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# Keskusteluaiheita – Discussion papers

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## FOREIGN AID POLICIES

## – COMPARING FINLAND AND IRELAND**

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**ABSTRACT:** This paper is an analysis of the foreign Aid Policies of two OECD Development Assistance Committee member countries – Finland and Ireland. The analysis reveals that both Finland and Ireland share high principles on their relations with the developing world, although their current policy outlooks appear to differ significantly. Despite Finland's good economic performance and prosperity largely generated by the global demand and market access, the government has so far failed to include the increasing of ODA on its priority agenda. In addition to the declining commitment, the selection criteria for Finnish aid recipients appears to be partially commercially motivated. Ireland on the other hand has a solid record of targeting the poorest of the poor with its development assistance and has recently increased development country focus in national policies. The challenge for Ireland is the effective utilisation of these funds and even more importantly keeping the government's public, international commitment to the 0,7 percent recommendation level despite the possible future slowdown of the economy.

**Keywords:** Official Development Assistance (ODA), Globalisation, Level of Integration, Trade

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# 1. Introduction

In 1970, the UN set a formal target level for Official Development Assistance (ODA). Developed world economies were recommended to commit 0.7% of their GNP to the eradication of poverty in the developing world (Fahey and Sutton, 2000). For three consecutive decades, aid was maintained on average at 0.33% level within the OECD's Development Assistance Committee (DAC) country group but since 1992, the allocations fell dramatically to reach a low of 0.22% in 1997. In the same year private flows to the developing world amounted up to $US 206 billion, which, was 4.3 times the volume of ODA (German and Randel, 1998).

The World Bank's Development Finance (2000) identified five principal sources for the challenges facing the declining development assistance.

1. The decreasing strategic importance of aid since the end of the Cold War and the donor governments prioritising of domestic issues and budgets.
2. The increase in the number of aid agencies as a response to delivery and accountability needs that has generated administrative overload and rapid increase of projects and donor issues in the recipient countries.
3. The distortion of aid allocation, which does not (yet) reflect issues of poverty impact, human welfare and good governance comprehensively enough.
4. The prevailing aid-dependency of the recipient governments that hinders sustainable economic recovery.
5. The increasing complexity of addressing humanitarian needs in the global context as demand for public good increases and environment degrades (WB, 2000).

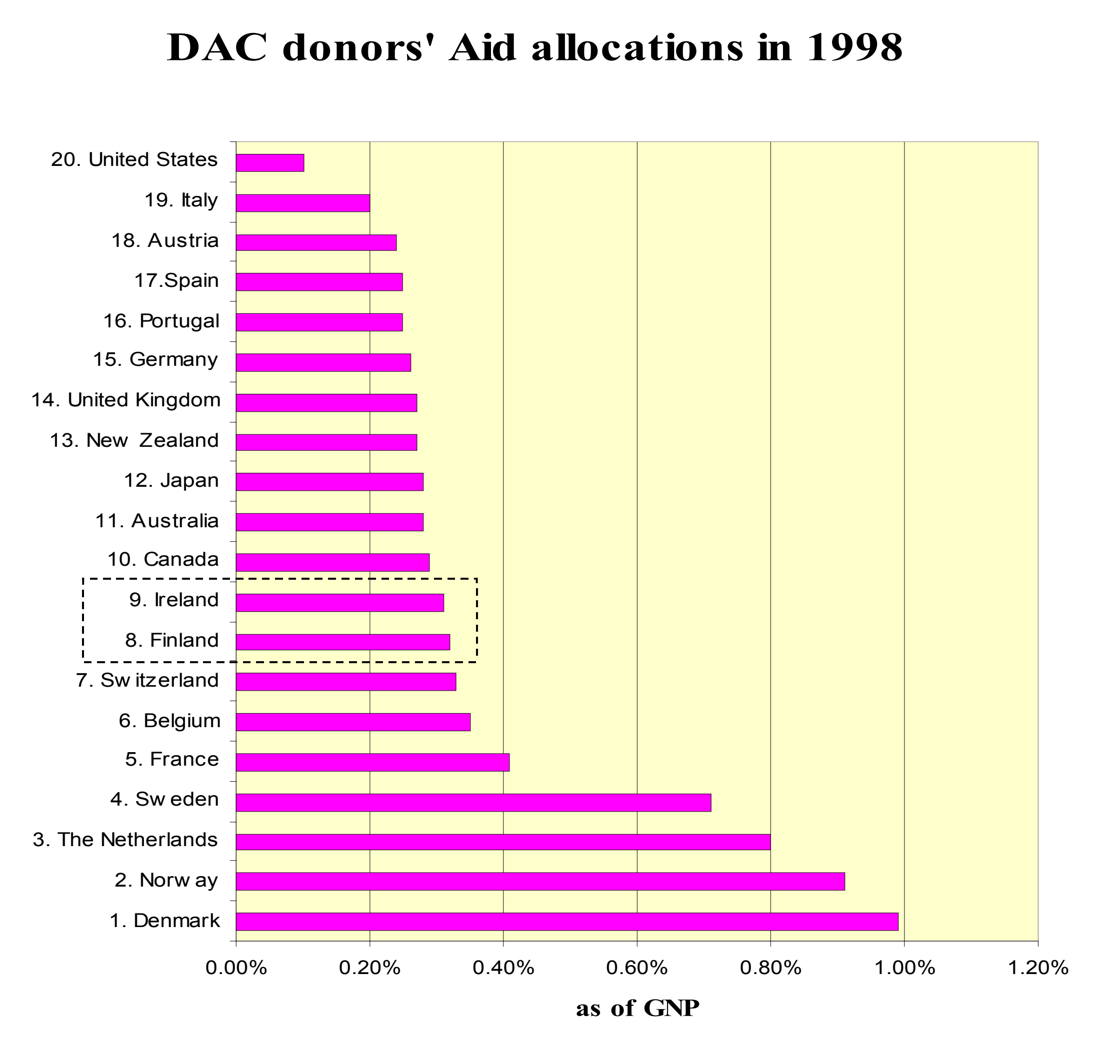
The following is an attempt to analyse individual donors' motives behind and objectives of foreign assistance. It presents an examination of the policies of two representative countries that have relatively similar economic structures and history – Ireland and Finland.

The following section gives a brief description of the economic developments in these two countries since the late 1980s. The objective thereafter is to try and plot out differences and similarities in the countries' policy choices toward foreign assistance and search for possible triggers of specific trends. In addition to the analysis of economic data available, the paper's findings are based on extensive interviews with development, trade and foreign policy professionals in both Finland and Ireland (See appendix 1 for interviews conducted).

# 2. Finland and Ireland – Donor overview

Finland and Ireland are both young as independent countries, both qualified as small open economies (populations of 5,2 and 3,7 million respectively) with agrarian histories and they are traditionally dependent on trade with other countries. They both belong into the European Union and are yet geographically remote from the centre of Europe. Their recent economic successes are much due to the increased openness of the global economy, advancement in technology and information availability but also characterised by the strength of the Government Policy and the significance of social consensus programmes.

**Graph 1.** Ranking the OECD donor countries generosity




As donors in the DAC group Ireland and Finland have very close overall rankings based on their governments' budgetary allocations to development assistance (see graph 7. below) – the direction in which the two have been moving on the scale is however different. Finland has drastically decreased its official aid allocations measured as percentage of GNP from the highs of early 1990s whereas Ireland has continuously been on an upward path.

## 2.1 Economic Performance Since the late eighties

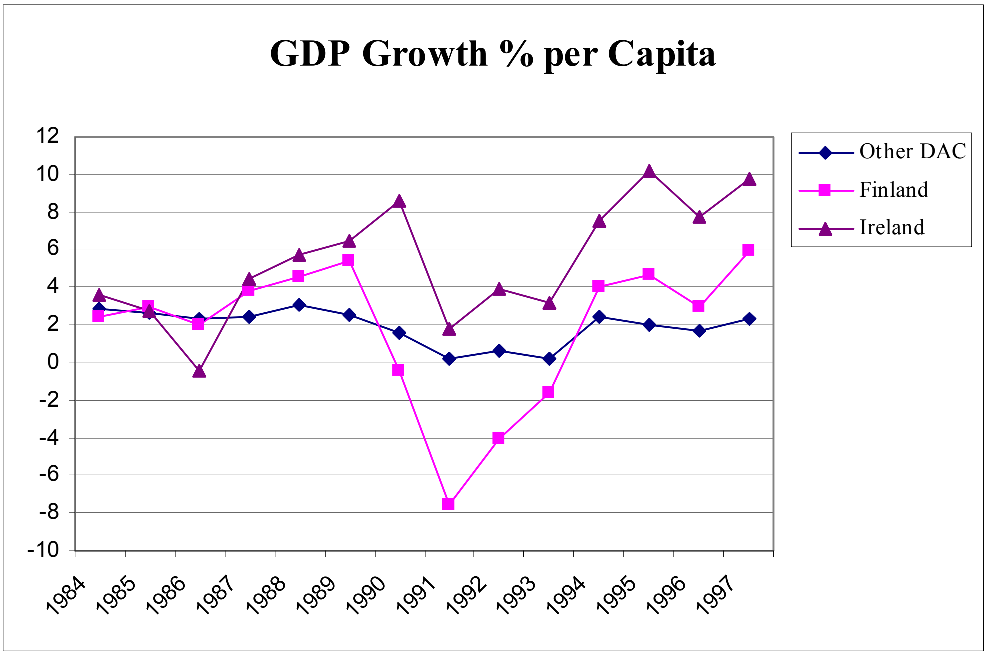
Due to the simultaneous disintegration of the Soviet Union and the collapse of the Finnish-Soviet trade, the global economic downturn beginning from 1989, hit Finland much more severely than other countries. The economic downward implications for Finland were strengthened by the deregulation of the financial markets in 1986, which had brought about the so-called “casino” economies. As money circulated at an unforeseen rate, people speculated in the stock markets and real estate prices rose to record highs (IMF, 2000). Interest rates also rose, although the rise was inadequate to address the overheating of the economy. The crises hit the financial sector first, spreading throughout the economy. The government debt grew with bankruptcy and unemployment figures rising to all time record highs.

In brief, the Finnish recession of the early 1990s occurred as a sum of adverse factors that included the overheating of domestic demand, the collapse of trade with the Soviet Union, terms of trade shock and the current account deficit, the bursting of an assets price bubble and an overvalued exchange rate (IMF, 1999).

Although the causes and the timeframe of poor economic statuses were different in the cases of the two countries, both the Finnish and the Irish Economy were in bad shape as the World was entering the decade of intense globalisation. Ireland had been struggling with its worsening economy for decades, whereas Finland had been hit very suddenly and drastically off balance by externalities that completely redefined its competitive advantages in the international market place. However, the elements of recovery were existent in both economies: well-educated population, technological advancement generated through demand from the trade markets and credible government authority with an ability to liase with trade Unions, as well as the free entry to the European internal marketplace. In the case of Ireland, these basic elements were further backstopped by the favourable taxation and government grants offered.

In addition to the internal elements, the external events kicked-off by the GATT Uruguay round’s push to international pressures of globalisation and the enforcement of the Single European Act of 1992 that ensured entry to European markets added to the recovery equation. Also the countries’ aim to participate in the European Monetary Union and appliance to Maastricht criteria provided a strong framework for price stability and fiscal rectitude and the structural and Common Agricultural Policy (CAP) funds allocated to by the EC supported the recoveries of these two donor economies.

**Graph 2. Paths to recovery**




Data Source: WB Macro time-series

Compared to the DAC countries average, the fluctuations in the Finnish and Irish GDP growth rate per capita were much more dramatic during the 1990s. In the case of Finland the worst year, 1991 witnessed a negative GDP growth rate per capita of -8% (see graph 2 above). However, the tough corrective measures implemented in these countries effectively returned the economies to a healthy – in the case of Ireland even a spectacular - growth path.

A turning point for the Irish Economy came about when the “Third World” state (national debt 129% of GNP in the beginning of 1987) of national accounts and the persistent Gloomy Consensus - a combination of depressed domestic demand, high interest rates and government’s poor economic policy choices in the area of public spending - were addressed by a drastic Programme for National Recovery (PNR) in 1987. A number of Consensus Policies were agreed upon by otherwise disagreeing entities; politicians set jointly their minds on a long-term strategic view, which emphasised the favourable corporate taxation and investment on education. This was to be packaged in a flexible manner that could reflect the interests of strategically important foreign investors. Improvement of the human capital base was to be strengthened by public financing of 3rd level links between the worlds of learning and work (MacSharry and White, 2000).

The Government assumed a visible reformative stance by introducing significant spending cuts that called for a national sacrifice in the form of restricted spending and budget cuts, and fortunately the chosen approach was supported by the trade unions and “a social partnership”, accepting wage restrain in return of corresponding fiscal adjustment, was formed (O’Sullivan 2000, Väyrynen 1997, MacSharry and White, 2000).

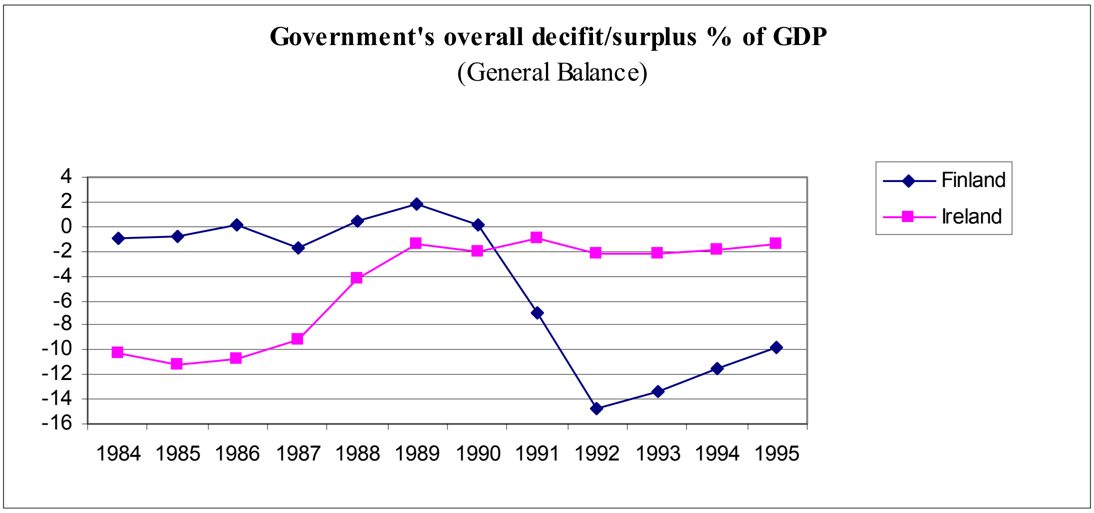
In 1990 the conservative and credible macroeconomic management, to which the EU’s Maastrich criteria gave a strong incentive, was starting to improve the level of business confidence - the GDP growth per capita was over 8% annually and inspired by the economic boom in the United States and the opportunities of the opening of trade and finance at a global level, US investors were eagerly capitalising on the opportunity of using Ireland for their “Greenfield” investment. These effects were multiplied by the intelligent and targeted strategic government policy choices and systemic FDI promotion at the national level (in particular Industrial Development Agency; IDA, and International Center for Financial Services; ICFS).

The devaluation of the Irish punt in 1993 improved the competitiveness of Irish exports and yet the correct timing of this move enabled Ireland to remain a credible player in the eyes of the European Central Bank (MacSharry and White, 2000). By 1994, the Irish miracle of economic recovery had become so evident that it was frequently compared to the “Tiger” Economies of East Asia as the “Celtic Tiger”.

Ireland offered the investors from booming US backgrounds a tax haven with a large stock of educated, English speaking labour at a competitive cost - between 1987-2000, approximately 4/5 of the FDI was of US origin (Haughton, 2000). Ireland continued to enjoy extremely strong economic growth throughout the 1990’s and in 2000 the Irish GDP/capita had increased from its average low of 68% in 1980’s to 115% of the respective EU figure. Between 1995-99, the Irish economy grew at an annual rate of 8,8 % compared to the EU average. Measured in GNP terms the growth has been slightly less impressive at an average of 7,9% each year. The strong growth has been accompanied by decreasing unemployment figures which stood at 4,7% in March 2000 in comparison to 16,3% in 1988. In addition, the general government balance has been on surplus since 1997, resulting a significant decline in the Government Debt ratio (Haughton, 2000: ILO LABORSTA database).

Although there has been severe concern about the prospective overheating of the economy as the property prices are skyrocketing and headline inflation as well as the underlying inflation have picked up markedly and the economy is facing infra-structural bottlenecks and intensified pressures on wages (IMF consultation 2000:PIN, CBI s/2000) the overall prognosis for the Irish economy remains very positive. The dependency of the economy on externalities and the competitiveness of the indigenous industry however is a growing concern.

**Graph 3.** The Bounce-Back - Government finances responding to recovery policies




Data Source: WB Macro Time Series - IMF Government Finance Database

In the case of Finland, the economic "recovery" started later in the decade and in a much less spectacular fashion. In 1991, the Bank of Finland was forced to devalue its currency, as an attempted internal devaluation was not supported by the traditionally strong Trade Unions. Even though the devaluation helped to increase export demand as the Finnish product prices gained competitiveness in the international markets, the effect on the domestic markets was extremely morbid. In the overheated economy of late 1980s, many businesses operating in the domestic markets had borrowed money in foreign currencies due to their low interest rates and were now unable to manage them. Industries were struggling to pay off growing debts as investment sought more attractive destination countries.

As result of the above, the economy was paralysed and unemployment figures increased further. Devaluation failed to even stop the inflation and the grim government deficit figures continued to accumulate the national debt.

In 1995, the spiral of national debt was eventually brought in grip as the Government introduced a Programme of Budgetary Austerity with cuts in public expenditure and higher taxation. A further improvement came along, as Finland became an EU member in 1995, alongside Sweden - one of its largest trading partners - and Austria. The regional integration developments and the intensifying globalisation improved Finnish foreign trade position, FDI attractiveness and competitiveness significantly.

As a typical small open economy, Finland's exports had remained a major driver of the economy and the advocating for the removal of trade barriers a primary objective of her trade policy. In the 1990s, the Finnish economy obtained a third "supportive leg" in addition to the forest and metal industries. High technology sector increased its proportion of exports and depending on the model of calculation hi-tech begun to compete for the top position in the Finnish export statistics. In the late 1990s, the Finnish company heavyweights in all areas have illustrated their tendency to globalise through international mergers and acquisitions as well as through intense investment abroad into emerging markets, including investment in to the developing countries.

In summary, both Finland and Ireland have managed to tackle the economic problems of the early 1990s effectively and capitalise on the opportunities created by intensifying globalisation of the world economy. New and innovation intensive high-technology products, electronics and, in the case of Ireland, pharmaceuticals account for much of their successes. Ability to penetrate global markets due to regional and global development has increased prosperity in both countries significantly. Measured with some the key economic indicators their economic performance has exceeded that of their peer countries in the EU as well as to that of US.

**Table 1.** Economic performance in Finland and Ireland compared to economic power-blocs

| | Real GDP Growth | | Unemployment rate | | Inflation[a] | | Current Balance of Payment (% of GDP) | |
|---|---|---|---|---|---|---|---|---|
| *% in…* | *1999* | *2000* | *1999* | *2000* | *1999* | *2000* | *1999* | *2000* |
| **Ireland**[b] | 10,5 | 10,2 | 5,6 | 4,4 | 1,6[c] | 4,8[c] | 0,4 | -0,5 |
| **Finland** | 3,5 | 5,4 | 10,2 | 9,2 | 2,1 | 2,6 | 5,2 | 6,5 |
| **Euro15** | 2,3 | 3,4 | 9,2 | 8,5 | 1,6 | 2,1 | 0,3 | 0,3 |
| **US** | 0,3 | 1,7 | 9,2 | 4,8 | -0,5 | -0,3 | -3,7 | -4,5 |

*a* private consumption deflator
*b* Central Bank of Ireland estimates
*c* Consumer price index

Source: Central Bank of Ireland S/2000, OECD Economic Outlook estimates and projections

On average, although many internal factors have attributed to their economic successes in the 1990's, both countries have definitely been net beneficiaries of the globalisation of the world economy. The following section provides an analysis of how these developments leading to current national prosperity of the two economies have been translated into willingness to share responsibility for fair income distribution at the global level.

# 3. Comparisons of Economic development and Foreign Assistance Strategies since the late 1980s

In the international development assistance forums Finland has been widely associated with the group of Nordic Donors that continuously exceeds the UN recommendation of 0,7% of the GNP for annual foreign aid allocations. In reality, Finland only exceeded this target once, in 1991. Due to the drastic budget cuts that followed the 1990s economic recession, Finland's aid allocation fell under the recommendation already in 1992 (Paljakka, 2001).

Ireland, on the other hand, did not have any ODA allocations in her budget prior to 1984. It is therefore interesting to note that even without a long tradition in the area of official foreign assistance its ODA allocations have remained relatively stable throughout the years with the exception of the modest cuts during the implementation of the National Recovery Programme. Towards the end of the 1980s and early 1990s, the Irish NGO's and activists had conducted a concerted campaign to enhance public awareness and increase the government's willingness to commit funds to ODA. The campaign outcome was modest due to the coinciding of the government's cost cutting programme.

In mid 1990s, the development assistance profile of the Ministry of Foreign Affairs experienced a major lift when Joan Bartman – a seasoned development expert - was appointed to head it. She was able invigorate debate and with the active support of the NGO's won the popular views. In the outlining of the so-called five rationales to support larger ODA allocations, these views were concretised further. According to the rationales, (1) the new prosperity gave Ireland the ability to join group of respected donor countries, Ireland would also be able to (2) promote its commercial interests and (3) utilise its long tradition and experience of missionary work in developing world. (4) The colonial legacy was also pointed out as a reason to help the less privileged and finally it was perceived that (5) the huge amounts of EU structural development funds received by Ireland obligated it now in its turn to show substantial solidarity in the global context. In this spirit, as Ireland's economic prosperity has increased so have the budgetary allocations toward ODA.

The Irish NGO's played a huge role in the shaping of the public opinion. Tireless efforts in education and advocacy supported also the Ministry of Foreign Affairs in its turbulent encounters and tug-of-wars with the Ministry of Finance. In the late 1990s, the government yielded to guarantee multi-annual funding for development outside the budget.

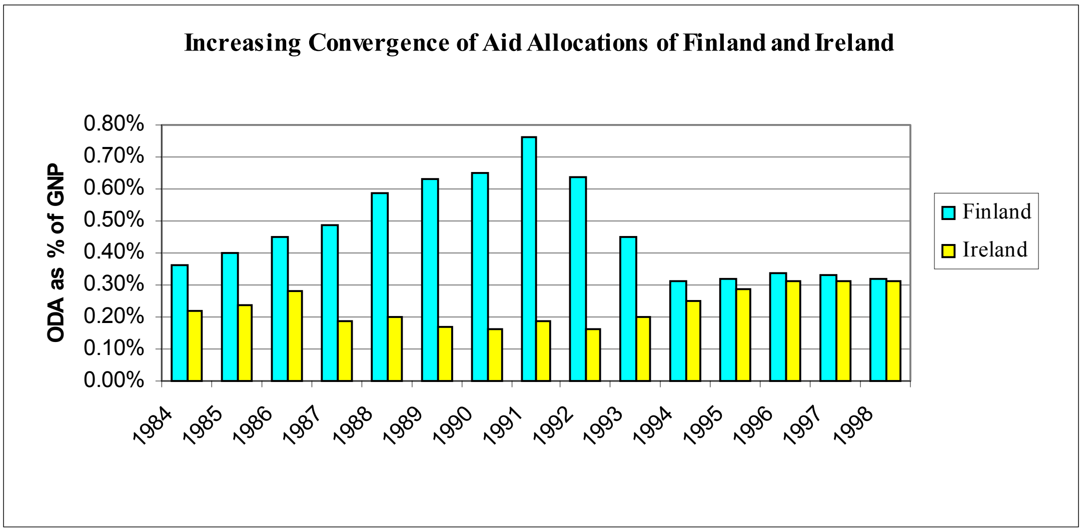
The Finnish awareness of the development issues was at its peak in 1979 when a citizens' group, the so-called Percentage Movement was established and stated demanding larger ODA funds and better channelling of the available funds in favour of the least developed countries. The members of the Percentage Movement were committed to contribute a minimum of 1 Percentage of their gross income to the least developed countries assistance.

Between 1977 and 1991, the Finnish ODA contribution grew sevenfold before the economy hit the recession and the budget allocations were cut drastically. Unfortunately in the case of Finland, the economic recovery has not been accompanied be a corresponding generosity in ODA terms. This has given reason to critics of the government policy to claim that the previous generosity had merely been a politically practical way of linking Finland to the other Nordic countries and that the political climate of the 1990s no longer required the underlining of this association. In addition, the EU also offered Finland a new donor reference group - with much lower average ODA commitments (Paljakka, 2001).

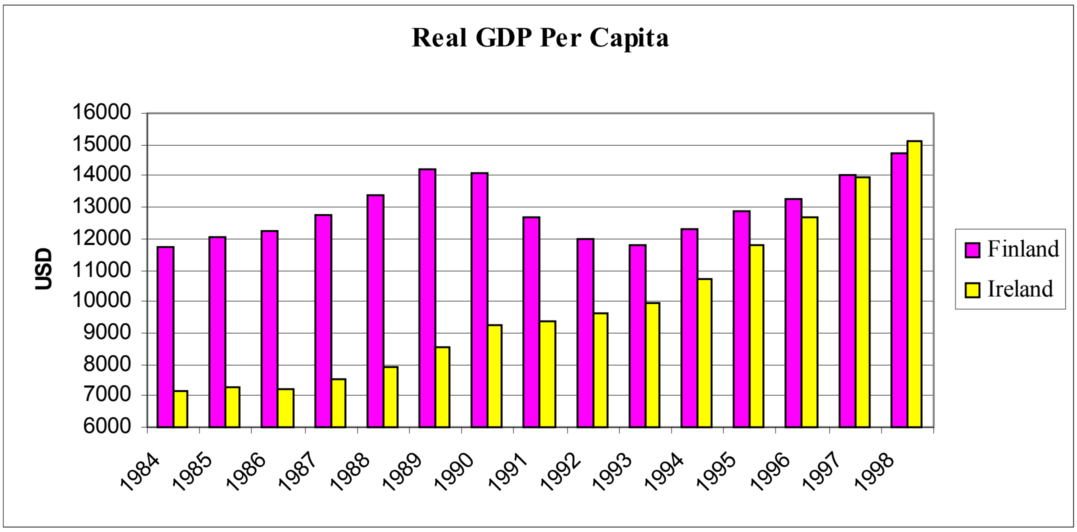
Since the ODA is not a compulsory liability to any OECD government but rather based on the principle recommendation of the UN and "Goodwill" of the political decision makers it can easily be subtracted from government's overall expenditure. The continuing of the general European policy trend of low contribution is however hardly justifiable by the popular argument of national debt burden taking first priority in an economy that is performing so well.

The illusions of Finland as one of the active and generous donors and Ireland as a rather insignificant contributor have persisted in the global context. In the case of Finland, much due to the generous contribution policies and visible participation in the development dialogue by the other Nordic countries and in the case of Ireland due to its extremely robust economic growth that has actually been eating away from the significant ODA increases in real terms.

**Graph 4. A)** ODA measured as Percentage of GNP (Data source: OECD DAC Report)




**Graph 4. B)** Economic Growth Measured as Percentage Increase in the GDP per Capita (Data Source: WB Macro Time Series => In constant dollars; intl. prices, base year 1985)




## 3.1 Official Policies Towards Development Assistance

The Irish development co-operation policy is considered as an integral component of Irish foreign policy. The Irish Government has committed itself, through its Action Programme for the Millennium, to reaching an interim target of 0,45% by 2002. The Department of Foreign

Ministry proposed increase-schedule surpasses the normal donor strategies by far and in general terms Ireland has for the past decade steadily increased its commitment to development co-operation. This policy is quite opposite the prevailing global downturn trend in aid allocations (O'Brien, 2000: Ireland Aid, 2000).

The Irish aid allocation for 1997 and 1998 was 0,31% of the GNP. Even though the Irish aid budget has grown continuously and significantly the high rate of economic growth between 1992-1998 has not made the trebling of absolute allocations show in the relative GNP %-shares (O'Brien, 2000).

At the UN Millennium Summit in September 2000, the Irish Prime Minister announced that Ireland was committed to reaching the UN target for ODA of 0.7% of GNP by 2007 (Fahey and Sutton, 2000). Although some sceptics claimed that the Prime Minister's declaration was a well-timed lobbying trick orchestrated to promote the Irish Seat in the UN Security Council (which it indeed secured in 2001), Ireland has already illustrated its genuine commitment to development agenda in several international forums.

The Irish policy is based on the view that globalisation and liberalisation have altered the mechanism of international economy in a way that should make the industrial countries' approaches to development more focused on the ways of ensuring that the populations of the poorest countries can share in increased global wealth. In recognising the global interdependence, the Government also recognises the global responsibility (Ireland Aid, 2000).

In the current economic climate, there is increasing doubt about the government's ability to owe up to its Millennium Summit pledge if the domestic economy becomes faced with tougher challenges.

The support for development co-operation in Irish political scene is strong across different parties and there is solid commitment to reaching the UN target of 0,7%. However, the NGOs have expressed the fear that the target has become unrealistic and are calling for a disciplinary growth path for aid allocation to secure the reaching of 0,45% by 2002. There is a serious challenge associated with the profound increase of its ODA in the efficient spending of the additional hundreds of millions through the current networks and capacities. Although the NGO's would welcome additional funds, they would not want to risk jeopardizing their position as the "Vanguard" of the policymakers through extensive increases of government funding base.

Irish aid policy is focused on bilateral support (63% of total in 1997 and 64,2% in 1998) and it has traditionally been channelled to support activities in specific priority countries that are located in the African continent. The bilateral dimension of Irish aid is supported by the 1993 Strategy Plan, which states that 2/3 of the Irish aid should go to bilateral assistance.

There has been growing scepticism about the capacity and human resource base of the Irish bilateral aid arrangement to utilise the high increases of aid that the reaching of the Government target would require as a follow up the multilateral organisations may indeed be receiving a growing amount of Irish aid in the near future (O'Brien, 2000: Byrne and Matthews, 1998).
Finnish Government issued formally "Finland's Policy to relations with developing Countries" in October 1998. The fundamental concept of the policy was that Finland's development policy is a part of overall foreign policy and the development co-operation is a policy tool. Foreign policy on trade, security and development must have the same goals and be in accord with each other (Finnish Ministry of Foreign Affairs, 1999). In its Policy Paper of 1998, government further stated that, "Globalisation boosts the use of economic resources and increases interaction between cultures. Promotion of trade and economic interaction is crucial. On the other hand, globalisation may weaken the ability of developing countries to govern their own economic and social development (Finnish Ministry of Foreign Affairs, 1998)."

The statement in general was relatively well received, although its approach to trade and investment were perceived as almost neo-liberalistic as what came to the development of international economy were widely criticised (e.g. Service Center for Development Cooperation; KEPA).

In the political debate, these trends of deregulation and liberalisation are often tied with growing criticism of the economic concepts of the Breton-Woods institutions, IMF in particular. In addition, the Multilateral Agreement on Investment-negotiations (MAI) became more reserved eventually leading to a gridlock situation. Finally the increasing global promotion of the Jubilee 2000 campaign, made the debt issue the real priority for development assistance of individual countries, which led some critics to argue that the statement was outdated already at the time it was officially adopted.

In 1997, Finnish ODA was 0,33% of the GNP, and by 1998, it had dropped again to 0,32%. Although in absolute terms Finland has increased the budget earmarked for development assistance since the initial cuts for five consequent years, the country's economic development - similar to the case of Ireland - has made it impossible to that increase to show when measured as percentage share of the GNP (Sundman and Waller, 2000).

In principle the Ministry of Foreign affairs has the Government's approval for an annual commitment of 450 million Finnish Marks (FIM) to development assistance but due to the annual growth rate of the Finnish economy, it is unlikely for the Finnish ODA to even remain at the 0,34% GNP level which is the government's official target. In factual terms Finland is likely to stay below the UN recommendation and there appears to be no real commitment as to when the ODA will be returned to the 0,7% (Merikallio, 2001).

Both the Irish and the Finnish Development Co-operation policies are widely based on the idea of partnerships with the recipients and the developing countries' responsibility for their own development. In addition, co-operation between the donors is seen as a key to successful development co-operation (Ireland Aid, 2000: Finnish Ministry of Foreign Affairs, 1998: Finnish Ministry of Foreign Affairs, 1999).

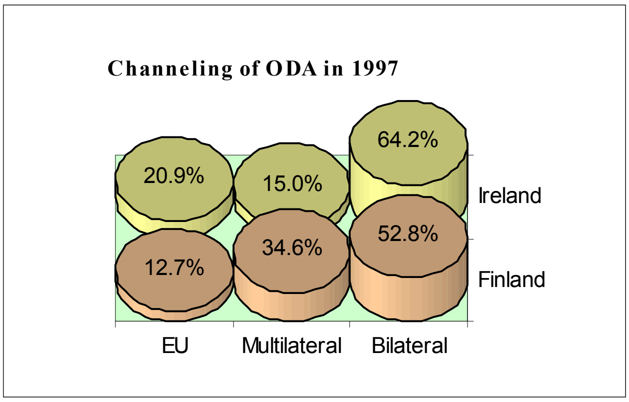
## 3.2 Multilateral vs. Bilateral Assistance

In the recent years, Ireland has already strengthened its links to a range of multilateral aid organisations and gained a stronger position as a participant to the global donor dialogue, and made pledges for more substantial donations. As an indication of this, in 1998, out of the total Irish aid of $205 million, 37.8 % was allocated to multilateral assistance. For 1999, the respective figure projected to be 43.5% of the total, which represents an increase of 15.1%, and this trend is expected to continue.

**Graph 5**.

Comparison of ODA expenditure of Finland and Ireland illustrates the prevailing Finnish tendency to commit proportionally more to multilateral development entities.

Data source: OECD DAC Report; 1998 data for 1997



Ireland has a solid record in directing aid to the poorest people in the poorest countries and has applied a focused approach with its six priority countries for its bilateral activities fielded through the local NGO networks. Despite this clean record the popular argument used to support increasing the proportion of Irish aid channelled through multilateral organisations such as the UN is that the globalisation of commerce of which the advanced countries appear to be benefiting more, need to be matched with by the globalisation of rights and responsibilities. The UN is further seen as a key institution to bring about equitable development and should therefore be supported.

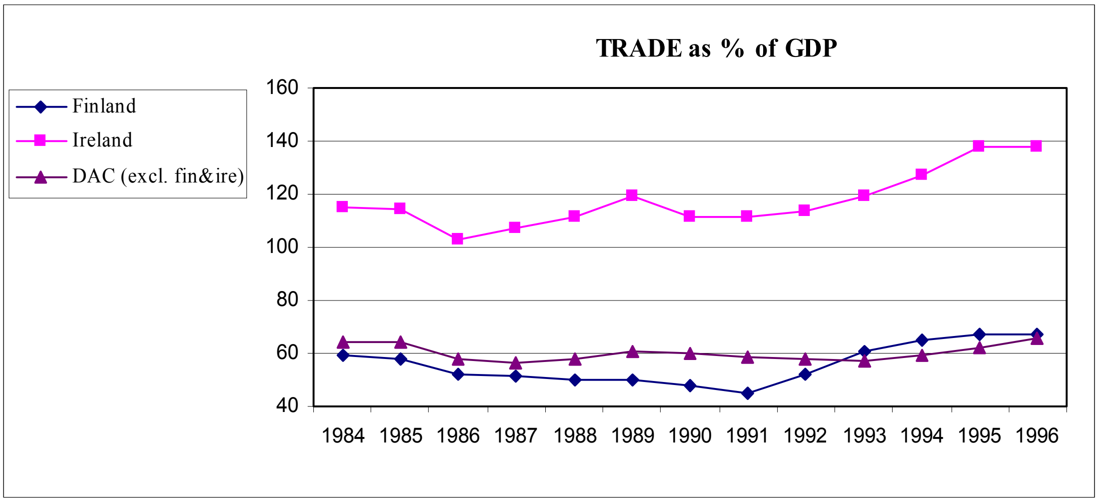
Finland, as other Nordic countries are and have been, is acknowledged in the global development dialogue as a neutral partner. Finland has not had former colonies or significant commercial interest towards the developing world. The Nordic countries have traditionally been the most “indifferent” donors donating to the UN pool of resources that is managed outside political interdependencies whereas many of the larger donors have formed their national development entities which often more or less openly reflect the political and commercial interest of the donor country in question.

In 1998, Finland reported that out of its bilateral aid commitments 26,2% was tied aid. In the same year, Ireland reported that it saw any possible commercial returns merely as an unintended spin-off and that Irish aid was untied with the exclusion of technical co-operation, which was logically linked to the use of Irish experts. Although the Finnish proportion of tied aid may appear high it is worthwhile to note that in the case of the US the proportion of bilateral aid tied to the purchase of US goods and services was as high as 71,6% (Sundman and Waller, 2000: O’Brien, 2000).

## 3.3 Significance of increasing Trade Openness

The relative importance of trade - exports in particular - is highest for small countries. Both Finland and Ireland as small open economies are dependent on trade with other countries. Ireland is one of the most open economies in the world and her export success hinges on having and maintaining access to international markets. Ireland’s external trade is valued at around 140% of its GDP and one job in four is directly dependent on exports (Ireland Aid, Strategy statement DFA 1998-2000).

**Graph 6.** Level of integration to the global marketplace (Total Trade = Export + Import)




Data Source: WB Macro time-series

Finland’s dependence on foreign trade increased significantly in the 1960s and 1970s as trade barriers were reduced as a result of the GATT agreement of 1947. Different from the trend in other industrial countries this development came to end in the 1980s. The two successive devaluations of the Finnish currency in 1991 and 1992 increased the competitiveness of Finnish exports (Centre for Finnish Business and Policy Studies; EVA website 2001) and brought the trade share of GDP on a level above 60% exceeding the average measured for the other DAC countries (see also graph 6. above).

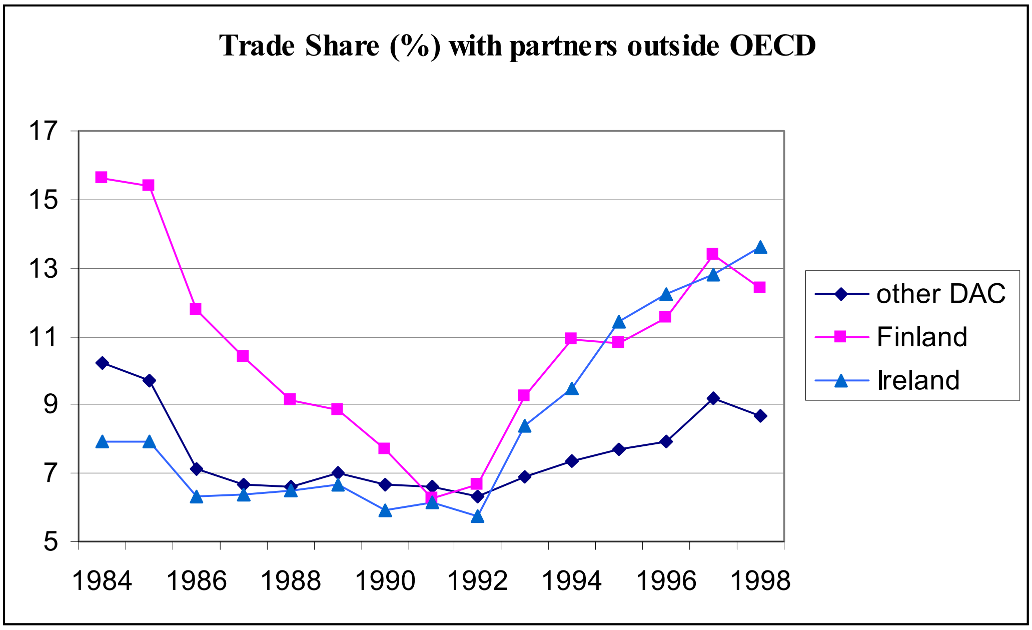
The EU has always been an important target for both countries' exports. In addition to the geographical proximity, this has been due to the various free trade arrangements signed since 1960s. In the 1990s however the Far East share has grown significantly for Finland forming a third export bloc in addition to the Eastern Europe and EU. The significance of the US market has also increased (EVA, website 2001). In the case of Ireland the EU share of trade has decreased from 67% of total exports in 1993 to 62,5% in 1999 (IMF, 2000) whereas exports to US and Canada have increased by 7,2 % during the same time.

The industrial structure of Finnish exports has gone through a major transformation over the past decades. The wood and paper industry, that accounted for over a half of the exports in the beginning of 1970s, has in 1990s become just one of the three major export sectors overshadowed by electronics and other metal and engineering. For Ireland, industrial exports have accounted for more than 90% of its exports since 1997, high technology alone accounting for 39,2% of that in 1999 (IMF, 2000).

Due to the opening of trade, the value chains of MNC production are increasingly free of geographical limitations. This has led in many cases to a situation in which the labour intensive part of high technology and electronics production is undertaken in countries that offer extremely cheap labour and the product is finalised in countries that offer tax or other business incentives. This kind of scenario enables transfer pricing and guarantees access to those internal markets that the country in question is a part of.

The flipside of the coin is, however, that the countries of cheapest labour are also developing countries. The advanced industrial countries thus become importers of materials and intermediate goods for further production, possibly profiting at the cost of the developing world. In the cases of both Ireland and Finland this tendency prevails, even more so in the case of Ireland where the share of materials for further industrial production (intermediary imports) of total imports was as high as 59,5% in 1998 (IMF, 2000).

**Graph 7.** Importance of non-OECD trade (Imports + Exports/GDP)




Data Source: World Bank Macro Time Series

In graph 7 above, the strength of increasing importance of trade outside OECD can be clearly observed for both Finland and Ireland. The fall of the Finnish historically high figure since 1984 was due to the collapse of the Soviet Union. Since 1991, both countries, like the rest of DAC, have increased the share their non-OECD trade. However, Finland and Ireland have both consistently exceeded the corresponding figure in the rest of the DAC, which implies a greater dependence on the markets outside the OECD such as the developing countries.

Although it is clear that the increasing share of the non-OECD trade is not only due to the imports of intermediates from developing countries, and that in particular in the case of Finland much of the volume of the non-OECD trade is due to its paper and telecom industries seeking penetration to the Asian markets, the figures do support their importance when interpreting the trend.

For both countries, the importance of high value added modern sectors and high technology is very significant. The accelerating advancement of global economy in the 1990's has undoubtedly benefited Finland and Ireland in a manner that will yield returns in the long-run, some of the costs of those benefits, however, do fall on the developing world.

## 3.4 FDI benefits – inward and outward views

Integration into the EU accompanied with the process of globalisation converted Ireland into an export platform of high value-added products and services (Väyrynen, 1997). In factual terms inward foreign investment has been the single most important factor contributing to the Irish economic growth miracle of the 1990's. The presence of MNC's, particularly those involved in exports of chemicals, pharmaceuticals, soft drinks, computers and software contributed as much as 32% of the 55% growth in GNP between 1990-96 (Murphy, 1998). The high profitability of these sectors has also meant a significant increase in the government tax revenue, stimulus to service industries and an increase of domestic demand. One of the main benefits of globalisation for the Irish economy has been the "shrinking" of the economic sphere – changes in travels and telecommunications resulted in Ireland fulfilling the requirements of Joel Garreau's "back-shop" concept according to which customer service can only be provided from an office within three hours of its clients (Gray, 1998).

On the other hand the development and taxation policies that attracted companies seeking access to European markets have been subjected to growing scrutiny in the EU, as they are perceived to be distorting the free market conditions and also resulting in "Social dumping" (Mac Sharry and White, 2000).

Although Irish growth since 1994 has been spectacular, even in GNP terms (i.e. excluding the outflow of foreign funds that results from transfer pricing and profit repatriation), some academics continue to claim that the Irish miracle is illusionary since the productivity and performance of the indigenous industries remains low (Murphy, 1996).

On financial account, the FDI inflows amounted to $17,7 billion in 1999, doubling the figures from the previous year. Respectively Irish Investment abroad, which has started to grow with the expansion of the Irish economy rose from a mere $3,6 billion to approximately $5,3 in 1999 (Central Bank of Ireland s/2000: Ireland Aid, 2000).

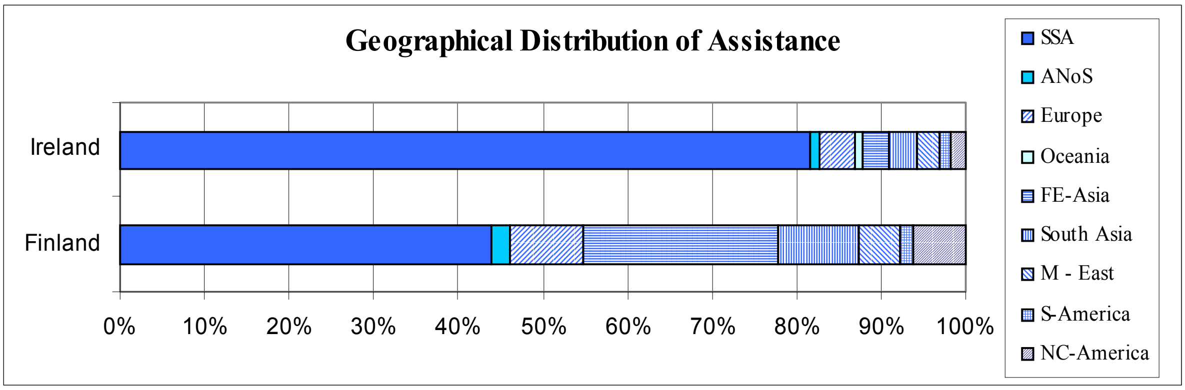
Private flows from Ireland to developing countries amounted to $136 million (including FDI and "Short Funds" i.e. portfolio investment, equities and private bank loans) in 1998 taking the total flows to developing countries to 0,54% of its GNP giving her rank 16 out of DAC countries (O'Brien, 2000).

Finnish relationship to FDI is quite the reverse. Finland unlike Ireland has traditionally not been placed high on the favourites lists of foreign investors. This trend has however changed recently with cross border investment now moving in both directions. The Finnish economy has shown rapid increase in outward FDI since 1980s, strengthening after GATT Uruguay Round and particularly since 1995, which indicates the strategic importance the Finnish corporate world places on participating in the global economy. The depression did turn the outward FDI temporarily on a negative but recent years have again increased significantly (EVA, website 2001).

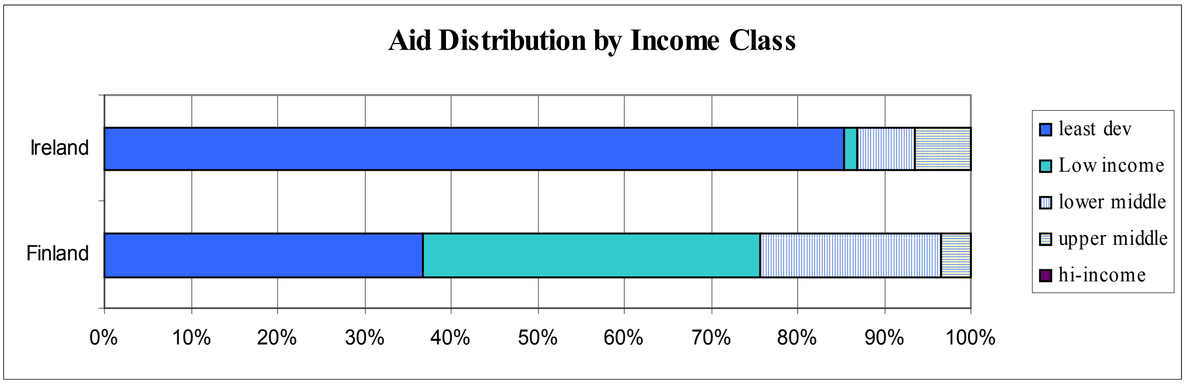
In synch with Globalisation the developing countries have become more attractive to Finnish investors. Investment to developing countries and Central and Eastern Europe increased steadily from \$0,54 billion in 1994 to over \$1,1 billion in 1998. In 1999, the figure jumped to just over \$2,2 billion, the proportion going to developing Asia exceeding \$0,6 billion on its own (Pekonen, 2001).

In comparison to Finland's official aid flows, her total private capital flows to developing countries were 1,16 times larger amounting to \$472m in 1997. In 1998 the same figures had dropped drastically to -\$13m which represents –3% of the ODA. This drastic fall was much due to the East Asian Crisis and the following repatriation of portfolio funds and loans, since Finnish Interest in the Far East exports were more significant than other EU due to its forestry and pulp industries (Möttölä, 2001). Total flows to developing countries for 1998 stood at 0,37% of GNP giving Finland rank 17 out of the DAC21 countries (Ewing, German & Randell, 2000/01).

**Graphs 8. A) and B).** Development assistance Corresponding to Commercial Interests




(SSA= Sub Saharan Africa, AnoS = Africa North of Sahara, FE = Far East, M = Middle, S = South, NC = North Central)




Data Source: OECD DAC Report 1998 (figures for 1996/7)

In its bilateral efforts Finland commits much more significant shares of its assistance to those East Asian and Asian countries where the Finnish commercial interests are high than Ireland does. In addition, since the Asian economies are respectively better off than many other developing countries the Finnish aid is also less focused on targeting the poorest of the poor (see graphs 13. A and B). In addition, a large part of Finnish bi-lateral assistance consists of interest subsidy loans to China and India ($11,5 and $5,85 million annual average 1996-98, Source: Finland's Development Co-operation, 1999).

Interest subsidy loans have been criticised for distorting normal commercial competition and promoting donor interest in the recipient countries. China and India are also among the most important "New Markets" according to the views of major Finnish companies based on the results of an opinion survey conducted by the Confederation of Finnish Industry and Employers (Pekonen, 2001) and present an increasing importance for market the high-tech industry and paper-manufacturing investments.

In order to promote Finnish exports and private investment in scarce markets the Finnish government's FINNFUND supports joint ventures in developing countries and transitional economies with increasing attention to its role in the developing countries. The target countries for FINNFUND projects are to large extent, the recipient countries for Finnish ODA. This fact supports the underlying possibility of promotion of commercial interest indirectly also through development funds.

## 3.5 Participation in Global Development Policy Dialogue

In the joint decisions of global conferences, Ireland has played an active role. Ireland was in support of extending the General System of Preferences (GSP) beyond the ACP countries in order to improve the Less Developed Countries' access to the European market. As what comes to debt relief, the Irish position until 1998 was "principled", since it was a non-participant of both Enhanced Structural Adjustment Facility (ESAF) and the HIPC initiative. Nevertheless, Ireland advocated strongly for a multilateral response to the debts of the developing world.

In principle, Finland is a strong supporter of the ongoing reform aimed at upgrading UN capacity to promote a comprehensive agenda for the management of globalisation. Finland's drifting to the group of DAC countries that provides only a modest amount of development assistance by international comparison has gradually eroded Finland's influence and credibility as a development partner in the EU and the Global forums. Nordic co-operation in the field of development is an additional forum for dialogue and discussion that still, although less prominently carries a positive value in the some developing countries.

Finland and Ireland are both participants in development co-operation that covers nearly all developing countries through their membership in the EU and they contribute to the direction of community assistance within their established national policy guidelines.

## 3.6 Position on Debt relief

OECD countries rearrange the public debts to developing countries and countries in transition through the Paris club, which Ireland and Finland are members of. These rearrangements have lately been aimed towards the easing of conditions of debt as well as their partial remission.

In accordance to the Jubilee 2000 project's principles, Finland has granted remission on most of its bilateral development loans although the Finnish government position is that the responsibility for the debt lie with the indebted countries and that the decisions on debt relief should be taken based on the countries own commitment to provide a conducive environment for sustainable development (Ministry of Foreign Affairs Finland, 1998).

In general terms the Finnish Government policy acknowledges that indebtedness is one of the worst factors adding to world poverty and Finland takes part in efforts such as the World Bank and IMF initiated support of heavily indebted poor countries (HIPC), aimed at reducing their developing country indebtedness to a manageable level.

As Irish development assistance does not include a loan element, there are no developing country debts as such outstanding (Ireland Aid, 2000). In September 1998, the Irish Government announced a Debt relief package with multi-and bilateral elements totalling $41,4m. In accordance to this 1999 Ireland's multilateral aid component already included an element of debt reduction in form of a $14,5m package mainly aimed at two of Irelands six priority countries.

In its policies towards developing country debt, Ireland has published a set of principles, which state that: definitions of debt sustainability must be based on human as well as economic development, there needs to be more transparency in the activities of the Bretton-Woods institutions and that a greater degree of consultation and involvement of the civil society in developing countries in the planning, design and implementation of these IMF-World Bank programmes is required. In addition to this, the Irish Government has decided to undertake annual reviews of Ireland's participation in the Bretton-Woods activities.

Ireland is devoting growing effort to the need to help developing economies integration into the global economy. At the much criticised, Seattle WTO meeting, Ireland helped to co-fund the Advisory Center for WTO law which will be set up to assist developing countries, LDC's in particular, in taking legal cases before the WTO with the view of their exports thus gaining all the market access they are entitled to (Ireland Aid, 2000).

Ireland Aid, the entity of Irish Foreign Ministry responsible for development assistance, has contributed to funding a new international forum – World Association of Investment Promotion Agencies (WAIPA), which is meant to facilitate dialogue and exchange of experiences between investment promotion agencies in the industrial and the developing countries. WAIPA is intended to provide useful and practical experiences of the economic promotional strategies from which the developing countries can draw from.

# 4. Summary of the Country Comparison

It is fair to conclude that both Finland and Ireland share high principles on their relations with the developing world. One could also assume that their similar pasts and somewhat suppressed position in the shadow of world superpowers would provide them with an ability to relate to the problems of the struggling developing economies.

Unfortunately, despite Finland's good economic performance and prosperity largely generated by the global demand and market access, the Finnish government has failed to include the increasing of ODA on its priority agenda continuously referring to the importance of the management of national debt. In addition, the Finnish bilateral allocations appear to be closely related to the commercial interests of the businesses whereas the Irish aid is systemically targeted to the poorest of the poor. This pattern of ODA complementing trade relations and not effectively targeting the poor prevails in most DAC countries. Increased transparency in development cooperation could change the aid targeting in favour of the poorest countries.

In the case of Ireland, the ODA outlook is very positive. The five rationales in support of increased commitment have been well accepted by the public and policymakers. The active advocacy work of the Irish NGOs and the catholic missionary traditions, have also contributed to shaping the popular opinion. The challenge now is the effective utilisation of these funds and even more importantly keeping the government's commitment to the 0,7 percent recommendation level despite the possible future slowdown of the economy.

Despite the prospective risks to the reaching of this target and the speculations about the real (political) reasons behind this pledge, the Irish example is very encouraging and its willingness to match the globalisation of commerce by globalisation of rights and obligations is extremely commendable in the environment of increasing cynicism towards ODA.

**Table 2. Summary Table of the Country Comparison**

| | Finland | Ireland |
|---|---|---|
| *Facts* | Independent since 1917<br>Population 5,2 million<br>GDP per capita $14.724 (i*n constant dollars; international prices, base year 1985,* WB: 1998) | Independent since 1926<br>Population 3,6 million<br>GDP per capita $15.126 (i*n constant dollars; international prices, base year 1985,* WB: 1998) |
| *Position in the Global Economy* | Net benefits from the 1990's development. Hi-tech industry favoured by global trends. Indigenous industries seeking outward opportunity.<br><br>Global competitiveness rank: 3.[1]<br>Internationalisation rank: 7.[2] | Trade approximately 140% of GDP. Platform to European markets => spectacular growth much due to MNC FDI. Vulnerability to shifts of global economy. Indigenous industry performance a problem<br>.<br>Global competitiveness rank: 7.[1]<br>Internationalisation rank: 8.[2] |
| *Growth vs. ODA* | The impressive economic growth path since 1995 has not been accompanied by an increase in the ODA share of GNP. | ODA has consistently increased as the prosperity of the nation has increased in the 1990's |
| *Official Policy* | Committed to 0.34 % of GNP (EU DAC country average) | Official commitment to 0.7% GNP by 2007, interim target 0.45 by 2002 |
| *Trade* | Increasing importance of the emerging developing country export markets. Telecom, electronics and paper industry interest. Intermediate manufacturing imports from non-OECD countries. | Trade with non-OECD countries has increased but exports have not. Imports of intermediates to feed the Irish based MNC production have a clear role. |
| *FDI* | More emphasis traditionally on the outward investment as a tool to gain foothold for domestic industries. Direct investment to developing countries (especially Asia) has increased drastically since the late 1990's | Emphasis on inward investment. Developing countries not considered a favourite for outward FDI. |
| *Position on Debt relief* | Remission and conversion agreements with those developing countries that are indebted to Finland through bi-lateral loans. In support of HIPC and Jubilee 2000. | Does not have a loan element included ODA and thus no outstanding developing country debts. In strong support of actions to ensure that debt repayments do not affect the capacity of developing countries to finance basic social programmes. |
| *Participation in Global Dialogue* | Principle support to many progressive decisions. Diminishing credibility in development forums as DAC ODA rating worsens. Participation at global level mainly through EU. | Active participation in development discussion. Willingness and ability to consult developing countries directly ("Tiger" experience). Visible personalities in key roles in the International organisations. |

*1)* Based on the 259 criteria covering: the openness of the economy, the role of government, the development of financial markets and the quality of infra structure, technology, business management and judicial and political institutions and labour market flexibility.
*2)* Based on the extent to which a country participates in international trade and investment flows (Source: the Economist Pocket World of Figures 2001 edition).

## Appendix 1. List of Specialist Interview Conducted

04.12. 2000 and 06.02. 2001 - **Professor Kevin O'Rourke**, Director of Center for the Economics of Globalisation, Trinity College Dublin, Economics Department, Dublin

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18.12.2000 – **Professor Paavo Okko**, Turku University of Economics and Business Administration, Helsinki.

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11.01.2001 – **Professor Philip Lane**, Research Affiliate: Center for Economic Policy Research in London, Lecturer in Economics, Trinity College Dublin, Economics Department, Dublin.

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07.03.2001 – Managing Director, CEO **Markku Pekonen**, FINNFUND, Finnish Fund for Industrial Cooperation Ltd. Helsinki.

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07.03.2001 – Line Director, EU Development Cooperation, **Laura Kansikas-Debraise**, Finnish Ministry of Foreign Affairs, Helsinki.

---

09.03.2001 – Line Director, International Trade Policy and Cooperation, **Vesa Himanen,** Finnish Ministry of Foreign Affairs, Helsinki.

---

15.03.2001 – Director, **Folke Sundman**, Service Center for Development Assistance (KEPA), Helsinki.

---

28.03.2001 – Director of Bilateral Operations and Programme, **Finton Farelly,** Ireland Aid, Development Co-Operation Division, Department of Foreign Affairs, Dublin.

---

28.03.2001 – Counsellor, **Tom Hanney,** Development Co-Operation Division, Department of Foreign Affairs, Dublin.

---

28.03.2001 – Director, **Howard Dalzell,** CONCERN Worldwide - a NGO for 3rd World Assistance, Dublin.

---

06.04.2001 – Policy Advisor, **Maura Leen,** Trocaire, The Catholic Agency for World Development, Dublin.

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10.05.2001 – Advocacy Specialist, **Michael O'Brien,** Oxfam-Ireland, Dublin.

## Appendix 2. List of Tables and Graphs:

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