Irish economic development in international perspective: A tale of three “covers”

John Bradley

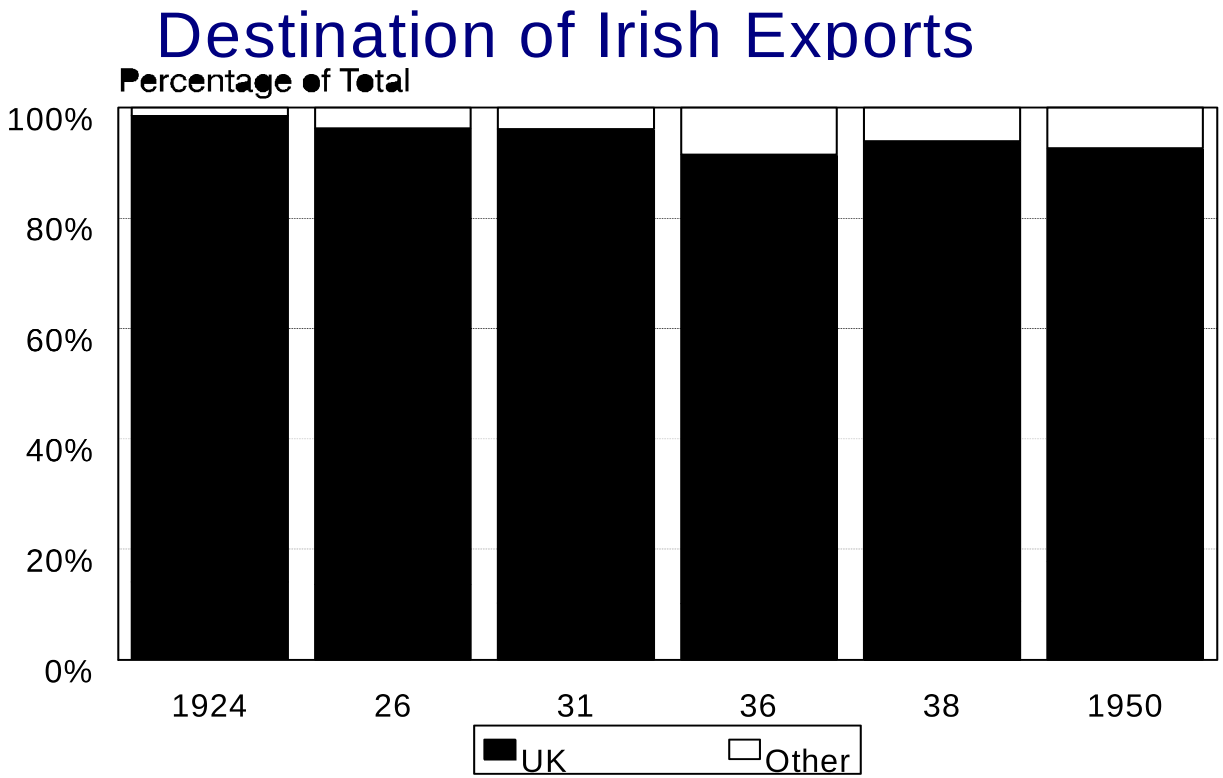
The Economic and Social Research Institute

Dublin, Ireland

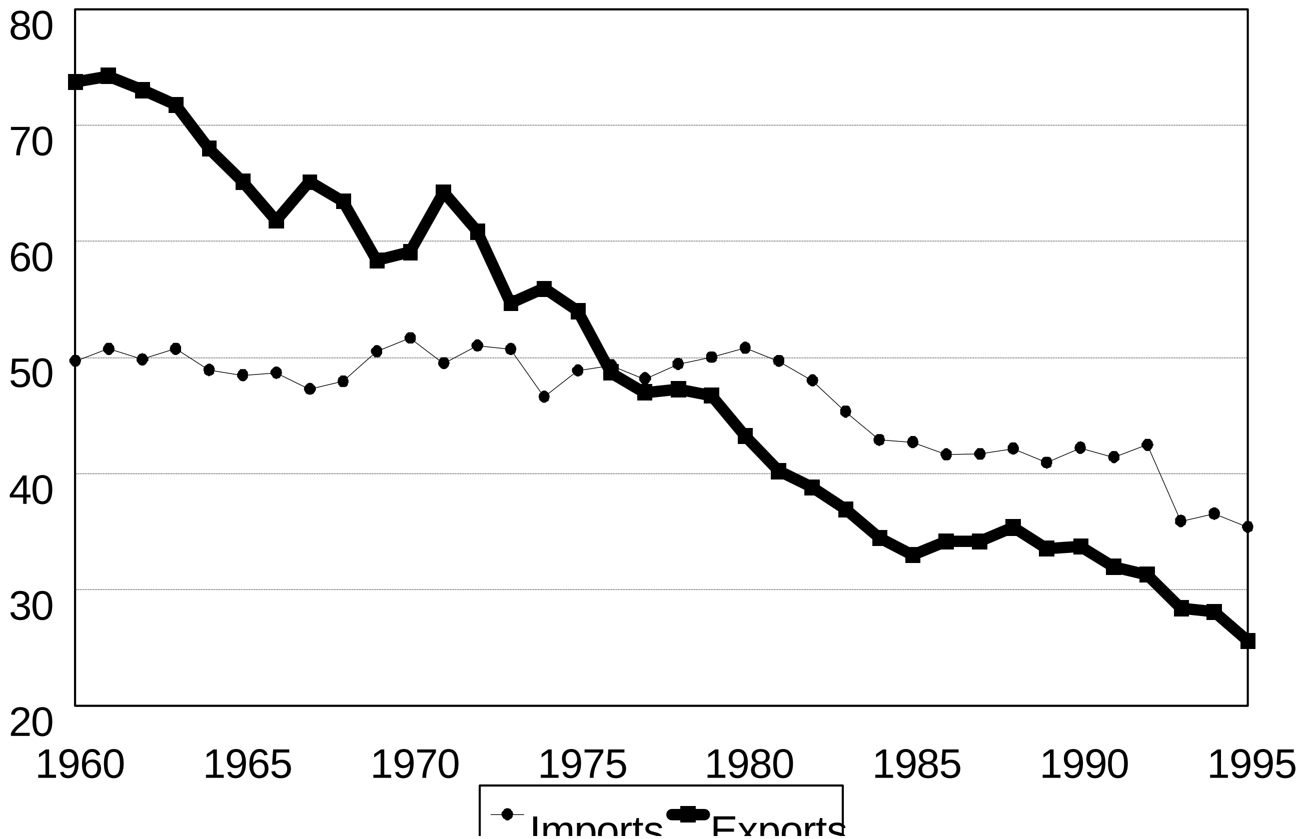
Themes in the presentation

- **From independence (1922) to the modern era (1960)**
- **Enlarging Ireland's "world": the first steps - free trade and low corporation taxes**
- **Before the Structural Funds: education reforms**
- **Structural Funds (from 1989): physical infrastructure, human capital, business promotion**
- **The role of the Single European market**
- **Ireland's "virtuous circle" of development**
- **Future risks and challenges**

Share of Irish exports going to the United Kingdom: pre-modern era



UK Share of Exports and Imports:1960-1995



The openness of small European economies

Country	Export share of GDP in 1960	Export share of GDP in 1999
Belgium	39	74
Denmark	33	35
Ireland	30	86
Portugal	16	33
Greece	7	16

Consequences of globalisation

"In Adam Smith's day (1776), economic activity took place on a landscape largely defined - and circumscribed - by the political borders of nation states: Ireland with its wool, Portugal with its wines. Now, by contrast, economic activity is what defines the landscape on which all other institutions, including political institutions, must operate"

Kenichi Ohmae

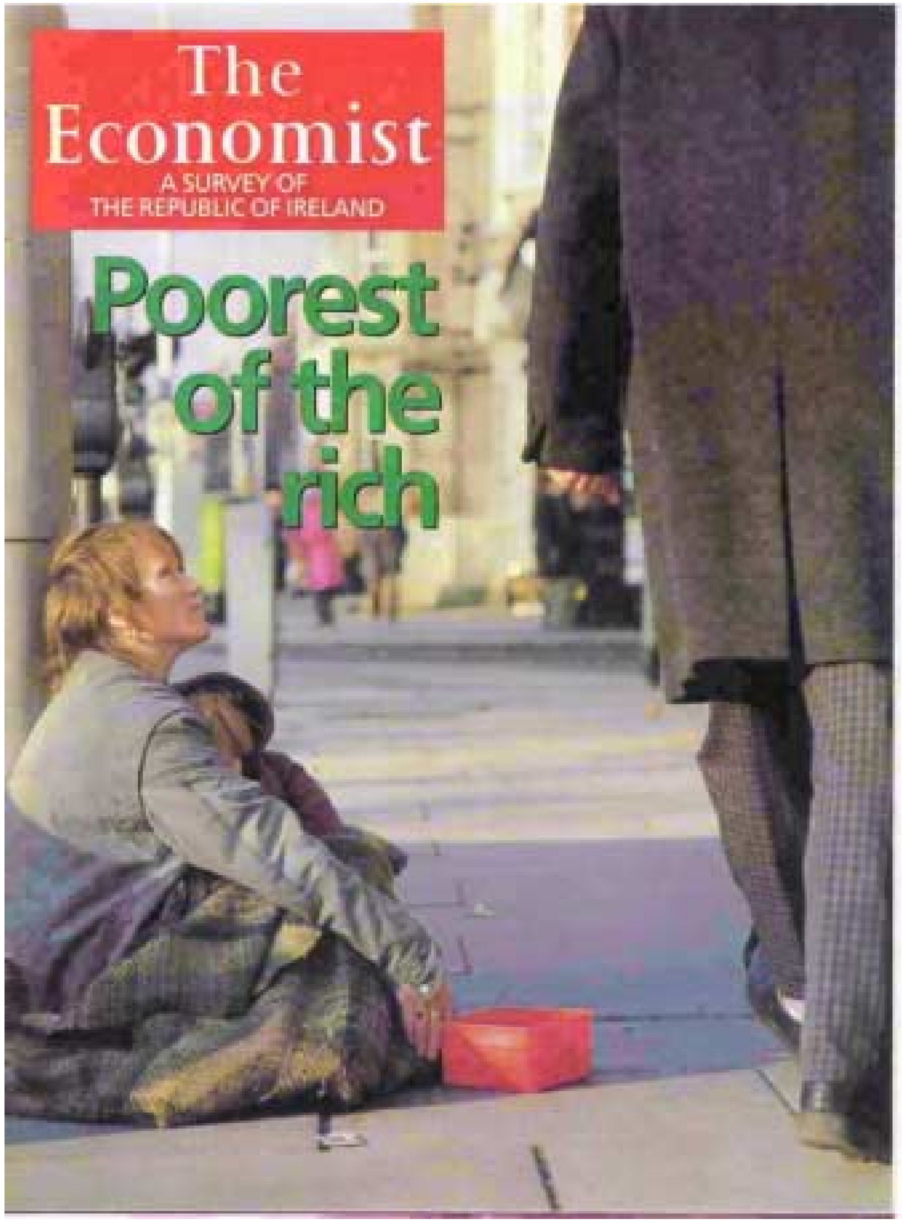
Implications of globalisation for small states

“The real economic challenge ... [of a country or region] ... is to increase the potential value of what its citizens can add to the global economy, by enhancing their skills and capacities and by improving their means of linking those skills and capacities to the world market."

Robert Reich

Ireland's changing policy environment

- **<u>1922-1960</u>: A dependent small underdeveloped state on the periphery of Europe**
- **<u>1960 onwards</u>: A small regional modernising economy progressively integrating into an encompassing European economy**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A boost to Irish convergence: the rise of EU regional aid policy in the late 1980s

- **EU Enlargement after 1973 brought in some poorer countries (Ireland, Greece, Portugal, Spain)**
- **The need to prepare for market integration (the Single European Market of 1992) and Monetary Union (EMU) in 1999**
- **EU Budgetary reform and an increase in regional aid allocations after 1989**

How does EU regional investment aid work?

- **EU financial aid with domestic co-financing**
- **Improvement of physical infrastructure (roads, rail, ports, telecommunications)**
- **Improvements in human resources (training, education)**
- **Direct investment aid to productive sectors (marketing, design skills, R&D)**

The goal of EU regional investment aid policy

"To design and implement policies with the explicit aim of transforming the underlying structure of the (poorer) beneficiary economies in order to prepare them for exposure to the competitive forces unleashed by the Single European Market and Monetary Union"

The Irish “virtuous circle” of economic development

- Initial clustering in niche high technology areas
- Generates local demand for skilled workers: human capital
- Further spillovers: infrastructure
- A stable monetary/fiscal environment and social partnership

GDP per head, PPP: EU-15=100

Country	1960	1973	1986	2002
Belgium	97.4	102.8	104.3	105.7
Denmark	126.0	120.9	117.8	120.8
Ireland	63.2	62.3	65.9	122.0
Greece	43.7	71.0	62.8	69.9
Portugal	40.6	57.5	54.5	73.7
Spain	59.4	77.2	71.8	83.9


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Why Intel came to Ireland

- “We are there because Ireland is very pro-business, they have a very strong educational infrastructure, it is incredibly easy to move things in and out of the country, and it is incredibly easy to work with the government. I would invest in Ireland before Germany or France”

- *The Lexus and the Olive Tree* (Thomas Friedman, 1999)

Risks with the Irish development strategy

- A heavy dependence on foreign direct investment
- FDI concentrated into a narrow range of technologies that can quickly move through maturity and into decline
- The loss of its “first mover” status and greater competition for FDI


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EUROPEAN EDITION
THE NEW GLOBAL JOB SHIFT
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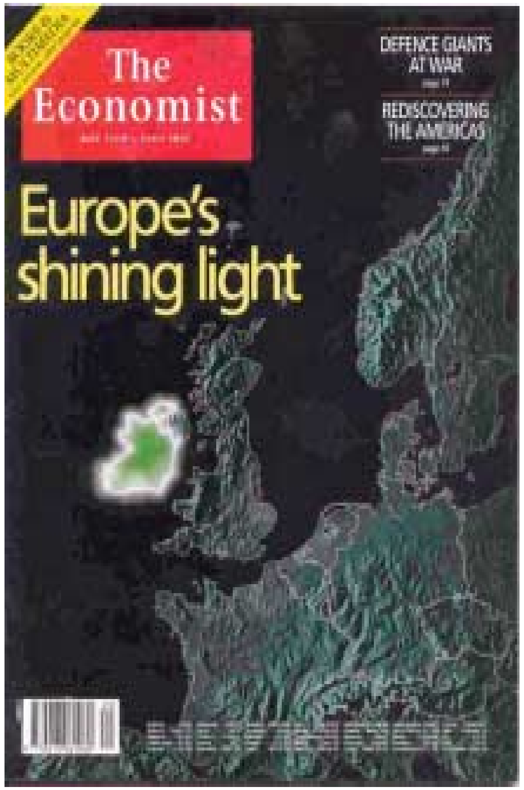
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