Competitiveness: Should we be concerned?

Tourism Policy Workshop, 22nd November 2014

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Cost of doing business here increases

High taxes, business costs ‘threaten economic recovery’

Danger is loss of competitive edge, not repeat of credit bubble

Business costs are crippling recovery

Rising costs ‘threaten job creation and competitiveness’
About the National Competitiveness Council

► Established by Government in 1997

  • Provide a clear, authoritative, thorough, accurate and focused up-to-date assessment of Ireland’s competitive performance
  • Provide clear evidence-based recommendations to enhance competitiveness

► Reports to the Taoiseach and the Government, through the Minister for Jobs, Enterprise and Innovation

► Membership includes people with relevant expertise in competitiveness, business people, employer and trade union representatives, and a representative from the Department of Jobs, Enterprise and Innovation

► NCC is also advised by senior officials from 9 Government Departments including Taoiseach, Finance, Public Expenditure and Reform, Energy & Communications, Education, Justice, and Environment.

► Supported (research/ admin) by DJEI

► NCC provides an independent voice
What is National Competitiveness? How do we Measure it?

- Broad concept encompassing diverse range of factors and policy inputs
  - Education and training, entrepreneurship and innovation, Ireland’s economic and technological infrastructure and the taxation and regulatory framework
- Ability of Irish firms to compete successfully in international markets
- Not an end in itself
  - Goal of national competitiveness is to provide Ireland’s people with the opportunity to improve their living standards and quality of life
How is National Competitiveness Measured?

国际排名...

...或一组国家指标

- 成本
- 调整竞争力指标
- 出口和市场份额数据（成功度终极指标？）
- 生产力
- NCC方法 - 评估一系列指标但没有单一指标

但当前排名并不总是预测未来的伟大指标

不符合爱尔兰的重要因素

IMD

WEF

世界银行
Distinguish between the ‘inputs’ to national competitiveness - over which policymakers have greatest control - and ‘essential conditions’

- 120 metrics, appropriate to changing economic & societal circumstances
- Internationally comparable data - EU, UN, WTO, OECD for majority of indicators
- Indicators from specialist competitiveness bodies (e.g. World Bank Doing Business, WEF Global Competitiveness Report and IMD World Competitiveness Yearbook)
- Where of benefit, national sources such as Central Bank, CSO, and ESRI
- Subject to data availability, benchmark performance against 19 other countries (trading partners and competitors)
- Ireland also compared to a relevant peer group average (e.g. OECD or the euro area)
What does competitiveness mean for tourism?

National Competitiveness

Cost competitiveness

Productivity growth

Tourism: The Destination!

Cost

Natural resources

Quality of service

Overseas market

Domestic market
If we focus on costs, which costs matter?

- **Location Insensitive Costs**
  - Labour: 54.2%
  - Property (Facility lease): 87.1%
  - Transportation: 84.9%
  - Utilities: 80.5%

- **Labour**
  - Transportation: 13.9%
  - Utilities: 5.1%
  - Taxes & Grants: 7.7%

- **Property (Facility lease)**
  - Interest & Depreciation: 13.4%

- **Manufacturing**
- **Digital**
- **Services**
- **R&D**
Maintaining cost competitiveness

Harmonised competitiveness indicator for Ireland (HCl), 1997-2014

- Nominal HCl
- Real HCl

January 2005=100

Improvement
Disimprovement

Jan-97 to Jul-14
Labour costs

Gross and net wages

- Gross annual earnings (€)
- Net annual earnings (€)

Annual rental costs - office

- 2013
- 2012

Euros per metre squared

Countries: Poland, Hungary, Spain, Italy, Ireland, EU27, France, US, Finland, UK, Sweden, Germany, Netherlands, Japan, Denmark, Switzerland.
Energy Costs

Electricity costs - small user

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€ per Kilowatt hour

$SPPI\ 2010 = 100$

Service Costs

Services producer price index

Q1 2006 to Q1 2014
Broader Cost Environment

Annual inflation (Average annual change in HICP 2008-2012)

- **Low Cost, Rising Quickly**
  - Hungary
  - Poland

- **EU-28**

- **Low Cost, Rising Slowly**
  - Spain
  - Germany

- **High Cost, Rising Quickly**
  - UK
  - Finland
  - Italy
  - Luxembourg
  - Denmark

- **High Cost, Rising Slowly**
  - France
  - Netherlands
  - Sweden

- **Less Expensive**
  - Ireland

- **More Expensive**
  - Price level 2012, EU28=100
Maintaining cost competitiveness

► Against backdrop of modest recovery, cost pressures emerging
► Particular pressures evident in the energy, legal and health sectors
► Significant concern about rapid (residential) property price increases

- Enhancing labour cost competitiveness through:
  - Reform of income taxes
  - Changes to the social insurance structure for lower paid workers
  - Addressing replacement rates for those who face high rates

- Lowering energy costs over time by:
  - Tackling controllable costs
  - Taking measures to enhance energy efficiency and manage peak demand

- Managing property costs by:
  - Replacing commercial rates with a site value tax
  - Reforms to other local authority charges
  - Supporting the long-term development of the property sector (e.g. planning)
Continued steady fiscal consolidation

General government gross debt (% GDP), 2013(f)

Required improvement in underlying primary fiscal balance to achieve debt targets, 2012-2030
Continued steady fiscal consolidation

- Fiscal deficit & public debt elevated for foreseeable future
- Further consolidation needed in coming years
- Stable, sustainable public finances prerequisite for competitiveness

- The tax base - distribution of taxes, expanded role for property taxes
- Availability of competitively priced world-class infrastructure
  - Energy; telecoms; transport (road, public transport, airport, seaports); waste; water; and related services - critical to support competitiveness
- Reverse some of the cuts to the capital expenditure budget in recent years
  - Focus on a range of infrastructure projects that support competitiveness
Supplying essential skills to enterprise and reducing unemployment

Youth unemployment and long term youth unemployment rate, 2013

Public expenditure on active and passive labour market programmes (% GDP), 2011
Supplying essential skills to enterprise and reducing unemployment

► Primary driver of productivity and long term competitiveness
► High levels of unemployment, long term unemployment and youth unemployment, allied to high replacement rates for specific cohorts
► Large spend on (passive) labour market activation programmes
► Indications of skills mismatch

➢ Continuing need to invest in all areas of the education system from pre-primary right through to fourth level education
➢ Languages, sales and marketing
➢ Implement the new Further Education and Training strategy
  ▪ Deliver structures to provide better high quality, flexible and responsive education and training programmes
  ▪ Focus on increasing employer engagement, enhancing the reputation/value of further education and training, & activating the unemployed
➢ Modernise the apprenticeship system
  ▪ Greater focus on on-the-job learning, engagement with employers
  ▪ Development of a wider range of relevant apprenticeships
Developing a more sustainable enterprise base

Exports % GDP, 2013

Exports to emerging markets (% GDP), 2012

Exports % GDP

Exports to emerging markets (% GDP)
Developing a more sustainable enterprise base

- Very open economy & an attractive investment location
- Strong productivity performance but concentrated by sector
- In export terms, narrow range of products and markets
  - Reliance on US, EU and UK - weaker linkages with emerging economies

- Promoting investment
  - Address tax competitiveness (e.g. income taxes, capital taxes, etc.)

- Promoting trade development and diversification
  - Trade policy - focus on agreed priority markets & advance Transatlantic Trade and Investment Partnership
  - Key skills - foreign languages and marketing skills, logistical skills
  - Cluster development - enhanced linkages between indigenous & foreign firms

- Enhancing productivity, innovation and R&D
  - Competition policy - legal
  - Sustained investment in research, development and innovation

- Supporting entrepreneurship & using public procurement
Enhancing access to finance

Notwithstanding sluggish demand, a shortage of finance is significant limiting factor on growth and competitiveness.

Key issues are limited credit availability and the relatively high cost of credit where it is available.

Addressing mortgage arrears and completing bank repairs.

- **Enhance bank funding**
  - Monitoring and encouraging bank lending - particularly to the SME and manufacturing sectors
  - Developing the range of products and services provided by the banks
  - Developing/ attracting new entrants to the banking market
  - Pro-actively dealing with legacy debt)

- **Support other non-banking funding sources**
  - Encourage equity investment
  - State support for other funding mechanisms such as peer-to-peer lending
Actions addressing trust (social capital, data protection and corporate governance)

► As a knowledge economy, trust in institutions and corporations is becoming ever more central to Ireland’s ability to compete
► While trust is intangible, it is an important international currency
► A reputation as a secure and responsible location in which to do business is central to competitiveness

- Supporting corporate social responsibility
  - Implementation of the National Plan on Corporate Social Responsibility
- Improving corporate governance
  - Completion of the white paper on crime - focus on actions designed to tackle white-collar crime
- Developing Ireland’s data protection infrastructure
  - Engagement on the proposed European “data reform package”
  - Enhancements of the resources of the Office of the Data Protection Commission
Focus on Tourism Sector

► Ambitious employment & growth targets set out for the sector but to achieve (and surpass these)...

► Are there issues NCC have not considered
  • Commercial rates, insurance, JLC reform?

► What policy shortcomings need to be addressed?
  • What can central Government do? Role for Local Authorities?
  • Short term - through the Action Plan for Jobs, marketing, better regulation, visas, maintain VAT rate
  • Medium Term - capital investment & planning, aviation policy to support access & connectivity, training (ETBs, SOLAS)

► What can firms do?
  • Selling in mature markets
  • Investment in human capital (EGFSN), management development, and ICT
  • Maintaining price competitiveness
Questions and Answers

www.competitiveness.ie