Ireland’s Experience with Measuring and Benchmarking Competitiveness

Presentation by
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Agenda

1. Irish Economy in Context
2. Benchmarking Competitiveness
3. Ireland’s National Competitiveness Council
4. Competitiveness Pyramid
5. Changes in Focus over Time
6. Conclusions
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1. Irish Economy in Context
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A small island, off an island, off the North West Coast of Europe but...
Over 500 million people live within a 3 hour flight from Dublin.
Rapid Transformation of the Irish Economy

• Modern enterprise base
• Strong investment (infrastructure, education, health, research)
• Positive demographics
• Cost base rapidly realigning with EU trading partners

But
• Domestic and International recession
Ireland’s Economic Success - Key Factors

- Pro-active industrial policy - export oriented MNCs
- Change in outlook since 1960’s - GATT/WTO
- EU Membership - Structural Funds, Single Market, EMU
- Investment in education and skills
- Investment in critical infrastructure
- Social partnership agreements in the 1980s
- Tax reform - investment and work
- Restructuring of the economy
- Development of R & D activities
Our success as an exporting country is of vital importance.

Exports of goods, intra-EU and extra-EU (as a % of GDP), 2008

Source: Eurostat, External Trade
How have we been doing?

Contribution of Net Exports to Irish Economic Growth, 2001 - 2009

Source: NCC Calculations; Central Statistics Office, Annual National Accounts
Cost competitiveness has weakened in recent years.

Harmonised Competitiveness Indicator, 2000-2009

- Nominal HCI
- Real HCI

Impact of Irish Inflation
How have we been doing?

Ireland’s Share of World Trade: Total, Merchandise and Services (%), 2000-08

Source: World Trade Organisation
There is no return to domestic led growth
Our debt burden grew rapidly and we are now highly indebted

Household Borrowing per Capita, December 2009

- Slovenia
- Italy
- Finland
- Greece
- Belgium
- Portugal
- France
- Euroarea-13
- Austria
- Germany
- Spain
- Netherlands
- Ireland
- Luxembourg

Source: ECB
Government debt is rising sharply

General Government Consolidated Debt (as a % of GDP), 2000-2011F

Source: Eurostat, Economy and Finance European Commission, Autumn Economic Forecasts December 2009
Irish exports holding up relatively well as world trade contracts in 2009

Percentage Change in Volume of Exports of Goods and Services

Current Competitiveness

► Ireland retains a wide range of competitive strengths
► Cost competitiveness is beginning to improve
► Growing unemployment a new long term challenge
► High levels of outward migration a key risk
► Government resolute focus on:
  • Restoring stability to the public finances
  • Repairing the banking system
  • Restoring competitiveness and investing in creating new employment opportunities.
► Irish economy is adjusting to the new realities
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Focus of Forfás competitiveness benchmarking 1995 (drawing on M Porter’s *Competitive Advantage of Nations*)

- direct and indirect costs, e.g., labour, electricity
- indirect costs and quality of infrastructure, e.g., ports, roads, workforce
- company level competitive capability and facilities
- inter-firm competitiveness
- fiscal and regulatory framework
- coherence among government ministries/agencies in developing/implementing policy on wide range of areas

*Main focus on costs, prices and real exchange rate*
Measuring and Benchmarking Competitiveness - early actions cont’d

Forfás long-term enterprise policy review 1996, key dimensions of competitiveness analysis

- **competitiveness potential** - costs, education, skills...
- **competitiveness performance** - trade, investment
- **competitiveness process** - strategic management

Identified need for *Council on Competitiveness*

- involving the social partners
- benchmark progress annually & identify areas of weakness
- make recommendations on improving competitiveness
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National Competitiveness Council (NCC)

- Established 1997, independent body reporting to the Prime Minister
- Provide a rigorous and agreed approach to the monitoring and assessment of Ireland competitiveness
  - Annual benchmarking report
  - Annual assessment of key competitiveness issues
- Operate under auspices of Forfás, providing research, benchmarking and technical expertise
- Membership of the Council is a mix of industry, unions, academia and the public sector, with Government Ministries in attendance
1998 - pragmatic definition of competitiveness as ‘...success in international markets that translates into general increases in welfare’

Prices, costs and effective exchange rates only one element of longer-term competitiveness assessment

Ireland ‘competing’ in two spheres:
- international trade
- mobile investment

Sustainable economic growth dependent on performance of enterprises in international markets, which is a function of the competitiveness of the operating environment and inputs in the country
125 indicators, 29 countries/EU/OECD, six thematic areas

- Human resource development (35)
- Business Services (28)
- Infrastructure (46)
- SME competitiveness and performance (6)
- Public administration (5)
- Socioeconomic performance (5)

Eleven priority policy areas incl: education and labour markets, trade, EMU, costs, tax, innovation, telecom and information society

Over time recognised need to clarify linkages and inputs/outcomes - Competitiveness Pyramid
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The NCC Competitiveness Pyramid

- Sustainable Growth
- Essential Conditions
- Business Performance
- Productivity
- Prices and Costs
- Labour Supply
- Policy Inputs
- Business Environment
- Physical Infrastructure
- Knowledge Infrastructure
Methodology

Use internationally comparable metrics

- OECD, the EU, the UN and the WTO
- specialist international bodies, WEF and IMD
- national sources Central Bank, the CSO, ESRI, Forfás

Benchmark against 17 countries

- Eurozone peers (Finland, France, Ger, Italy, Nethers and Spain)
- other non-Eurozone (Denmark, Sweden, Switzerland and the UK),
- two newer EU members (Hungary and Poland)
- five non-European global leaders/similar size countries (Japan, South Korea, New Zealand, Singapore and the US)
- Relevant peer group average, OECD-28, EU-15 or Eurozone average
- Averages weighted country population or GDP as relevant
- ‘Traffic light’ system
Sustainable Growth

- National Income
- Quality of Life
- Environmental Sustainability
Benchmarking Ireland’s Performance

Essential Conditions
Essential Conditions

Business Performance
- Investment
- Trade

Productivity and Innovation
- Productivity
- Innovation
Prices and Costs

- Prices
- Pay Costs
- Non-Pay Costs

Traffic Light Colours:
- Green = a strong performance.
- Orange = an average/stable performance.
- Red = a poor performance.
- Grey = no traffic light colour is applicable.
Labour Supply
- Overview
- Employment
- Labour Supply Characteristics

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Benchmarking Ireland’s Performance

Policy Inputs

- Business Environment
- Physical Infrastructure
- Knowledge Infrastructure
**Physical and Economic Infrastructure**

- **Investment**
- **Transport**
- **ICT**
- **Housing**
Knowledge Infrastructure

- Pre-primary and primary

- Secondary

- Tertiary and LLL

- R&D

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Changes in Indicators Used

Benchmark indicators do change to better reflect stage of development

- definitions of success change over time, reflecting economic and social context and understanding of issues
- less focus on input indicators to outcomes
- less reliance on perception indicators
- use of more composite indicators
Recent reports, more emphasis on indicators assessing essential inputs and sustainable growth outcomes

- Sustainable growth - more emphasis on income, environment and quality of life
- Essential conditions - more emphasis on pay and non-pay costs and on business performance indicators relating to trade, investment, employment and entrepreneurship
- Policy inputs - greater focus on competition and regulation, taxation and finance, with reduction in some areas such as cluster development, business formation management and innovation, in part due to data availability issues.
How the Council’s Focus and Policy Advice has evolved

Reports serve two broad purposes

- identify priority areas for action to improve competitiveness;
- provide reference material for policy makers in refining actions needed to improve competitiveness.

1998-2000

- Council warned ‘competitive position not yet based on solid foundations...danger signs such as skill shortages, infrastructural bottlenecks, lack of investment in telecommunications’
- input to significant national decisions on National Development Plan for capital investment, National Spatial Strategy, expansion in funding for education, training and R&D
How the Council’s Focus and Policy Advice has evolved cont’d

2001-2005, the Council highlighted:

- tightening of the labour market
- increases in costs crowding out internationally trading activities
- weakening export performance
- policy advice focus on productivity growth, skills and innovation, prices and regulation and competition in markets
How the Council’s Focus and Policy Advice has evolved cont’d

2006-2007

- Council concerns as to the un-sustainability of economic growth
  - rapid rise in private sector debt
  - construction and domestic demand as the main drivers of growth
- advice focused on the key messages of firm-level productivity, innovation and costs and competition in locally trading services.
How the Council’s Focus and Policy Advice has evolved cont’d

2008-2009

- Council role with Forfás and others in monitoring and building consensus on the dynamics of change and options for corrective action - 2 high-level conferences 2008, 7 statements in 2009
- Mid-2009. Noted progress on the public finances and the banking stabilisation but called for focus on
  - cost competitiveness
  - wage adjustment
  - lowering energy costs
  - supporting competition
  - investment prioritisation
  - R&D
  - Ireland’s reputation
End of 2009 - Council recommended policy focus on macro issues of restoring stability to public finances and banking and focus on costs and measures to boost productivity growth and export performance

Focus of advice

- return to productivity and export-led growth
- broaden the tax base to provide a more sustainable basis for the public finances
- greater competition in locally trading services
- investment in education and support innovation
- investment in productive capacity of cities as drivers of growth
- allow necessary adjustment to happen in the property market
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Competitiveness measurement initially based on costs and labour and exchange rates but understanding of the dynamics of enterprise and longer term development broadened that perspective:

• enterprises rather than nations are basis of competition
• comparative productivity levels at the firm level matter to winning market share
• that the productivity performance of each of the inputs to enterprises matter
• as pace of globalisation increases, basis for comparative advantage and for competitiveness will be dynamic
• competitiveness is important not just for its own sake, but to achieve our broader national economic and social development objectives
Conclusions cont’d

Benchmarking is useful to inform policymaking, notwithstanding:

- natural lags in collating comparable official statistics across selected countries;
- given uniqueness of each country, not realistic or even desirable for any country to seek to outperform other countries on all measures;
- customise indicators to stage of development and circumstances;
- are no generic strategies to achieve national competitiveness;
- trade, investment even competitiveness between countries is not a zero-sum game.
Measuring and benchmarking competitiveness

► has a precise objective - to identify weaknesses and to determine corrective actions

► is needed at national level, especially for governments, trade unions and business associations to share a common and agreed baseline assessment of potential and performance

► helps identify the key areas for policy action and to learn from the best practice as to solutions and policy options.
Systematic measuring and benchmarking of competitiveness

- helps identify most important areas for a broader and deeper analysis of key issues
- helps identify linkages between indicators, policy domains and policy actors

Benchmarking is not to duplicate or substitute for the work of existing advisory bodies or ministries, rather

- add value in terms of providing common base for analysis and discussion
- provide a common platform for action
- basis for ensuring that we are dealing with the most important issues
Conclusions cont’d

Do not have to be the best at everything to be competitive, but we do need to have the right combinations of policies so that we create the right environment for long term sustainable growth
Thank You

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