

# Annual Competitiveness Report 2006

## *Ireland's Competitiveness Challenge*

Presentation by Don Thornhill  
NCC Chair



Ireland's success is remarkable...



## As demonstrated by

- Consistently high economic growth rates compared with OECD, US and EU 15
- Improved international rankings for quality of life and life expectancy



# New Challenges

- We have new challenges - mainly those of success
- Which means we have the resources to address them



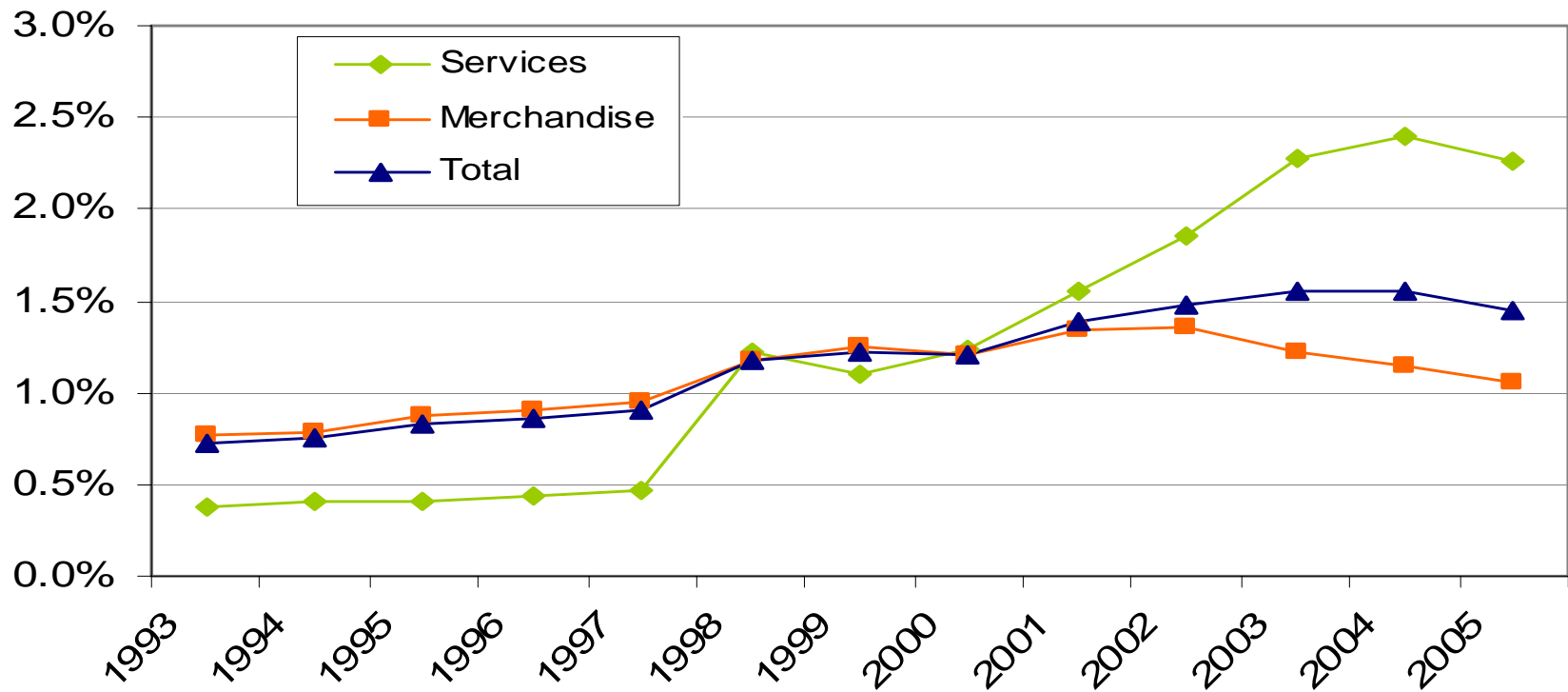
# The Core Challenge

Growth is no longer being driven by  
increased share in international markets



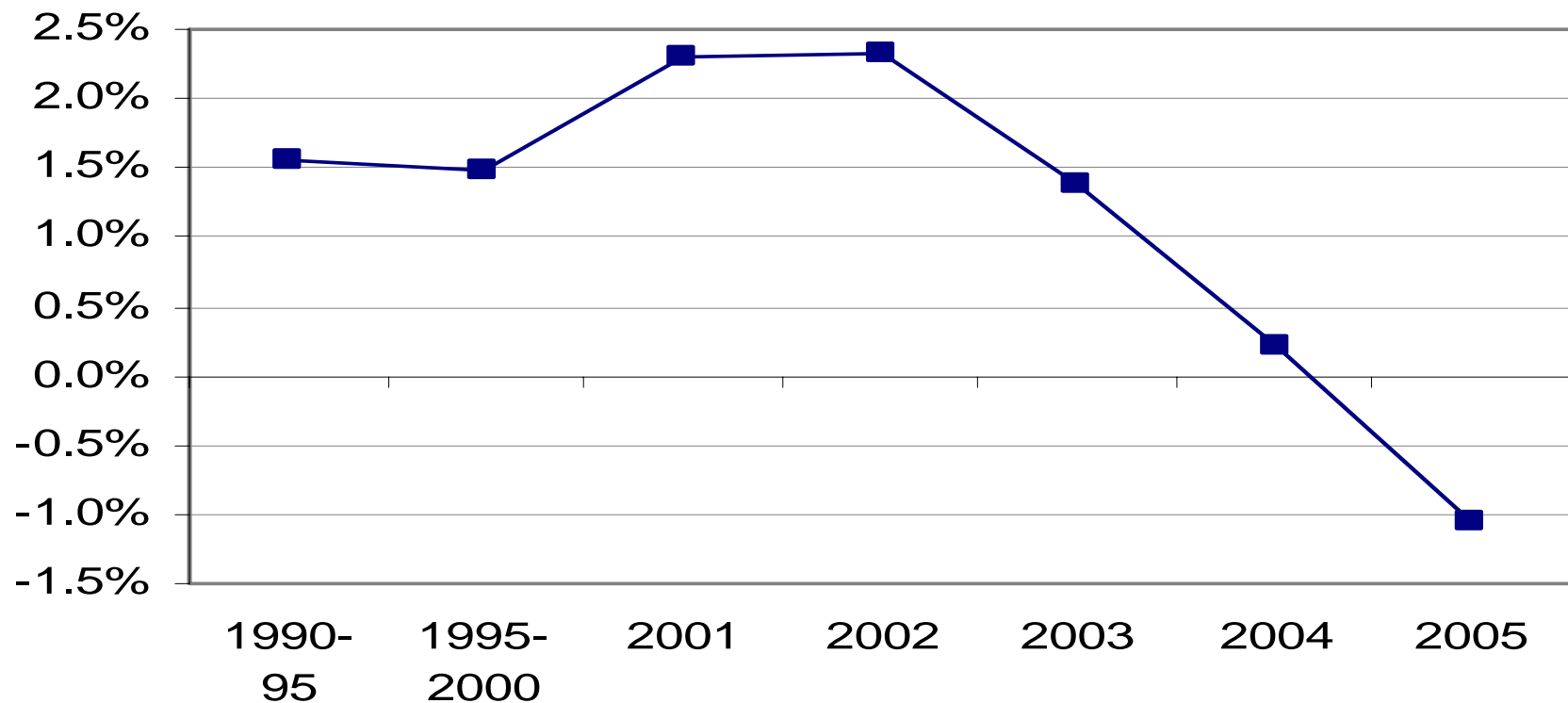
# 1. Ireland is losing its share in world markets...

## Ireland's Share of World Trade, 1993-2005



## 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...

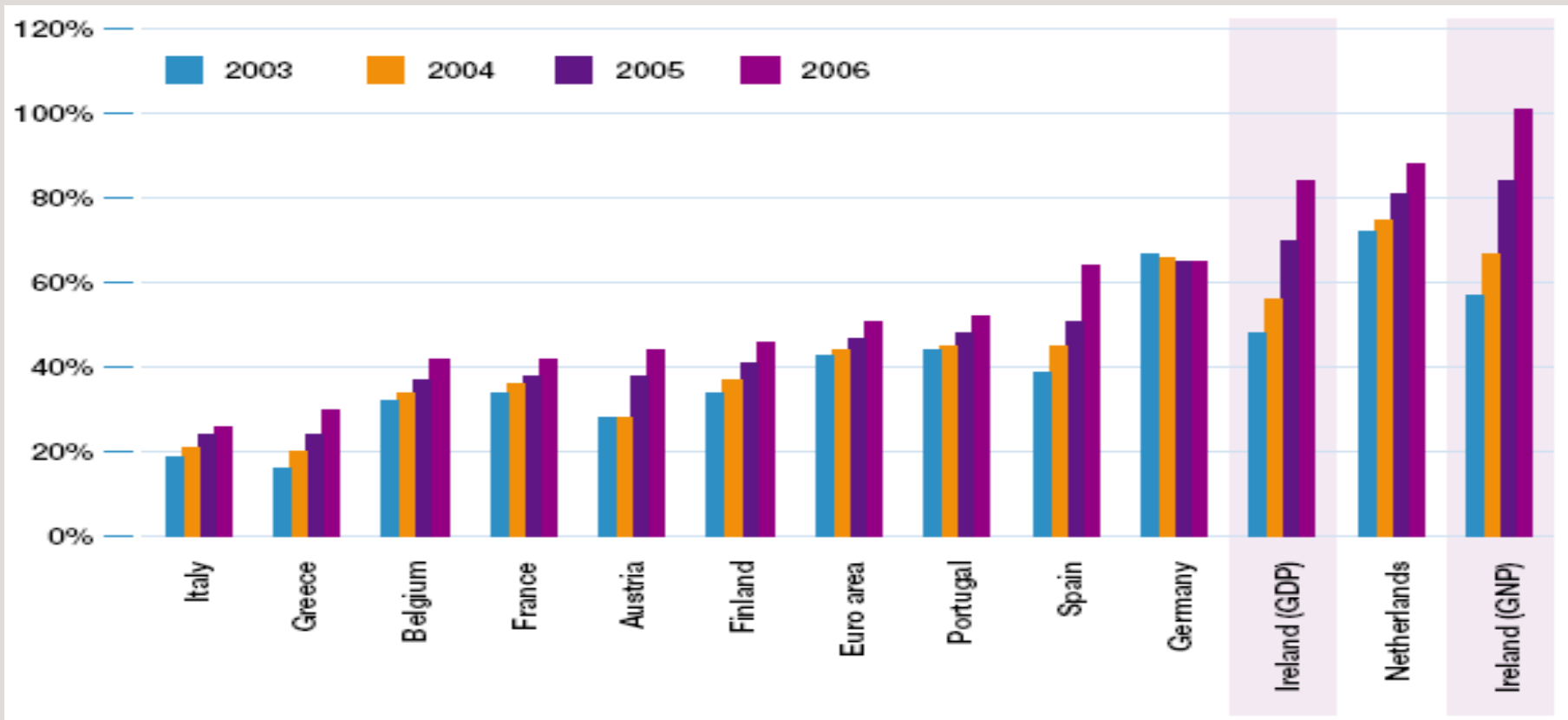
Balance on Ireland's Current Account, 1998-2005





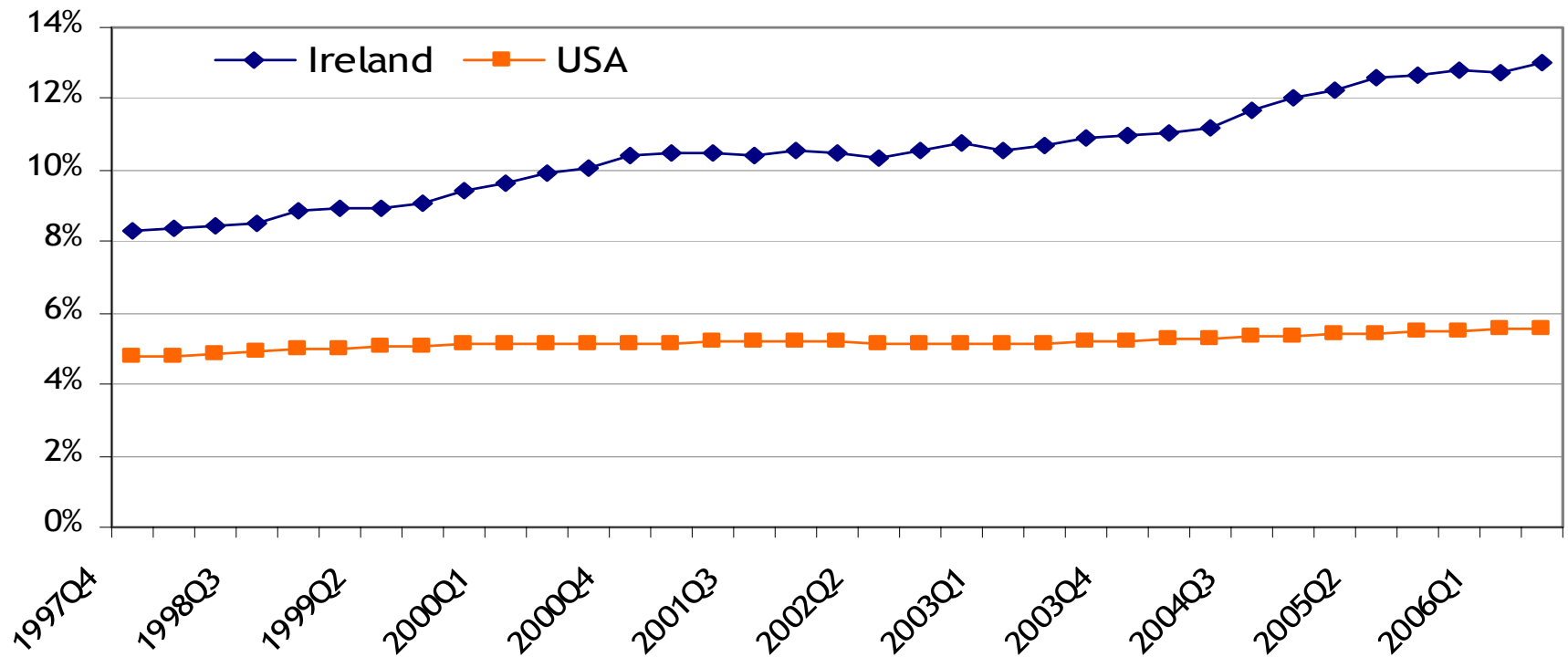
## 4. Our debt burden is large and growing fast...

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



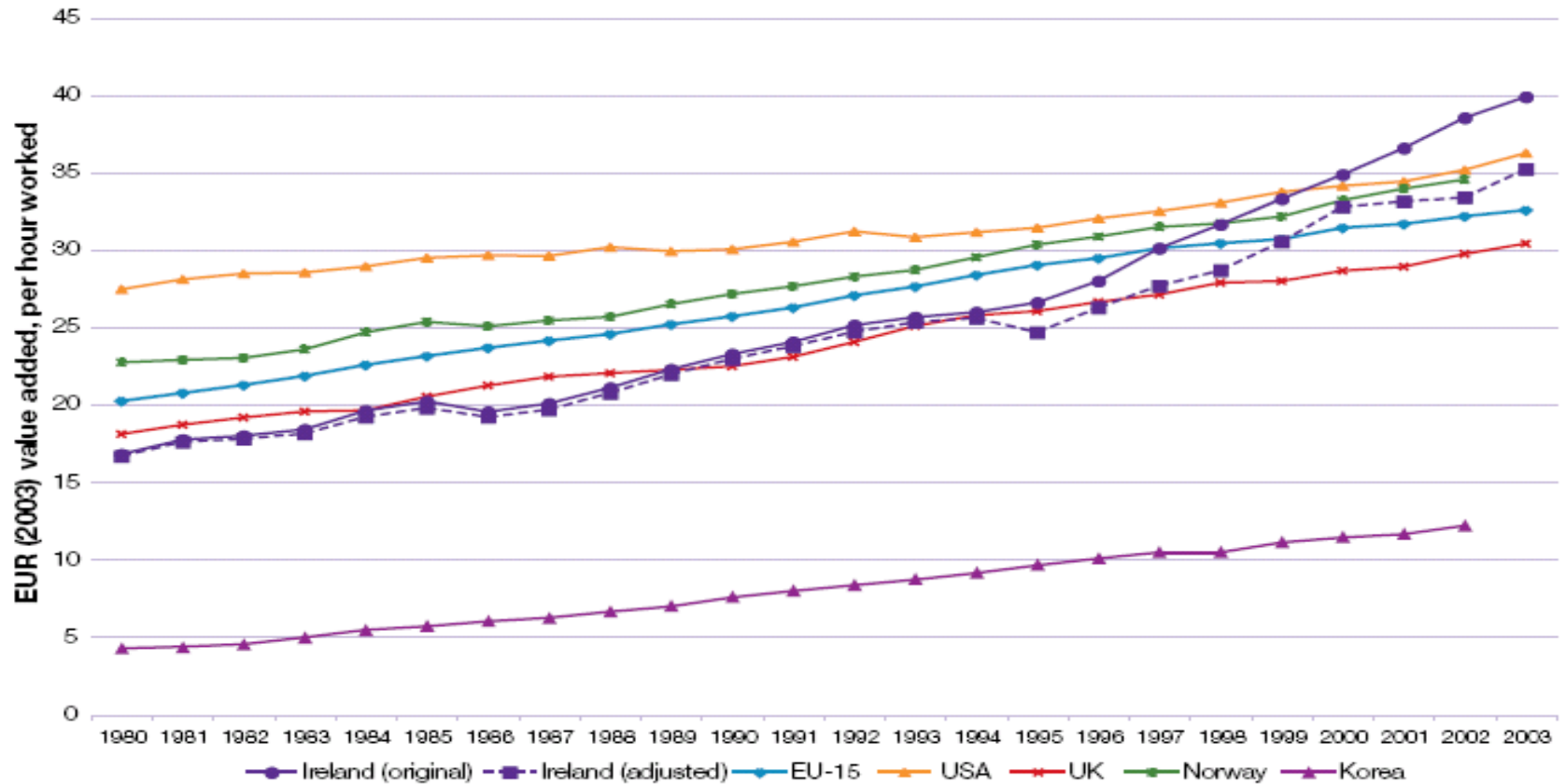
# 5. We are depending on construction for jobs growth...

## Share of Construction in Total Employment, 1997-2006



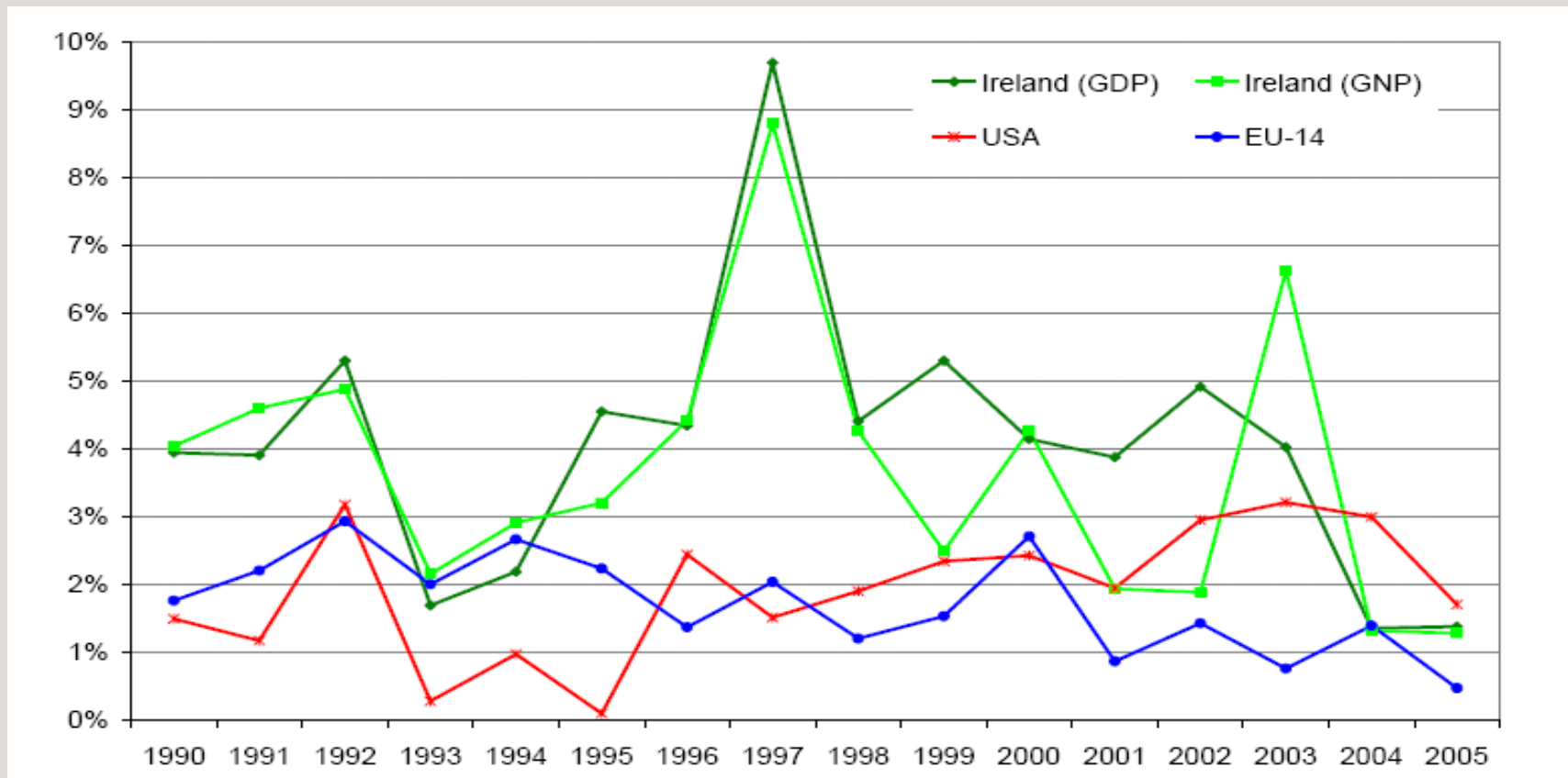
# 6. While Irish productivity levels are high...

## Labour Productivity, 1980-2003



## 6. ... productivity growth is slowing.

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



# Ten Key Policy Areas for Competitiveness

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



# Key Policy Issues

1. Ireland's 'Knowledge Economy'
2. Costs of Doing Business
3. Energy



# 1. Knowledge Economy: Status

- Formal Education:
  - Major progress in recent years and significant investment
- Innovation, Research & Development:
  - Significant improvement in government investment in higher education and SSTI is now in place
  - Business expenditure on R&D is growing



# 1. Knowledge Economy: Policy

## 1. Formal Education:

- Pre-primary education - potential for high returns
- Secondary school participation: a cross-departmental goal
- Key Skills: ICT, maths and science in schools

## 2. Innovation, Research & Development:

- Support for the SSTI: doubling of PhD output important
- Attracting researchers from abroad central
- Capturing returns on investment: annual SSTI progress report
- Need for Services Innovation Policy and Innovative Government Services





## 2. Costs of Doing Business: Status

- Consumer prices - high and growing
- Exchange rates - Irish exports more expensive
- Growing pay costs
- Non-pay costs: the costs of property, utilities and locally traded services are high in Ireland



## 2. Costs of Doing Business: Policy

### 1. Infrastructure Spending:

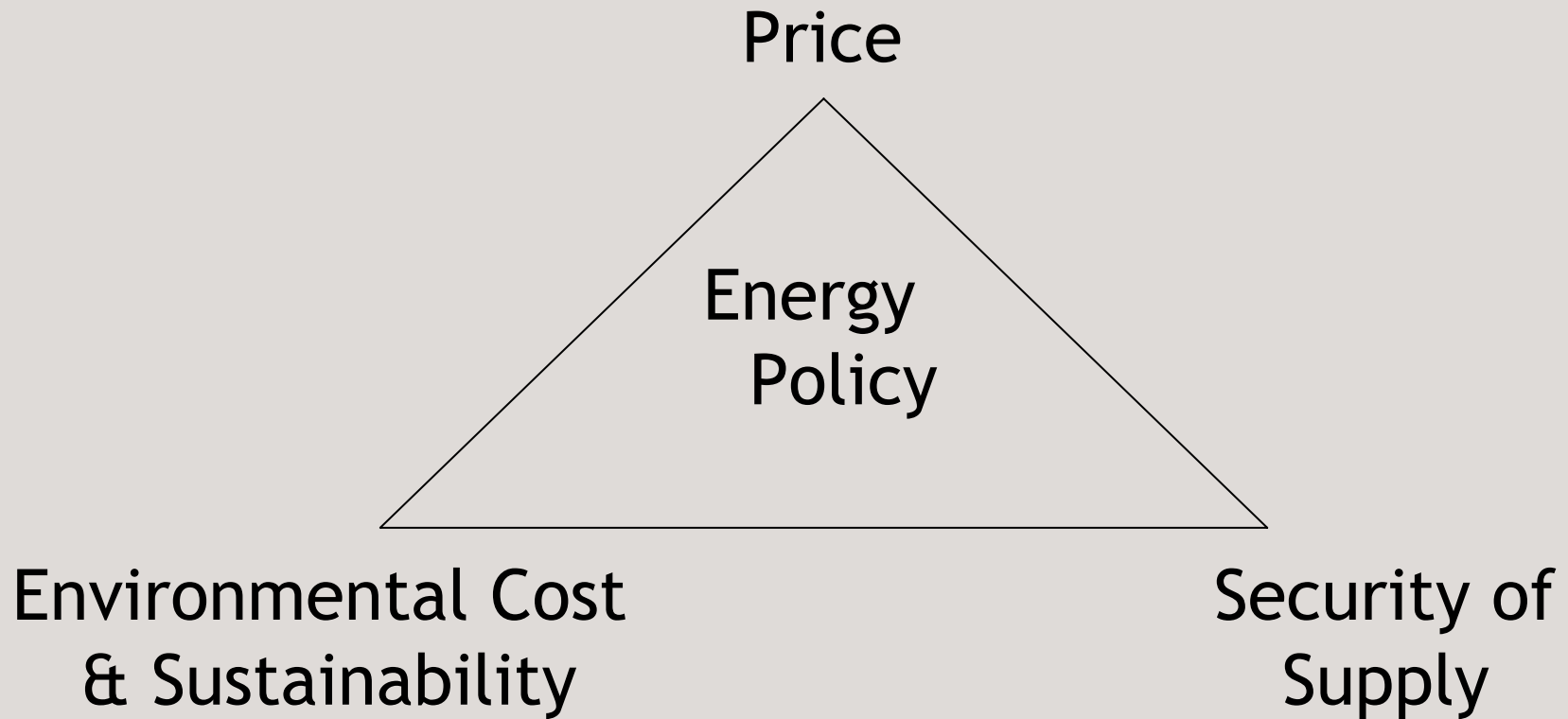
- NDP can address bottlenecks and enhance capabilities
- Selection and timing must use clear cost-benefit analysis and bear in mind macroeconomic conditions. Potential to attract overseas contractors?

### 2. Pro-competitive Regulation: Regulations that restrict competition across a wide range of sectors should be tackled. Formal response to CA reports?

### 3. Land Planning: Effective supply of zoned and serviced land and a strategically focused spatial planning system are needed.



# 3. Energy



## 3. Energy: Status

- Price and economic competitiveness:
  - 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 CO2 emitters



## 3. Energy: Policy

- Supply of Affordable Energy:
  - Market Structure: consider Deloitte & Touche options
  - 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
- Environmental sustainability:
  - Potential for improved energy efficiency and research in renewable energy
  - Addressing transport - the primary source of increasing carbon emissions



# Conclusions

- Current phase of domestically-driven growth cannot continue indefinitely
- Return to export-led growth only means for long-run wealth generation
- To do that, Ireland must address a range of areas
- Today we have singled out:
  - Ireland's Knowledge Economy
  - Costs of Doing Business in Ireland
  - Energy



End



# 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> |



# Other Key Issues for Policy

- **Labour Force:** improving participation rates, attracting skills from abroad (Green Card) and up-skilling domestic workers (life-long learning)
- **Social Capital:** importance of active citizenship, integration of migrants and corporate citizenship
- **Public Income & Expenditure:** improving the sustainability of Ireland's tax base and the efficiency of public services
- **Productivity of Irish-based enterprise:** at SME level, development of management skills and staff ICT skills
- **Regulatory environment:** measuring - and reducing - administrative costs; appropriately framing new regulation
- **Infrastructure:** issues of broadband, waste infrastructure; implementation of the National Spatial Strategy

