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References have been made by a number of the keynote speakers to Ireland's experience of economic development. While we cannot claim to have a development model which others can readily adopt, our recent experience may offer some pointers which other might wish to consider.

My country and a country on the other side of the world, South Korea, are often given as examples for other developing or transition economies. It is important to remember that the means by which both countries achieved their present level of development were very different. That difference arises in part from our obviously different population sizes, geographic location, culture, system of government - South Korea was for many years under various guises of military government and policies. Korea concentrated on the development of indigenous industries and some of those industries are to-day major players in the world economy. Foreign investment was effectively discouraged until relatively recent years. In our case, we were aware that our population was not large enough to be self-sufficient and the private capital did not exist within the country to enable indigenous industry to prosper. We therefore decided to adopt a policy of encouraging inward investment making the best use possible of the advantages we had.

As in every case of strong and sustained economic growth, the reasons for Ireland's economic success are quite complex. It was greatly facilitated by our increasing integration with Europe. Membership of the EU and free access to the EU market played a key role in helping to attract increased foreign direct investment, while low corporate and personal taxation have also played their part. There was also a price to be paid - much of our indigenous industry, apart from agriculture, was not able to survive the initial shock of free trade. But there are a number of "other important factors" which helped build the foundations for economic expansion – these include the implementation of sound economic policies, the prudent use of EU structural and cohesion funds, and the availability of a young skilled labour force which arose from a sustained and well-targeted investment in education. This laid the groundwork for, and then was further encouraged by, increased inflows of foreign direct investment by technology firms in the early-to-mid 1990s. While many of these factors would not in themselves be sufficient to generate the type of economic expansion experienced in Ireland, they could perhaps be termed “necessary conditions”. Other factors specific to Ireland were also important - the fact that we are for the most part an English-speaking country and have a temperate climate have frequently been mentioned to us as significant additional elements which resulted in inward investment. A negative factor we had to overcome is our geographic location somewhat distant from our main European markets which suggested that we had to focus on high value light industry.

High technology firms invested heavily in Ireland in the 1990s, attracted not only by Ireland's skilled labour force but also by the favourable wage and tax conditions as well as governments determination to create the right conditions for foreign investment. This investment has given rise to further upstream and downstream employment growth. This "virtuous cycle" of investment in education, well-targeted foreign direct investment, and a favourable macroeconomic policy environment, contributed significantly to our economic success. But while education and foreign direct investment fed off each other, their combined effect was only possible because other fundamentals were in place. This was not easily achieved.

Ireland’s public debt started to rise from a low level in the 1970s and continued to grow strongly in the 1980s reaching a peak of 120% of GDP in the mid-1980s. When interest rates rose sharply in the 1980s, the debt service burden became unsustainable, and sharp and immediate corrective fiscal action was required. There was pain involved and much desirable development foregone. Many things we should have done then, such as improving road and rail infrastructure, did not get done, simply because the resources were not available. While we had the necessary labour and construction capacity, we did not have the necessary funds – the lesson here is I believe that sound national finances are one of the most important basic building blocks for economic success. It was absolutely essential at that time to work towards the restoration of sound national finances. By 2002, our Government debt to GDP ratio had declined to 34% – the second lowest in the EU. Ireland moved from being one of the worst performers in the EU to being one of the best.

The lesson from all of this is that while Ireland has consistently pursued trade openness, and increasing investment in human capital investment since the 1960s, it was not until we started to pursue sound and sustainable macroeconomic policies in the late 1980s, that the return was fully realised in the 1990s.

Good macroeconomic policies and well-targeted microeconomic policies can be used to create a virtuous circle. Coherent, consistent, and predictable legal, regulatory and policy frameworks play an essential role in creating an environment for foreign investment and the growth of a vibrant private sector. And equally important is finding the proper balance between the role of public and private sector initiatives in driving innovation and creating new economic opportunities. What is important at the end of the day is that conditions for fair and strong competition, investment and trade are created; that sound macroeconomic policies are promoted; and that, in partnership with the private sector, key structural constraints on economic growth are addressed.