The Challenges and Opportunities Presented by Trade Partnerships between Africa and Ireland*

Susan Murphy

Assistant Professor in Development Practice, School of Natural Sciences, Trinity College, Dublin

and

Patrick Paul Walsh

Chair of International Development Studies, School of Politics and International Relations, University College, Dublin

ABSTRACT

In this paper we examine the challenges and opportunities generated by Ireland’s strategic approach to trade as an instrument for international development, as outlined in the Irish government’s policy documents One world, one future—Ireland’s policy for international development and Ireland and Africa: Our partnership with a changing continent. An Africa strategy for the Department of Foreign Affairs and Trade. The policy seeks to move away from the traditional basis of aid, towards two-way trade and investment links with targeted African partners that can produce mutual benefits for Ireland and key partner countries. The policy advocates the use of a ‘whole of government’ approach, with the dual objectives of promoting sustainable and inclusive economic growth, and protecting the most vulnerable populations in key partner countries. Through an analysis of the Irish economic-development model, we outline the policies and institutions that were required at the nation-state level to attract capital investment in export platforms, and to ensure that the benefits were appropriated and distributed to the general population, and that the basic rights of the population were protected. We argue that technical support to key partner countries is required to support the development of such institutional structures as Ireland embarks on two-way trade and investment,

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Authors’ e-mail: susan.p.murphy@tcd.ie; ppwalsh@ucd.ie

and diverts Official Development Assistance to Public Private Partnerships that invest in African nation states. Such institutions are also necessary to protect African nation states from undesirable outcomes from EU and African Economic Partnership Agreements.

INTRODUCTION

A wide range of actors, including national governments, non-governmental organisations (NGOs) and international organisations, have engaged in an evaluation of the achievements and failures of the Millennium Development Goals (MDGs) project, and what the shape and content of the international development agenda should be from 2015 onwards. It is within this context of international dialogue and reflection on the international development agenda, practices and policies that the Department of Foreign Affairs and Trade has launched its new policy paper One world, one future: Ireland’s policy for international development. The document sets out the vision, goals and priorities for the Irish government’s overseas aid programme for the next four years.

In this paper we analyse the challenges and opportunities created by two-way trade and investment in Africa by Ireland. Ireland’s approach to this is outlined in the ‘Africa strategy’ document, and is identified as a key priority in the Irish government’s policy paper One world, one future. A number of the goals and priorities set out in One world, one future represent a continuation of the policy direction set out in the 2006 White Paper on Irish aid, with ongoing commitments to key partner countries (KPCs) around a number of goals. However, some paradigmatic shifts are also evident. One such radical shift is a move to ‘help partners exit aid’ through the development of two-way trade and economic growth using a whole-of-government approach (WGA) based on partnership, mutual cooperation and shared interests. In these documents, the language of aid, beneficence and programme countries has been replaced with the language of cooperation, reciprocity and key partner countries, ‘reflecting the more rounded partnerships that we will pursue’. We explain how such paradigmatic shifts in Ireland reflect both the changed context of international-development practice and development policy.

We also examine the WGA to trade and economic growth with respect to the underlying operating principles and theoretical framework. The policy does not seek to promote trade for trade’s sake; rather, it seeks ‘to advance economic growth which benefits poor people and is environmentally sustainable while supporting efforts that respond effectively to climate change’. At the same time, this growth must address inequalities, including gender inequality, advance human rights, and ensure that the most vulnerable members of a population benefit from this strategy:

4DFAT, One world, one future, 3.
5DFAT, One world, one future, 12.
In our engagement on economic growth, we will have a particular focus on those who are being left behind. That means that efforts must target those most excluded, deliberately addressing the inequalities these people face. This demands a greater focus on the dynamics of power and exclusion that underlie poverty and inequality.  

The policy paper *One world, one future* is consistent with the aims and objectives outlined in the ‘Africa strategy’ document, and it further explains how two-way trade and investment links with African partner countries will be achieved using a WGA. An Irish WGA is a necessary requirement if sustainable development and mutual benefits are to be achieved in our bilateral and multilateral ‘official development assistance’ (ODA) engagements. One reason offered in defence of this requirement is recognition that ‘it is not just our aid programme that impacts on international development, but also our policies and actions more widely’. This overall approach seeks to move the development agenda from the margins of the Department of Foreign Affairs and Trade to the mainstream business of government. The policy states that ‘the result will be a more focused approach that draws on the roles and strengths of all government departments, not just the Department of Foreign Affairs and Trade, and that draws too on the richness of skills and innovation for which the Irish people are most admired’.

It should be noted that the trade instrument, which entails both bilateral and multilateral dimensions, represents one small part of a wider policy position. At the time of writing this paper, it is not yet clear what level of funding will be diverted to this instrument. With this precautionary note in mind, this paper limits the scope of its analysis to the challenges and opportunities posed by the shift from aid to trade using a WGA. The instrument is in an early stage of implementation. A second precautionary note relates to an evaluation of institutional capacities and policies of KPCs. We do not attempt to examine how this approach might operate within specific countries or, indeed, within industries. Our focus is limited to an examination of the commitment to a WGA and what this would entail, and on the potential opportunities and challenges that may arise given Ireland’s development history in the areas of industrial policy and social development. Through an analysis of the Irish economic-development model, we hope to provide a framework for Ireland to provide technical support to KPCs to adapt a WGA to build the institutions that are required to attract capital investment in export platforms, to ensure the benefits are appropriated by government and distributed to the general population, and to ensure that the basic rights of the entire population are protected. This would, in turn, enable Ireland promote trade with, and investment in, African nations that is mutually beneficial and sustainable, in that it would build the capacity of KPCs to promote and protect broad social development alongside capital formation.

In what follows, we argue that this comparative analysis points to at least three considerations. Firstly, a WGA, not only in Ireland but also in its KPCs, is critical to the achievement of sustainable development and to balancing the core dimensions entailed in this concept: political, social, economic and environmental.

Secondly, the sequencing of activities is critical. In the Irish case, following a European social-market model, social, political and legal developments were

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6DFAT, *One world, one future*, 21.
7DFAT, *One world, one future*, 2.
8DFAT, *One world, one future*, iii.
central to the implementation of the new export-focused industrial policy. According to the World Bank’s *Golden growth* report, the European model is unique, as it combines enterprise and social responsibility, and focuses on social inclusion and solidarity.\(^9\) Structural changes were required in Ireland to support trade liberalisation, to build robust public goods and services, and to protect the general population against a number of potential risks entailed in this development. We argue that similar structural changes would be required in KPCs to ensure that economic development and trade produce benefits for all participants and communities engaged in cooperation, not only for small sets of interest groups.

Thirdly, we point to some potential tensions and complexities within the guiding principles and theoretical framework of *One world, one future*. According to this document, the selection of projects, instruments and interventions are to be guided by what we call the ‘maximisation principle’. There are two components to this: first, to achieve maximum value for money, and, second, the measurement of results and outcomes to determine if each project has achieved the maximum value.\(^10\) We point to a potential tension between the maximisation principle and the commitment to ‘leave no one behind’, which may have a direct bearing on the decision-making process, on the selection of instruments and interventions, and on the distribution of the benefits. In addition, the policy document is at pains to stress that the trade instrument cannot be inconsistent with the other objectives of the ODA programme. However, operationalising the trade instrument is likely to lead to some tensions and conflicts. We examine some of these potential tensions and conflicts and provide some recommendations as to how they might be alleviated.

Finally, we conclude with some recommendations regarding how the trade instrument can foster two-way sustainable growth in KPCs and Ireland using WGA to capital formation based on the historical Irish experience. We assess how technical support from Ireland to exporting programmes in African countries can use Irish industrial policy as a template for engagement and knowledge sharing. In particular, we identify the ‘holistic’ investment-climate conditions established in Ireland that were necessary to induce investment in the value chain and to encourage export growth. We also assess Irish industrial policy in terms of its socially focused investment criteria. Such criteria are used to select eligible recipients of grant aids. Socially focused investment criteria require that rents from capital formation in the export platform should be appropriated to the wider population via linkages in value chains and in other sectors. Such linkages can act as multipliers, leading to new employment opportunities, increased tax revenues, and higher contributions to social protection. Finally, in order to avoid leaving anyone behind, we stress the importance of redistributing the rents via taxation and social-protection mechanisms.

The Irish case demonstrates how substantial institutional and public-service-capacity building is required when developing a European social-market model that combines enterprise and social responsibility, and focuses on social inclusion and solidarity. We argue that there is a risk that two-way trade and investment into countries without such institutions would benefit small sets of interest groups only. Thus, Ireland should either select countries with such


\(^10\)DFAT, *One world, one future*, 2.
institutions in place or help build them as part of a WGA to trade. One aspect of the ‘Africa strategy’ is to divert ODA to Irish Private Public Partnerships that invest in African countries. The institutions we examine are also necessary to protect African nation states from undesirable outcomes from international foreign direct investment (FDI) by Irish or other multinationals.

A second element outlined in the ‘Africa Strategy’ and One world, one future documents is the determination to ensure that the trade instrument can be used to promote fairness within multilateral trade structures. Ireland as a component of EU partnerships and other multilateral institutions, such as the WTO and the UN, could demonstrate intellectual leadership using a WGA as a force for change that supports African partners in securing benefits from sustainable economic growth arising from access to global markets while protecting against undesirable consequences for the most vulnerable populations in economic, political, social, legal and environmental spaces. While Ireland has outlined an ambitious and correct strategy, to promote fair rules of engagement for developing countries on the international stage we argue that such actions may not be sufficient to protect the most vulnerable populations. As discussed by Stiglitz, within the contemporary international legal framework, developing countries cannot rely solely on countries of origin to regulate the practices of companies operating outside of their jurisdictional boundaries when those countries have limited powers of enforcement of rules and standards beyond their borders. Nor can strong regulation, enforcement and protection be driven by consumers in markets where goods are consumed. While it is right to argue that international actors (states, citizens and companies) should avoid harming others directly and indirectly in trade relationships, the strongest form of protection is for the developing nation (host country) to have the appropriate institutions to regulate, enforce and protect their citizens against harmful outcomes.11

SECTION I: PARADIGMATIC SHIFTS IN INTERNATIONAL DEVELOPMENT PRACTICE AND POLICY

It is widely recognised that the context of international development in 2013 is significantly different from the pre-MDGs period. Across the academic and policy literature, at least five emerging trends and patterns are evident that provide some context to the new international development agenda and to Ireland’s paradigmatic shift in its approach to international development.

Firstly, the continent of Africa has experienced rapid economic growth, marked by a shift from agriculture to manufacturing and services, South–South cooperation (SSC), investment and trade. Aid in the form of ODA is now dwarfed by FDI, remittances, SSC, and domestic and intra-African trade flows.

Secondly, this general statement masks differential experiences at country level and within countries, where evidence suggests that some locations and the most vulnerable populations have been left behind. Thus, this growth has not translated into a reduction in the levels of extreme poverty and inequality across all countries, or, indeed, within countries.

Thirdly, the links between security, stability and development progress have moved sharply into focus as conflict continues to occur in locations that are the focus of significant development effort. The overlap between humanitarian and

development efforts has forced greater cooperation at field level, far in advance of the supporting policy positions and institutional frameworks.12

Fourthly, the emerging scientific consensus on climate change in general, and anthropogenic climate change in particular, has contributed to a growing recognition of the interconnected nature of our planet, and to our shared conditions of mutual interdependency and limited resources. Actions in one part of the world can have both a direct and indirect affect on others beyond the boundaries of a nation state and across generations. Thus, in practice climate change is generating new sets of problems for development practitioners.

Finally, although international-development instruments and interventions can affect political, economic, social and environmental dimensions, these considerations have not yet been brought together in a coherent framework. According to the UN High Level Panel report on the post-2015 development agenda, practitioners and policymakers have been operating in isolated, separated silos, often working on the same issues but failing to recognise the interlinkages across the domains.13 Each of these dimensions has a bearing on one another and on international-development practice in both developed and developing countries. National governments invest significant time and resources across all sectors of government. However, opportunities to share knowledge and to conduct joint strategising are rare.

A number of observations can be made pertaining to the focus of the international-development agenda that correspond to these emerging trends. Firstly, the declining role of ODA and the increasing importance of trade, SSC and private investment in developing economies correspond to a shift in focus from development assistance as beneficence to development cooperation as partnership.14

Secondly, growing concern about those ‘left behind’ is evident in a number of reports. A clear shift from a focus on country-level economic performance to household and individual analyses can be observed. Recognition that high GDP growth rates do not necessarily translate into social inclusion and greater levels of equality has led to a greater focus on the ‘human’ dimensions of development.15 The High Level Panel report outlines a vision of the post-2015 development agenda as ‘people-centred and planet-sensitive’. One of the key shifts in this document is the call to ‘leave no one behind’.

Thirdly, the spillover of security concerns to developed states, with a number of high-profile attacks on countries across the global North during the course of the MDGs period combined with the increased incidence of attacks on humanitarian and development workers in developing countries, has brought matters of development, stability and security into sharp focus.


15See Duffield, ‘Liberal way of development’; UN HLP, New global partnership; Nicholas Herbert Stern, Jean-Jacques Dethier, F. Halsey Rogers, Growth and empowerment (Harvard, MA, 2005).
Fourthly, over the period of the MDGs, changing climates emerged as a significant challenge to the international-development process. An increase in sudden-onset disasters and slow-onset environmental degradation, rising sea levels, changing precipitation patterns and changing ecologies have had a significant impact on the livelihoods of the most vulnerable populations in both rural and rapidly urbanising locations, eradicating small development gains shock by shock. The ideas of connection, interdependency and increasing vulnerability to climate shocks directly inform the content of the post-2015 development agenda, placing sustainable development at its core.

Finally, as Stern, Dethier and Rogers have argued, development is a dynamic and complex process, entailing many different elements marked by continuous change, and, thus, continuous learning and closer cooperation must be at the heart of the story. The need for structural change at the international level is identified in the 2013 High Level Panel report. In this document, it is argued that ‘it would be unrealistic to think we can help another one billion people to lift themselves out of poverty by growing their national economies without making structural changes in the world economy…Ending poverty is not a matter for aid or international cooperation alone’. A shift towards a WGA approach that links capital formation to improved social outcomes is evident in the discussions and emerging policy positions.

According to the UN High Level Panel report, the post-2015 development agenda requires five transformative shifts: (i) leave no one behind; (ii) put sustainable development at the core; (iii) transform economies for jobs and inclusive growth; (iv) build peaceful and effective, open and accountable institutions for all; (v) forge a new global partnership on the basis of solidarity, cooperation and mutual accountability—‘a new partnership should be based on a common understanding of our shared humanity, underpinning mutual respect and mutual benefit in a shrinking world’. These transformations, according to this document, are only possible through a ‘whole of government’ approach.

SECTION II: IRELAND’S NEW POLICY POSITION: THEORETICAL CONSIDERATIONS

Ireland’s policy position on aid for trade, as outlined in *One world, one future* and in the ‘Africa strategy’, demonstrates a broad consistency with the new direction of the international agenda. Although a number of priorities and themes are carried forward from the 2006 White Paper, the changing basis upon which the international-development agenda is to be justified together with the shift towards a whole-of-government approach to the entire international-development strategy are distinguishing features of the new policy position, thereby signalling a radical break with the past.

Moving beyond aid towards cooperation for mutual benefit

The new policy position is bold and ambitious in its aspiration to help partner countries exit aid. One reason for this shift is stated as follows: ‘to achieve a

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16Stern, Dethier and Rogers, *Growth and empowerment*, 86.
17UN HLP, *New global partnership*, 5.
sustainable solution to poverty, countries need to generate their own revenues’. The vision entailed in this ambition can plausibly be described as ‘realistically utopian’ in that it seeks to push back the boundaries of political possibility in the pursuit of just conditions that could enable citizens in both developed and developing states to work together as equals to realise their fundamental interests.

Moving towards cooperation, partnership and mutual benefit offers a number of important opportunities; however, it also entails risks. The policy document is at pains to stress that the trade instrument should not lead to outcomes that are inconsistent with the goals and priorities set out in the ODA programme, which, broadly speaking, seek to ensure the following: peace and stability; openness, transparency and accountability in government; the offsetting of the harmful effects of climate change; a reduction in hunger and malnutrition; and the promotion and protection of human rights, together with the tackling of gender inequality.

Two operating principles seem to inform the decision-making process when selecting instruments and evaluating outcomes. Firstly, ‘leave no one behind’, which requires practitioners to focus on the most vulnerable populations, ensuring they share in the benefits of trade and cooperation. Secondly, the ‘maximisation principle’, which requires that engagements achieve maximum value for money, and that the measurement of results and outcomes determines if each project has achieved the maximum value. However, precisely what the term ‘maximum value’ entails is not clear. Does it imply that engagements ought to deliver maximum benefits for the greatest numbers, or should they target outcomes so as to achieve the greatest benefits for the most vulnerable populations? It may not be possible to achieve both objectives at the same time in the same project. This tension is directly addressed in the High Level Panel report where it states that a core operating principle is ‘to be sure that our actions are helping not just the largest number of people but the neediest and most vulnerable’. Also, precisely what the commitment to ‘leave no one behind’ would entail is not clear. Thus, the criteria for evaluation in the policy documents require further clarification and specification.

However, it is clear that these operating principles, and the objectives for which they have been devised, would entail substantial structural change at the level of domestic and local government. This commitment to radical change is highlighted in the following statement: ‘efforts must target those most excluded, deliberately addressing the inequalities these people face. This demands a greater focus on the dynamics of power and exclusion that underlie poverty and inequality’. Again, a push to a WGA in KPCs would seem to be a necessary requirement if the policy objectives are to be achieved.

In an ideal world, under certain conditions concerning mainly the ownership and mobility of assets, it would be plausible to argue that self-interested decentralised actions could lead to the fulfilment of the interests of society at large. Economists refer to this as the first welfare theorem—that the interests of individuals, households, governments and companies can be jointly maximised to a point of Pareto efficiency. However, contemporary conditions are marked
by imperfections and inconsistencies such that there is a requirement for government intervention whereby it acts as a ‘handmaiden’ to development and drives capital formation, the development of public goods and social protection in the same direction. The One world, one future policy document seems to acknowledge that robust institutions are necessary to ensure capital formation does not concentrate ownership of assets in the hands of a narrow group but, instead, is used to generate improved social outcomes for all. It claims, for example, that ‘we will undertake efforts to help developing countries to improve their business and investment environment, including labour market governance, and to raise their own domestic revenue in ways that are more efficient, fairer, and better promote good governance and equitable and inclusive development’.25

Whole-of-government approach (WGA)

The idea behind the WGA seems clear: it aims to bring the skills, resources and expertise of multiple divisions of government to bear on complex problems, seeking to identify coherent, holistic strategies for action, from policy design through to implementation, monitoring and evaluation. However, this is marked by a complex process of engagement and collaboration, generating deeper linkages not only between government departments in Ireland but also with government departments in KPCs, although the policy does not explicitly set this out as a condition of engagement with KPCs.

Ireland, along with a number of its European counterparts, has invested significant time and effort developing indicators to measure and manage its policy coherence for development (PCD) agenda.26 According to Barry, King and Matthews, Ireland’s PCD:

seeks to represent the interests of the poorest developing countries within Irish and European policy-making processes. PCD is firstly about doing no harm to developing countries by ensuring that progress towards Ireland’s development assistance goals is not undermined by policies which relate primarily to domestic goals. Secondly, PCD is about searching for potential synergies and win-win scenarios, where domestic policies support development goals whilst securing other objectives too.27

The publication in 2012 of a government-commissioned report detailed PCD indicators for all main sectors of trade, agriculture, fisheries, migration, environment, finance and enterprise, security and defence, and development aid. This development marks an important precursor to the shift towards a WGA and the policy drive to move international development into the mainstream business of government, with a focus on partnership, cooperation, shared interests and mutual benefits.

A distinguishing feature of a WGA is that it requires the engagement of wider government networks in the policy-design and policy-formulation phases. The OECD defines a WGA as a context:

25DFAT, One world, one future, 21.
28King and Matthews, Policy coherence for development.
where a government actively uses formal and/or informal networks across the
different agencies within that government to coordinate the design and
implementation of the range of interventions that the government’s agencies
will be making in order to increase the effectiveness of those interventions in
achieving the desired objectives.29

WGAs when engaging in humanitarian contexts have been encouraged by
the OECD since the early 2000s. Due to the complexity of these contexts, a
WGA aims to bring a plethora of government departments together to develop
a coherent strategy to support a state in establishing its basic infrastructure,
bureaucracies and services across the political, social, economic and environ-
mental sectors. Although initially focused on humanitarian contexts, this
approach is now being adopted by a number of states to guide the delivery of
their international-development programmes more broadly.30 In the Irish
context, it seems that the intention is somewhat more ambitious as it
seeks to apply this approach across government policies and actions more
broadly, not only in relation to the aid programme:

It is not just our aid programme that impacts on international development,
but also our policies and actions more widely. So while the 2006 White Paper
on Irish Aid primarily guided our aid programme, this new policy will guide
all of our development efforts—across Government.31

As such, a WGA approach is essential when seeking to develop coherent
strategies to ensure that one action does not undermine or negate another. It
seems clear that the drive to a WGA in the Irish position is linked to its
commitment to place sustainable development at the heart of government. This
is consistent with the shift to a WGA advocated at the international level in the
2013 High Level Panel report, which argues that:

developing a single, sustainable development agenda is critical. Without
ending poverty, we cannot build prosperity; too many people get left behind.
Without building prosperity, we cannot tackle environmental challenges; we
need to mobilise massive investments in new technologies to reduce the
footprint of unsustainable production and consumption patterns. Without
environmental sustainability we cannot end poverty; the poor are too deeply
affected by natural disasters and too dependent on deteriorating oceans,
forests, and soils.32

Thus, the interlinkages between political, social, economic and environmental
dimensions provide a strong reason for moving towards a WGA, and one that is
consistent with the emerging post-2015 international-development agenda.

One of the challenges for international actors is how to translate a WGA
from theory to practice. One way of addressing this challenge is to examine case
histories where a WGA has been used in practice to support capital formation
and social development. Section III below outlines Ireland’s experience of
implementing a WGA to capital formation as part of its industrial-export
policy. We also outline how investment criteria were developed to transfer the
rents from the export platform to the wider population. Finally, we stress the
importance of regulatory frameworks to protect workers’ rights and social-

30For example, US, Australia and Canada have claimed to adopt a WGA.
31DFAT, One world, one future, 2.
32UN HLP, New global partnership, 5.
protection systems when seeking to ensure that capital formation does not create negative externalities on households. Such structural changes are essential to avoid harmful outcomes from capital formation and to facilitate the distribution of the benefits to the wider society.

SECTION III: LESSONS FROM IRELAND’S DEVELOPMENT HISTORY: EXPORT POLICY

Many lessons from Ireland’s development history may be of interest to modern-day African states. The background to Ireland’s export-led growth and the experience of implementing a whole-of-government approach to capital formation represents one such important lesson. The following focuses on some key dimensions in this experience, identifying challenges and opportunities presented by the use of trade as an instrument for economic growth that, when implemented through a WGA, can lead to corresponding supports and improvements in the social, political and environmental spaces.

Since the inception of the industrial policy in the late 1950s, trade was not seen by Ireland as an engine of growth, as defined by Lewis,33 but, rather, as argued by Kravis,34 trade was seen as the handmaiden of economic growth. This implies that the potential demand pull or sales opportunities afforded by market access may not by itself be sufficient to generate export growth. As Walsh and Whelan have argued, there is also a requirement for additional supply-side supports driven by government policies, including investment incentives, productivity incentives, investment in public goods—such as higher education to ensure the supply of high-quality skills—capital investment in roads, energy, water and general infrastructure, along with health and social-protection systems.35

Within this approach, social and political developments are understood as essential requirements for supporting sustainable economic growth rather than as attractive spin-offs. They are essential supports for the development of human capital, innovation and enterprise. Export growth is more likely to reflect the strengths, and weaknesses, of supply-side capabilities and infrastructures in companies, nation states and households, among other things. According to research conducted by Amartya Sen, the golden triangle of public supports for export policy must be in place and working together if economic growth is to be sustainable; this triangle consists of economic, political and household capabilities, among other things.36 Sen’s evidence-based argument indicates that in order for countries to enjoy employment diversity, high-value-added output and investment in capital formation, individuals require widespread economic, social, political, legal and cultural freedoms and protections. Within this model, social progress and economic growth complement and support one another. The role of government, strong institutions and clear public policies are critical if capital formation and social development are to positively reinforce each other.

This holistic approach is central to the European growth model and to the core theory informing Ireland's industrial policy from inception to present. The European model entails policies and institutions that govern six key areas of economic activity: trade, finance, enterprise, innovation, labour and government. According to the World Bank's *Golden growth* report, the European model is distinct in that it blends economic growth and social progress. They positively reinforce one another in that capital formation benefits from social development (highly skilled and healthy workers) and social development occurs as incomes to households and taxation for the public spend are generated through capital formation.

We look first at the relationship from the point of view of capital formation. This entailed the development of economy-wide public goods, and sector- and product-specific supports for capital formation in exporting companies. We then examine how social development, socially oriented investment criteria, social-protection policies and labour regulations, among other things, can support capital formation that further promotes social development at the household level.

**Ireland's industrial policy: WGA for capital formation**

Beginning in the late 1950s, over the course of several decades Ireland moved into agribusiness, manufacturing, services and internationally traded services while simultaneously improving public services, infrastructure, health and education, among other things.\(^{37}\) In what follows, we explain how the foundation stones for such a transformation were based on a WGA to capital formation.

In the Irish case, the WGA to capital formation incorporated many layers, including macroeconomic, sector- and product-specific supports. The macroeconomic supports entailed land reform, investment in the capacities of the public service and social infrastructure, investment in education (with the introduction of universal access to education), and the development of an accessible universal social-protection system that targeted the needs of the most vulnerable in society. There were also direct supports for capital formation (further outlined below).

Michael J. Killeen, former head of the Industrial Development Authority (IDA), in a paper read at a symposium of the Statistical and Social Inquiry Society of Ireland, outlined important insights into the architecture of Ireland's industrial policy.\(^{38}\) One might have expected him to emphasise the importance of low taxation on goods exported, capital grants to enter industrial parks, and other financial incentives. Instead, the emphasis was put on the WGA. Killeen argued that:

> we have come to appreciate that providing the full range of back-up services needed by industry...is a complex process which depends on a host of development agencies working in a planned and synchronized way: local authorities in providing water and sewerage; planning authorities, the IIRS

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\(^{37}\)See Whelan and Walsh, ‘Importance of structural change’.

\(^{38}\)See Kieran A. Kennedy, Michael J. Killeen, Donal Nevin and Derek Chambers, ‘A symposium on increasing employment in Ireland’, *Journal of the Statistical and Social Inquiry Society of Ireland* 23 (3) (1975/76), 37–77. Since 1847 this learned society has hosted meetings where papers are presented on important public-policy issues by government officials, academics and other experts in the area. The benefit of the records from these meetings is that we get insights into the thinking and ideas of policymakers behind the legislative changes that followed. These are recorded in the society’s journal.
[Institute for Industrial Research and Standards] and An Foras Forbartha [National Institute for Physical Planning and Construction Research] in assessing and advising on complex planning application; the banks and Industrial Credit Company in completing financial packages; Coras Trachtala [export board] marketing services; AnCO [An Chomhairle Oiliúna, the training council] and the National Manpower Services providing the trained labour force, and so on for the ESB [electricity supply], Department of Posts & Telegraphs, CIE [transport infrastructure], etc.39

In addition to these tailored supports for industrial parks, he also provided details on product-specific supports. According to Killeen, the IDA had to think:

beyond manufacturing industry into export oriented service type industries such as consulting engineering and computer software...the acquisition of a countrywide industrial land bank of some 4,000 acres...the taking of equity shareholdings in seven major industries...the stimulation of Irish enterprise in small firms with less than 50 workers under a special Small Industries Programme...the introduction of a scheme to foster Research and Development in Irish industries...the provision of substantial training grants for industry to provide the vitally needed skills...joint ventures, loan guarantees, interest subsidies and other financing mechanisms have been used...a regional industrial development programme based on a strategy of bringing jobs to the people...selectivity in restructuring and modernising industry with tripartite guidance by the Irish Congress of Trade Unions, the Confederation of Irish Industry and the State...attraction of fully integrated high technology projects with full R&D back-up.40

Such-product specific supports are important. Sutton’s research on the forces behind the success of companies in a globalised world explains the importance of holistic supports.41 Taking a factor of production, he examines how rents are appropriated by OECD countries. In theory, the comparative advantage should be with developing countries as they own most of the raw materials, land and labour. However, in practice the key part of any product’s value added is technology or total factor productivity. Sutton emphasises that companies create and compete in such scarce capabilities (quality aspects), and this is why OECD countries, with high-levels of human capital and R & D, can appropriate the return of the global value chain to the OECD. Ireland’s industrial policy focused on developing the technological capacities and human capital required to meet needs of companies grown or hosted in Ireland. Ireland’s industrial policy emphasises the need for capital formation to be supported by holistic layers of supply-side capabilities and infrastructures of the sort defined above. Ireland’s experience in export promotion, with a focus on value added and supply-side capabilities, shares a number of similarities with the nature of expenditure on aid for trade.

The aid-for-trade model focuses on building supply-side productive capacities and economic infrastructure, and seeks to reduce trade costs through policy and regulation. Aid for trade is an integral part of normal ODA programmes. According to the OECD,

39Kennedy et al., ‘Symposium on increasing employment in Ireland’, 52.
40Kennedy et al., ‘Symposium on increasing employment in Ireland’, 52.
There is abundant evidence that aid for trade...is lowering trade costs and improving trade performance. More specifically, OECD analysis found that $1 in aid for trade is associated with an increase in developing countries’ exports by $8. For the poorest countries, the return is $20. The impact is higher still for exports of parts and components, underscoring the benefits that value chains can offer to developing countries.\(^{42}\)

One worry with this approach is that as aid for trade increases rents on the export platform, its effect on poverty alleviation is not clear. The OECD claims that:

> the Aid-for-Trade Initiative is delivering tangible results in improving trade performance and bettering people’s lives, notably those of women, in developing countries...aid for trade plays an important role in enabling firms in developing countries to connect with or move up value chains. In fact, the emergence of value chains strengthens the rationale for aid for trade.\(^{43}\)

However, the effect that this has on broader social development outside of the narrow value chain of a product is not examined.

We now turn to how, based on the Irish experience, institutions are needed to ensure that capital formation leads to desired outcomes in terms of social development.

**Smart investment criteria in industrial policy: Appropriating social benefits, I**

As outlined above, the government has a role in providing supply-side supports, at different levels, to induce capital formation, trade and economic growth. The question then is how the benefits of such rent creation can be shared across society. The task of government is to develop and implement policies and institutions that can, firstly, support investment with layered supply-side capabilities and infrastructures, and, secondly, facilitate the dispersal of rents from capital formation to the wider public. A critical requirement for a sustainable industrial policy is clear and consistent operating principles to guide in the distribution of benefits and burdens of this cooperation. Rents from capital formation can be dispersed into the mainstream of the population using tax on profits, tax on wages from employment, linkages to downstream companies, linkages to the service sector, linkages to welfare contributions, and improvements in the balance of payments, among other things.

In the Irish case, there was concern that targeting high-value-added industries would be problematical, both politically and socially, as the employment intensity would be weak and, hence, households would not only fail to gain from this change but might also be harmed due to loss of employment. Thus, records from the time indicate much discussion about potentially harmful outcomes and, indeed, about the lack of political and social sustainability of a narrow focus on product-specific supports.

Loudon Ryan, professor of industrial economics in Trinity College, Dublin, outlined the criteria for promoting one type of investment over another,


\(^{43}\)OECD Development Co-operation Directorate and WTO, *Aid for trade at a glance 2013*.
drawing from criteria proposed by Hirschman. Ryan’s investment criteria sought to ensure that there would be broad benefits to households coming from high-value-added exports. Ryan was a key member of the Capital Investment Advisory Committee in the Irish Department of Finance, reporting to the secretary of the department, T.K. Whitaker.

IDA policy, based on smart investment criteria, explained that employment gains from an expanding exporting base can develop upstream where SMEs (small to medium-sized enterprises) are required to support the needs of the exporting companies using what are referred to as vertical linkages. Such linkages would replace the intermediate goods that would be imported with a home capability that would not only create jobs in Ireland but also lock the exporting platform into the Irish economy. In addition, one would see benefits to employment in the service sectors in areas where large exporting companies were located. These are referred to as horizontal linkages. Available evidence indicated that for every one job created in an exporting company, five or more jobs could be created in supporting services linked to the spending of the company and its employees.

Ryan and Hirschman both promoted linkage as a criterion for approving one investment over another in terms of grant aid. Linkages ensure that other companies and employees indirectly benefit from the value added created by the exporting base. The presence of such linkages also has a number of additional potential benefits. Firstly, it can improve a country’s balance of payments through higher exports and lower imports of intermediates. Secondly, there is greater employment intensity. Thirdly, tax revenue from corporation tax, income tax, and indirect taxation (e.g. VAT) can be maximised. Such socially oriented criteria dictated which companies were allowed to access the industrial parks and receive grant aid.

Leave no one behind in capital formation: Appropriating social benefits, II

On its own, the distribution of rents, via linkages, to the wider population, which can be understood as a ‘maximisation principle’, may not reach the most vulnerable or be consistent with leaving no one behind. There is also a need for robust social-welfare and social-protection systems to ensure that no one is left behind. Thus, in the Irish case, taxation is also used to fund expenditure on both basic and higher-value-added social services. The Irish experience demonstrates how tax revenues from the export platform can be used by governments to build institutions that will distribute the benefits of capital formation to the wider population.

There were also additional external push factors that further reinforced the sustainability of the industrial policy. Ireland’s membership of the European Economic Community (EEC) necessitated the introduction of a wide range of new legislation, including working-time and labour regulations, health and safety regulations, and environmental-protection regulations, among others. This legislation was designed to protect workers and the environment against

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46Whitaker is credited with Ireland’s drive to export orientation and structural reform.
exploitation and harm, both intended and unintended. In addition, access to the EEC in 1973 marked the beginning of the end to legal discrimination against women.\(^{48}\) This allowed fifty per cent of the population the freedom to support the development of all industries, in particular high-value-added and service industries.

At the same time, there was investment in social infrastructure, including social protection, pensions, education and health. Through a direct ‘pay related social insurance’ tax on employees and employers, all engaged in formal employment were required by law to contribute to these welfare structures. This can be understood as another form of rent appropriation from the exporting base that is enhanced by linkages. According to the International Labour Organization, only one-third of countries globally (inhabited by 28 per cent of the global population) have comprehensive social protection systems covering all branches of social security as defined in the Social Security (Minimum Standards) Convention, 1952 (No. 102)...Taking into account those who are not economically active, it is estimated that only about 20 per cent of the world’s working-age population (and their families) have effective access to comprehensive social protection.\(^{49}\)

Governments in the developing world spend an average of four per cent of GDP on social protection compared to an average of twenty per cent of GDP in developed countries. Among Ireland’s development partners, only Vietnam and South Africa have basic social-protection structures and policies.

Overall, benefits from the export-oriented industrial base can be more broadly appropriated to the wider community through smart socially oriented investment criteria using linkages and by maximising general taxation. Without these structural features, there is a risk that benefits will remain concentrated in the hands of a small cohort of the population. A sustainable industrial policy will require wider appropriation of rents and redistributions of the benefits via the tax and public spend.

From a political economy point of view, having a small fraction of households benefit from exporting activities and a large number of households experiencing the pain of traditional sectors closing would not be smart or sustainable. Such a ‘dualism’ in employment dynamics is politically, economically and socially problematical, and ultimately unsustainable and self-defeating. However, it can be mitigated by a WGA. Political constituencies can be built around exporting success, and protection of some strategically important import-competing constituencies is also recommended.

Sharing the experiences of the implementation of this industrial policy and the EU growth model that required structural changes alongside trade liberalisation, including investment in public goods, protecting the most vulnerable and sharing the benefits through the dispersal of rents to the entire population, could form the basis of bilateral technical assistance to Ireland’s KPCs and other collaborating countries mentioned in the ‘Africa strategy’, such as Nigeria, Kenya and South Africa. Such technical supports would be


consistent with the recommendations of the United Nations Industrial Development Organization. However, the EU social-market model and Ireland’s approach to industrial development are more-demanding examples in that they entail the development of more-robust social institutions and public policies, and, in particular, stronger social-protection measures.

SECTION IV: FURTHER OPPORTUNITIES AND CHALLENGES

Bilateral instruments

Based on Ireland’s experience over sixty years, there is an opportunity for sharing both best practices and lessons learned from a WGA to capital formation around exporting companies in partner African countries. This presents an opportunity to engage in capacity-building initiatives with the civil and public service of partner governments.

The policy papers also make reference to a number of challenges related to the potential for conflicting interests and tensions. One such challenge concerns the promotion of Irish investment as part of the Africa strategy that produces mutual benefit while also respecting human rights, fostering equality and social inclusion, and leaving no one behind. For example, the policy states that:

We will strive to ensure that economic development, including engagement by Irish companies, is compatible with our commitment to human rights.... We will be guided by the UN policy framework for better managing business and human rights challenges. This is based on the duty of states to protect against human rights abuses by third parties, the corporate responsibility to respect human rights, and the improved ability of victims to access an appropriate remedy when violations take place.51

In addition, the policy claims:

we remain firmly committed to the principle that Ireland’s official aid should remain untied—that is, not conditional on acquiring goods and services from Ireland. We will at the same time explore synergies between our aid programme and sectors where Irish companies have particular expertise or comparative advantage. In this, we will seek to identify areas where cooperation between Irish Aid and Irish industry can yield benefits for our development partners.52

However, we know that the values and objectives of companies and governments are often not aligned. Thus, in the Irish case public policies aimed at developing public goods combined with robust protections in the form of social legislation, protection of workers’ rights, protection of the environment and so on were—and, indeed, are—critical to ensuring that these tensions can be resolved and social benefits accrued.

Given the nature of international law in this area, marked by weak regulation and limited powers of enforcement, it is a questionable strategy to rely solely on a company’s corporate social-responsibility programme to respect human rights, foster equality and inclusion, and leave no one behind. According to Stiglitz,

50UNIDO is an agency that promotes industrial development for poverty reduction, inclusive globalisation, and environmental sustainability in developing countries and economies in transition. For more details, see UNIDO, Making it: Industry for development (New York, 2010).
51DFAT, One world, one future, 21.
52DFAT, One world, one future, 21.
There is a need for international laws concerning the conduct of cross-border businesses. However, given the imperfections in the political processes by which they are created, and given the important role that national regulations play in promoting societal welfare, the scope of such laws should be restricted. The agreements should focus on the minimal safeguards required for conducting cross-border investments.\textsuperscript{53}

Stiglitz argues that is the responsibility of the nation state to safeguard its citizens:

Governments have the right and responsibility to pass corporate governance laws, bankruptcy laws, and health, safety, and environmental regulations to further the well-being of their citizens. Foreign individuals and corporations wishing to conduct business within a country should be subject to the rules and regulations of the host country, including the rules and regulations that govern incorporation and bankruptcy. Hence, it is reasonable for governments to require foreign corporations operating within their borders to establish subsidiaries, whose governance and dissolution would be governed by national laws.\textsuperscript{54}

In practice, countries in the global North do not rely on the kindness of companies to regulate and enforce human rights, equality, inclusion and protection for the most vulnerable. It is not clear, therefore, why the same safeguards should not be recommended to developing locations in the global South, and, indeed, required if sustainable economic growth and social development are to be achieved.

Thus, rather than leading with Public Private Partnerships, we argue that technical support aimed at building robust domestic institutions that can regulate and protect social, economic and welfare rights should occur simultaneously. When such institutions are in place in KPCs, it is possible to promote trade and use rents from capital formation to benefit the population rather than small interest groups. Investment in human and political capital is required before the shift from aid to trade commences if this shift is to reduce poverty, protect the most vulnerable and deliver sustainable development solutions. Thus, we would caution against Irish companies engaging in public–private ventures in KPCs that do not yet have institutions that regulate social, economic and legal rights, and where there is no form of social protection in place. In such conditions, even a well designed industrial policy for attracting investment will encounter difficulties in dispersing the benefits to the wider population and in avoiding harmful consequences to the economic, political, social, legal and environmental development of such countries. Potential problems include underpayment of taxes by companies; the large private-sector extraction of inter-temporal scarcity rent in natural-resource industries; the low rate of pay to workers; child labour; gender discrimination; social exclusion; lack of corporate contributions to insurance for their workforces; and illegal side payments to corrupt governments, among other things.

\textit{Multilateral instruments}

The Irish policy position has identified a multilateral strategy in the use of trade as an instrument for development. In state-to-state, people-to-people engagements, Ireland has committed itself to acting fairly and justly, recognising the

\textsuperscript{53}Stiglitz, ‘Regulating multinational corporations’, 555.
\textsuperscript{54}Stiglitz, ‘Regulating multinational corporations’, 553.
human rights and equal standing of its selected partners. In multilateral engagements, it is committed to representing not only its own national interest but also the interests of its KPCs.

The assumption underlying these strategies is that trade and economic development can reduce poverty and result in mutual benefits. The Irish position is that international trade can play a major role in the promotion of economic development and the alleviation of poverty. We will continue to support trade in a number of focused ways, and review existing trade initiatives to pool our experience and identify areas where improvements can be made. This includes “aid for trade” and fair trade initiatives.55

Ireland’s place in the EU and other multilateral institutions, such as the WTO and UN, provides an opportunity to demonstrate intellectual leadership using a whole-of-government approach as a force for change that will support KPCs to accrue the benefits from economic growth arising from access to global markets, while at the same time supporting social, political, legal and environmentally sustainable developments. The policy position commits Ireland to representing the interests of developing countries at an international level:

We will, as a member of the EU, continue to advocate strongly for the World Trade Organisation rules-based system to underpin economic, environmental and social development in developing countries including through the conclusion of the Doha round of trade negotiations…in our engagement within the EU we will seek to ensure that Economic Partnership Agreements entered into will clearly support sustainable and inclusive economic development, regional integration and the integration of Africa into the global economy.56

This is a bold yet practical strategy, and one, we argue, that the government ought to be commended for adopting. It creates a framework for achieving fairer conditions for international trade and engagement.

International trade-and-investment instruments by their nature have effects beyond the borders of a nation state. Applying a WGA to trade policy in the WTO and to other trade partnership deals can help ensure that developing countries are not adversely affected by trade decisions at the international level that undermine their ability to grow and participate in markets as equals. There is a real concern that existing deficits in political, economic and social institutions in the developing world will not only result in bad export performance but lead to trade and investment that is harmful to political, social and environmental development.57 However, we have argued that sustainable economic growth and sustainable industrial policies require a WGA. The role of government in building supply-side capabilities, including public goods and services to support industry, as well as strong social-protection policies and institutions, contributes to economic development. Also, a WGA in KPCs is necessary if developing countries are to avoid dependence on the kindness of other nations or multinational corporations to protect their interests. We have outlined the institutions that are required at the nation-state level to both attract capital investment in export platforms and to spread the benefits to the general population. We have also argued that building such institutional capacities and structures should be part of the process of economic development.

55DFAT, One world, one future, 21.
56DFAT, One world, one future, 21.
57See Padraig Carmody, Globalisation in Africa: Recolonization or renaissance? (Boulder, CO, 2010).
Finally, the shift from aid as an expression of beneficence to trade and social cooperation for mutual gain entails a number of opportunities and also gives rise to a number of ethical challenges. More specifically, it marks a substantial change in the types and forms of duties and responsibilities that the Irish government must now consider. It is widely recognised and accepted at the nation-state level that membership of systems of cooperation are the source of special rights for, and correlative duties among, members. This is the idea of reciprocity, and is central to ideas of political legitimacy and citizenship. All of those who participate in social cooperation within these boundaries are entitled to have special rights to a share in the benefits and burdens of their shared enterprise. The policy papers repeatedly refer to the mutual benefits of an engagement in deeper trade relations between Ireland and her partner states, yet the new duties and obligations generated by this cooperation are not considered.

This prompts two considerations that require further treatment. Firstly, there is now a shared responsibility for the outcomes of these actions, intended and unintended. Members of these systems of mutual cooperation are collectively responsible for the actions and outcomes of their collective collaboration. Thus, the opportunity for well-being and, conversely, the causes of poverty, hardship and under- or maldevelopment are internal to the group. However, the policy papers are silent on the matter of the responsibility to remediate for harms that occur beyond the borders of the Irish nation state. Secondly, shared principles for distributing the benefits and burdens of mutual cooperation are required. These are principles of social justice. In its current form, the WGA is there to secure coherence in policies and actions across all branches of government, yet the operating principles guiding the end objectives are not clearly specified, and tensions seem almost inevitable. There is a need to clarify which set of principles will lead in the decision-making process both within the Irish state and in KPCs. This will then be used to inform how best to balance interests at both national and KPC levels. We suggest that it is imperative that these gaps are acknowledged and addressed if the government is to achieve its stated commitment of supporting sustainable development in KPCs and also acting in a just and fair manner in its dealings and interactions.

CONCLUSION

In this paper, we have argued that rather than a continuation of ODA as usual with respect to trade and investment, One world, one future and the ‘Africa strategy’ mark the beginning of a paradigmatic shift away from aid justified on the basis of beneficence and altruism towards trade based on partnership and cooperation. Through the engagement of a WGA to international development, this approach seeks to move the development agenda into the mainstream business of governments, markets and societies, with a focus on export-led economic growth, societal development and mutual cooperation across a range of government departments within and between nation states.

We used the example of Ireland’s historical industrial policy and export-led development experience, built upon a robust WGA to capital formation, to evaluate and comparatively assess the new policy for international development.

We identified a number of opportunities and challenges to which this new policy direction gives rise. Firstly, we argued that the employment of a WGA is required to support sustainable economic growth and social development. This entails the development of supporting institutions to govern investments in
public goods, as well as public policies to govern the investment criteria of grant-aided industries and to regulate the dispersal rents from capital formation to the wider community together with the establishment of social protections to ensure that no one is left behind. Secondly, we cautioned against a narrow focus on product-specific value chains in the absence of investment in the capacities and infrastructures of the supply side of the economy. We argued that such institutional structures need to be considered alongside product-specific supports to private enterprise. This entails government-to-government connections across a broad range of areas, include education, planning, finance and revenue, and so on. Thus, rather than diverting ODA to Public Private Partnerships that invest in Africa, a wider programme of action needs to be specified in collaboration with each KPC. In addition, a wider programme of action is needed to ensure the benefits of capital formation are felt across all households.

Thus, we have argued that a WGA not only in Ireland but also in its KPCs is critical to the achievement of sustainable development and in balancing the core dimensions entailed in this concept—political, social, economic and environmental. The sequencing of activities is also critical. If sustainable economic growth is to be achieved, structural changes should occur either before, or simultaneously with, trade liberalisation.

We also pointed to some further considerations regarding the implications of this shift from aid to trade and potential tensions and complexities within the guiding principles and theoretical framework. Greater government clarification is required so as to establish more precisely what ‘maximising value’ and ‘leaving no one behind’ would entail. Specific criteria for selection of investments and projects, and criteria for evaluation of outcomes, are required to support the decision-making process, ensure transparency, and to support the policy’s aims of generating growth without undermining its broader goals and priority areas for action. Also, a strong theoretical basis to guide the allocation of benefits and burdens (including rights, duties and responsibilities) between cooperating states is also required.

If this approach is successful in achieving fair and just conditions for trade and cooperation at the bilateral level, it will greatly enhance Ireland’s capacity to demonstrate leadership at the multilateral level. Ireland’s level of trade with African countries, including KPCs, is low. Thus, Ireland has an opportunity to engage in this venture using fair rules of engagement. This would give greater legitimacy to its claim to promote fair rules of engagement for developing countries in, for example, the WTO negotiations.