Boosting National Competitiveness: Lessons from Ireland

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In the global economy, competition among nations is intense. MNCs consider various factors before deciding where to invest. While cost is an important factor, the scope to add value is more critical. Value adding investments go to those countries which have excellent infrastructure, skilled human resources and a climate which encourages innovation. What can nations do to make themselves attractive to foreign investors? A look at the experience of Ireland provides some useful insights.

Ireland, one of the poorer countries in the world at the start of the 20th century, is today one of the most competitive economies, not only in Europe, but also in the world. The Irish economy has been one of the fastest growing in the world in recent times, thanks to its ability to attract foreign investments. With just one percent of the EU's population, Ireland attracted twenty-five percent of all new U.S. investments in the EU between 1993 and 1999. Around 1500 overseas companies do business from Ireland. Low corporate taxes, competitive labor costs, a good telecommunications infrastructure and a responsive government have been the main factors behind Ireland's success. The country has also developed a solid reputation for its environment and quality of life. Ireland has more computers per 100 people and more mobile phone subscribers than the EU average. Irish companies consistently obtain new technology patents from the US Patents and Trademarks office. Quite clearly, Ireland has arrived and is today considered a model for emerging economies.

No doubt, Ireland has been helped by favorable circumstances. European Union (EU) funds, received after Ireland's 1973 EU accession, facilitated structural reforms and helped improve the country's infrastructure. However, it is not just luck that has turned the Irish economy into a "Celtic Tiger." Drastic cuts in government spending since the late 1980s, the "National Wage Partnership Programs" which ushered in a period of good industrial relations, reduction in taxes and government programs to attract foreign direct investment in key sectors (such as computers, financial services, and pharmaceuticals), have all built up a strong growth momentum for Ireland.

In the 1990s, the Irish government pursued cautious fiscal policies designed, to meet the criteria for Economic and Monetary Union prescribed in the Maastricht Treaty. By lowering the annual budget deficit and the overall level of national debt, the government created a favorable investment climate for the private sector. Today, there is broad political support for reducing the government's role in the economy. This is a significant break from the past when politicians felt that the government should not only protect national industries through tariffs and subsidies, but also control key sectors of the economy like energy, communications, and transportation. The Irish government's direct role in the economy is now limited to some key industries, like airlines, electricity distribution and natural-gas distribution. Even these businesses are likely to be privatized in the next few years.

The Irish government has been quite proactive in promoting value-adding industries, like chemicals, pharmaceuticals, electronics, software and medical devices. It has also been responsive to the needs of businesses. When Intel voiced reservations about entering the country because of the shortage of engineers, the Industrial Development Agency sprung into action. It gave Intel a list of Irish engineers working in the US and took steps to persuade these engineers to return to their motherland. When Microsoft decided not to locate a key web hosting operation in Ireland in 1998, because the country did not have the desired level of connectivity, the government was quick to deregulate the telecom sector. Now, Ireland is a very important country in Microsoft's global network.

Irish labor unions, like their counterparts in other parts of Europe, oppose proposals to lay off or dismiss workers. Substantial severance packages for "redundant" workers are the norm. The constitution gives workers the right to form unions. However, employers are not compelled to recognize them. All these factors could well lead to conflict. However, strikes in the Irish private sector are relatively rare and the Irish labor market is one of the most flexible in Europe. Social partnership agreements between the government, labor and employers, have played an important role in this context. The unique series of "National Economic Partnership Programs," negotiated between representatives of employees, trade unions, the government, farmers and other "social partners" (such as groups representing the unemployed and the physically disabled), have contributed to the harmonious labour relations.

Attracting foreign private investment has been a top economic priority of Irish governments over the last thirty years. Overseas companies located in Ireland have been critical to the country's economic success, and at present account for 65% of the output of the manufacturing industry, 47% of manufacturing employment and 82% of manufactured exports. As of end-1998, there were 550 U.S. companies operating in Ireland, employing around 78,500 workers (5% of total employment), mostly in value-adding sectors like chemicals, pharmaceuticals and healthcare, computer hardware and software, electronics, and financial services.

In this situation of plenty, the Irish government is quite understandably adopting a more selective approach to foreign investment. Incentives are being given to companies locating in the less-developed western part of the country, where unemployment is higher and infrastructure is less developed. Irish authorities are also taking steps to deal with potential bottlenecks like shortage of skilled and unskilled labor and rising infrastructure (traffic, aviation, telecommunications) congestion. In 1998, a government commission projected that 2,200 more technical specialists would be needed in each of the next five years to fill skills shortages in the high-tech sectors of the economy. To deal with this situation, the government has established an Education Fund to encourage students, from secondary level education upwards, to pursue careers in science and technology. As a result, the number of computer science graduates has gone up from 500 in 1996 to 2,400 currently. The Irish government is also looking outside the country for skilled manpower. It has launched a worldwide drive to attract overseas workers. Top Irish politicians are showing a great degree of personal initiative in the area of human resource development. The Irish Deputy Prime Minister, Mary Harney led a delegation of Irish software companies to India while, Micheal Martin, the health minister dispatched a delegation to India and Pakistan to recruit doctors and other key health personnel. There is a similar programme to attract Filipino nurses. Ireland is a good example of what governments should do to boost the competitiveness of nations. Proactive thinking and sound strategies backed by efficient implementation at the ground level is what is needed to attract investments. In short, governments need to think like companies.

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