), lack of protectionism (4th) and number of procedures to start a business (5th). Ireland is ranked 43rd with regard to the general government debt ratio. Ireland is ranked 43rd for effective personal income tax rates relative to GDP per capita and 44th in perceptions that personal taxes encourage work.
- **Business Efficiency-10th (down 7 places).** Ireland's overall productivity performance remains strong (5th and 1st for industry productivity). Ireland is in the top 3 on perception-based indicators regarding flexibility and adaptability of people (1st), agility of enterprise to respond to threats (2nd) and open culture (3rd). Ireland has fallen from 5th to 20th in terms of perceptions regarding the ready availability of skilled labour. Ireland ranks 5th in terms of attracting and retaining talent. However, the country is ranked 53rd on hourly compensation levels in manufacturing. Ireland is 46th in perceptions that Banking and Financial Services support enterprise and 36th on perceptions regarding the availability of credit.
- **Infrastructure-21st (down 2 places).** Ireland continues to rank poorly in perception indicators regarding the adequacy of maintenance and development of infrastructure (33rd). Ireland is 32nd for R&D spend as a percentage of GDP. While ranked 17th in expenditure on education per capita, the country is 55th in terms of expenditure as a percentage of GDP. Ireland is ranked first on the adult literacy rate and 1st in secondary school enrolment. Ireland ranks 10th with regard to the education system meeting the needs of the economy and 5th for a third level education system that meets the needs of the economy.

Conclusions

While international rankings are not perfect representations of national competitiveness, are skewed by sampling for perception-based indicators, and can be volatile on a year on

year basis, they serve to highlight relative strengths and weaknesses across the dimensions of competitiveness.

With the economy in its strongest place since the onset of the recession, Ireland's decline in the IMD rankings shows global competition is intense. The fast growth of the economy is beginning to manifest itself in cost pressures and capacity constraints, impacting on national competitiveness. The sustainability of the economic model is threatened by the reliance of the economy on a small number of highly productive large companies. That our indigenous exporting base exports a narrow range of products and services, and relies on a small number of export markets is also a serious concern. Smaller companies, who provide much of employment, are far less productive, less likely to invest in innovation, least likely to be able to afford the talent they need and most prone to cost increases.

Commenting on the fall in the IMD competitiveness ranking, the Chair of the National Competitiveness Council, Professor Peter Clinch, emphasised the importance of placing competitiveness as the central pillar of Ireland's economic policy. *"While Ireland's performance in aspects of international rankings will always be subject to variations, the importance of staying competitive must remain a constant focus for Government and enterprises alike. Staying competitive will help us avoid another boom-bust cycle of fast growth followed by recession. Urgently improving the key foundations of Ireland's competitiveness performance is the only response to the serious and imminent danger presented by Brexit, a narrow economic base, rising costs, and infrastructural deficits". We are at a critical juncture. The decisions we make now 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. 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".*

About the NCC

The NCC reports to the Taoiseach and the Government, through the Minister for Business, Enterprise and Innovation on key competitiveness and productivity issues facing the Irish economy.

This Bulletin has been issued by the Chair and Secretariat.

For further information and a full exposition of these issues in our reports, please see: www.competitiveness.ie