



Press Release

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SUCCESS IN INTERNATIONAL MARKETS THE ONLY SUSTAINABLE DRIVER OF ECONOMIC GROWTH

The National Competitiveness Council (NCC) today (07 February 2007) launched *Ireland's Competitiveness Challenge*. This report identifies the main challenges facing the enterprise sector, and the policy responses required to enhance the ability of Ireland's enterprise base to sell goods and services in international markets.

The Irish economy continues to grow strongly. The ESRI estimate real GNP growth at 6.2 percent for 2006. Between 2001 and 2006, real per capita incomes have grown by 17% and are now on a par with EU-15 and OECD averages. The composition of economic growth has changed. *Ireland's Competitiveness Challenge* notes that domestic consumption and construction investment have replaced net exports as the drivers of growth. Supported by high and fast growing private debt levels, construction now dominates employment and economic growth. International trade did not contribute to Ireland's growth in 2005.

These are challenging developments. In the long run, success in international markets is the only sustainable driver of economic growth. A number of international trends are also likely to impact on Ireland's future growth. These include intensifying competition due to the growing economic importance of China and India, the expansion and development of the EU, and increasing concerns about energy prices, security of supply, and the environmental impact of economic development. Launching the report, Dr Don Thornhill, Chair of the National Competitiveness Council, said "Ireland continues to maintain a strong economic performance relative to our peers. As globalisation develops, this provides us with new opportunities. It also creates greater competition. It is vital that the necessary economic conditions are in place in Ireland to take advantage of these opportunities and sustain our competitiveness". He noted "We are in a unique position in terms of our past history to address these challenges. We now have more resources for investment. We also have the confidence - built up over the last twenty years, when we stepped back from economic decline and began what became a remarkable economic recovery.

Dr Thornhill added: "In a small regional economy like Ireland, economic prosperity ultimately depends on our ability to sell goods and services abroad. Our economic performance during the last

decade has been outstanding. While we are still a strong trading nation, our share of world markets has begun to dip as resources have shifted towards domestic consumption and construction. Our productivity growth rates have slowed, and growth in domestic demand is being financed by high levels of personal borrowing. The challenge facing us is to reverse those trends, to stimulate productivity growth and regain international market share as key policy objectives.”

In this regard, the NCC welcomes the National Development Plan (2007-2013). The plan proposes a wide range of investments that will remove infrastructural bottlenecks, enhance the skills of the labour force, and improve the business environment for research and innovation. Concerns have been expressed that the NDP will lead to further price inflation. Potential exist to manage this risk by improving public sector management of projects, the careful prioritisation and evaluation of expenditure, and the creation of projects of scale that can attract strong international players with the capabilities to deliver.

Building on progress to date, *Ireland's Competitiveness Challenge* outlines key policy recommendations in ten areas that would help to restore Ireland's international competitiveness. These areas include: labour force; public income and expenditure; social capital; the education system; innovation and R&D; the productivity of Irish-based firms; the regulatory environment; physical infrastructure; the costs of doing business; and energy. Priority areas include:

- **Prices and costs:** inflation and a strengthening euro mean that Ireland's cost competitiveness has weakened significantly in recent years. Coordinated actions to restore Ireland's cost competitiveness are critical across a range of policy areas, including fiscal policy and infrastructure development. In particular, a strong focus on land planning and competition policy issues is vital to regaining cost competitiveness, given the relatively high costs of property and locally traded services in Ireland.
- **A knowledge-intensive workforce:** Ireland's education system has made significant progress in recent years. Further actions are required to develop a world class education system. In particular, the NCC supports the establishment of a pre-primary education system, the development of cross-departmental strategies to maintain our momentum in improving secondary school completion rates, and policies to make lifelong learning a reality. Continued reforms and additional funding will be required if our higher education system is to establish a world leading position in teaching, learning, research and development.
- **A competitively priced and secure supply of energy:** the forthcoming White Paper on Energy offers a critical opportunity to set out policies for dealing with the structure of the energy market in a way that enhances competitiveness. We need a determined plan to reduce the growing electricity price differential between Ireland and the countries we compete with. The NCC believes that NDP funds should be used to support national security of supply of electricity.