

The Politics of Foreign Aid and Investment (PO8011)

Course Convenors

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Seminars

Hilary Term, Weeks 8–12

Wednesdays, 1–3pm, Room 4, College Green

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The aim of this short course is to provide an introduction to the approaches that political scientists have taken to the study of international flows of money. In particular, we focus, first, on flows of foreign aid and, second, on flows of foreign direct investment. These form a subset of the financial flows that occur in reality, but the focus allows us to study them in a little more depth than would otherwise be possible. Broadly, we split the weekly topics into those that study the ‘effects’ of these financial flows and then the political explanations of the same.

Recommended Text: Thomas Oatley (2008). *International Political Economy: Interests and Institutions in the Global Economy*. Fourth. Pearson

You may find it interesting and/or helpful to read an introductory overview of the sub-field of IPE. To that end, I suggest:

- Thomas Oatley (2008). *International Political Economy: Interests and Institutions in the Global Economy*. Fourth. Pearson, Chapter 1
- David A. Lake (2006). “International Political Economy: A Maturing Interdiscipline”. In: *The Oxford Handbook of Political Economy*. Ed. by Barry R. Weingast and Donald A. Wittman.

Assessment

10% — Class participation

Class participation requires contributing to class discussion, including listening to others, and having questions for discussion, demonstrating that contributions are based on a thorough understanding and detailed knowledge of all the required readings for the week.

30% — Response papers

Students are required to write **two response papers** over the course. Response papers are not summaries, but demonstrate an understanding and provide a critique of, or response to, the week's readings. They can be written about either one or several of the week's required readings (and, if desired, additional readings, but not to the exclusion of the required readings). Response papers should be at least one but no more than three double-spaced pages long and must be submitted through turnitin.com by midday (Irish Time) on the Tuesday preceding the Wednesday class. When you submit a response paper, you are also particularly expected to actively participate in the discussion that week and the grade for the response paper will take this into account. You should come to the seminar expecting to talk about the views expressed in the response paper of your own volition, or as a result of explicit questioning from me.

60% — End of module assignment

Note that **there are two possible end of module assignments**. Which you must complete depends on whether you take this module in combination with 'The Politics of Foreign Aid and Investment' (PO8011) or not. Specifically,

- If taking this module (PO8011) **without** PO8013, you must complete the 'Critical Literature Review' assignment (detailed below).
- If taking this module (PO8011) **and** PO8013, you must complete **one** 'Research Design Paper' assignment (detailed below), which will constitute your 'end of module assignment' grade for **both** modules.

Note that word counts do not include the bibliography but do include all other words (e.g. footnotes etc). Please include a word count on your submitted work. Late work will be penalized at a rate of 5 points per day late. Late submissions will be excused if backed by a medical certificate or other compelling evidence.

Critical Literature Review (approx. 2,000 words)

Due midday Thursday February 21st

Students should choose one theme from the course and write a paper offering a critical review of the literature. This should be based on required and further readings, with additional readings if desired.

Beyond a summary of the state of the literature, this should also include analysis of contradictions both within and between papers, methodological short-comings, and conceptual discrepancies. In developing such critiques, you will likely find some arguments or evidence more persuasive than others. Outlining your reasoning for such conclusions will tend to raise your grade. Should you wish, you may also use the essay to develop suggestions for possible research designs that may help to rectify any of the shortcomings that you perceive in the literature. Note that while the course is divided into five distinct weeks, several of the topics have considerable overlap with each other and, while you are not required to draw from the readings of multiple weeks, you are certainly not constrained not to. Indeed, you are welcome to draw from readings you have covered in other modules in the programme, as well.

Research Design Paper (approx. 3,500 words)

Due midday Thursday April 11th

Students should write a paper that develops or applies a theoretical framework that is then used to produce hypotheses. Substantively, this can be related to the topics covered in either PO8011 or PO8013, or both. The testing of these hypotheses should then be discussed in detail. Conceptually, what sort of data could be used to falsify the theory? Practically, what sort of data is (or is likely to be) available that might serve this purpose? Would this data allow for causal claims, or merely show correlation? Finally, while completion of the proposed empirical work is not necessary, illustrations of the plausibility (or otherwise) of the argument are likely to be helpful to clarify both theoretical and research design aspects of the paper. *It is strongly suggested that students contact either Tim Hicks or Jeff Weber no later than the end of week 9 to discuss this assignment.*

Plagiarism

You are reminded of your obligations as a student at Trinity College to avoid plagiarism and respect the highest standards of academic honesty. This is particularly important in terms of reviewing academic literature where it is important that the review is based on your own reading and assessment of any literature discussed.

Turnitin

All written work must be submitted via <http://www.turnitin.com/>. This makes it easier to manage submissions, as well as taking advantage of a plagiarism detector. In order to submit your essay on <http://www.turnitin.com/>, you need to register yourself with <http://www.turnitin.com/> registration for the module *separately for both Tim's classes and Jeff's classes*.

Class Name: Tim's Classes

Course ID: 5946736

Enrollment Password: moneyflow

Class Name: Jeff's Classes

Course ID: 5946738

Enrollment Password: moneyflow

Further Information

Finding Readings

- The reading list (below) includes full bibliographic references to each article, chapter, book, or other reading. As such, you should be able to use the library services to find them yourself.
- Where available, I have also included the URL based on the DOI (standing for Digital Object Identifier) of the reading. This will link you to *one* place where the reading is published online.
- The DOI links will only provide you with access when you are connected to the TCD network. If you are off-campus, you should use the Library's off-campus facility by visiting <http://www.tcd.ie/Library/> and clicking on the link for "E-Journals only".
- Note, however, that the DOI link may *not* be the place through which the TCD subscription provides access. (This is not in my control.) If this occurs, you will often find that <http://www.jstor.org/> will work for you, subject to you being on-campus or having explicitly signed-in to the Library's off-campus service.
- Again, where available, I have also tried to provide URLs for readings that are not constrained by off-campus and/or login restrictions. This is often via the web sites of the authors of the readings and will tend to be the easiest way of retrieving items.
- Some readings may only be available in hard copy. In these cases, I will endeavour to make them available as scanned PDFs via the module's Blackboard site found via <http://mymodule.tcd.ie/>. These are marked with the ➡ symbol in the reading list.
- Some of the readings listed below are a little more challenging. I have marked these with the * symbol.
- Some of the 'readings' in the 'Short/Popular' category are actually podcasts or other types of audio or video. I have marked these with the 🎧 symbol.

Acknowledgements

I am extremely grateful to the following for their help in preparing this course and reading suggestions: Tessy Huss, Justin Leinaweaver, and Will Phelan.

Week 8 (Mar 6): The Effects of Foreign Aid — Jeff Weber

Required Readings

- The Economist (Nov. 2012). *Britain's foreign aid: Follow the money*. 'Feast and famine: Demography and development' blog.
URL: <http://www.economist.com/blogs/feastandfamine/2012/11/britains-foreign-aid>
- Dambisa Moyo (2010). *Dead Aid: Why aid is not working and how there is another way for Africa*. Penguin Books, Chapters 2–5, pages 10–75. (It's a small book.)
- Simeon Djankov, Jose G. Montalvo, and Marta Reynal-Querol (2008). "The Curse of Aid". 13.3, pp. 169–194.
DOI: 10.1007/s10887-008-9032-8
- Kevin M. Morrison (2012). "What Can We Learn about the "Resource Curse" from Foreign Aid?" *The World Bank Research Observer* 27.1, pp. 52–73.
DOI: 10.1093/wbro/lkq013.
URL: http://www.relooney.info/NS4053e/Aid_12.pdf
- Raghuram Rajan and Arvind Subramanian (2007). "Does Aid Affect Governance?" *American Economic Review* 97.2, pp. 322–327.
DOI: 10.2307/30034469

Recommended Readings

- Robert Lensink and Oliver Morrissey (Feb. 2000). "Aid instability as a measure of uncertainty and the positive impact of aid on growth". *The Journal of Development Studies* 36.3, pp. 31–49.
DOI: 10.1080/00220380008422627
- Craig Burnside and David Dollar (2000). "Aid, Policies, and Growth". *American Economic Review* 90.4, pp. 847–868.
URL: <http://www.econ.ucdavis.edu/faculty/gperi/Teaching/econ270A/Aid,%20Policies%20and%20Growth.pdf>
- Cristina Arellano, Aleš Bulíř, Timothy Lane, and Leslie Lipschitz (Jan. 2009). "The dynamic implications of foreign aid and its variability". *Journal of Development Economics* 88.1, pp. 87–102.
DOI: 10.1016/j.jdeveco.2008.01.005.
URL: <http://www.econ.umn.edu/~arellano/aidpaper.pdf> (skip pages 89–90)
- Peter Boone (Feb. 1996). "Politics and the effectiveness of foreign aid". *European Economic Review* 40.2, pp. 289–329.
DOI: 10.1016/0014-2921(95)00127-1
- Carl-Johan Dalgaard, Henrik Hansen, and Finn Tarp (2004). "On The Empirics of Foreign Aid and Growth*". *The Economic Journal* 114.496, F191–F216.
DOI: 10.1111/j.1468-0297.2004.00219.x.

URL: http://www.cer.ethz.ch/resec/teaching/seminar_aussenwirtschaft_wt_04_05/daalgard_hansen_tarp_EJ.pdf

- William Easterly (2003). “Can Foreign Aid Buy Growth?” *Journal of Economic Perspectives* 17.3, pp. 23–48.
DOI: 10.2307/3216821
- Michael A. Clemens, Steven Radelet, Rikhil R. Bhavnani, and Samuel Bazzi (2012). “Counting Chickens when they Hatch: Timing and the Effects of Aid on Growth*.” *The Economic Journal* 122.561, pp. 590–617.
DOI: 10.1111/j.1468-0297.2011.02482.x
- William Easterly (2006). *The white man’s burden: How the West’s efforts to aid the rest have done so much ill and so little good*. Oxford, UK: Oxford University Press
- Joseph Wright and Matthew Winters (May 2010). “The Politics of Effective Foreign Aid”. *Annual Review of Political Science* 13.1, pp. 61–80.
DOI: 10.1146/annurev.polisci.032708.143524.
URL: <http://dx.doi.org/10.1146/annurev.polisci.032708.143524>

Week 9 (Mar 13): The Donor-Politics of Foreign Aid — Jeff Weber

Required Readings

- James Lindsay (2011). *We don't give out foreign aid to make people look like us*. Published online by 'The Atlantic', September 29th.
URL: <http://www.theatlantic.com/international/archive/2011/09/we-dont-give-out-foreign-aid-to-make-people-like-us/245856/>
- Dustin Tingley (Feb. 2010). "Donors and domestic politics: Political influences on foreign aid effort". *The Quarterly Review of Economics and Finance* 50.1, pp. 40–49.
DOI: 10.1016/j.qref.2009.10.003
- Bruce Bueno de Mesquita and Alastair Smith (Forthcoming). "Aid: Blame It All on 'Easy Money'". *Journal of Conflict Resolution*.
DOI: 10.1177/0022002712464315
- Michael Faye and Paul Niehaus (2012). "Political Aid Cycles". *The American Economic Review* 102.7, pp. 3516–3530.
DOI: 10.1257/aer.102.7.3516
- Richard A. Nielsen (Forthcoming). "Rewarding human rights? Selective aid sanction against repressive states". *International Studies Quarterly*.
URL: <http://www.people.fas.harvard.edu/~rnielsen/RHR2010.pdf>

Recommended Readings

- David H. Bearce and Daniel C. Tirone (2010). "Foreign Aid Effectiveness and the Strategic Goals of Donor Governments". *Journal of Politics* 72.03, pp. 837–851.
DOI: 10.1017/S0022381610000204
- Tim Büthe, Solomon Major, and André de Mello e Souza (2012). "The Politics of Private Foreign Aid: Humanitarian Principles, Economic Development Objectives, and Organizational Interests in NGO Private Aid Allocation". *International Organization* 66.04, pp. 571–607.
DOI: 10.1017/S0020818312000252
- Marijke Breuning (1995). "Words and Deeds: Foreign Assistance Rhetoric and Policy Behavior in the Netherlands, Belgium, and the United Kingdom". *International Studies Quarterly* 39.2, pp. 235–254.
DOI: 10.2307/2600848
- Desha M. Girod (2012). "Effective Foreign Aid Following Civil War: The Nonstrategic-Desperation Hypothesis". *American Journal of Political Science* 56.1, pp. 188–201.
DOI: 10.1111/j.1540-5907.2011.00552.x
- Alberto Chong and Mark Gradstein (Aug. 2008). "What determines foreign aid? The donors' perspective". *Journal of Development Economics* 87.1, pp. 1–13.
DOI: 10.1016/j.jdeveco.2007.08.001

- Rick Travis (2010). “Problems, Politics, and Policy Streams: A Reconsideration US Foreign Aid Behavior toward Africa”. *International Studies Quarterly* 54.3, pp. 797–821.
DOI: 10.1111/j.1468-2478.2010.00610.x
- Helen V. Milner and Dustin H. Tingley (2010). “The Political Economy of U.S. Foreign Aid: American Legislators and the Domestic Politics of Aid”. *Economics & Politics* 22.2, pp. 200–232.
DOI: 10.1111/j.1468-0343.2009.00356.x
- Axel Dreher, Peter Nunnenkamp, and Rainer Thiele (2008). *Public Choice* 136.1-2, pp. 139–164.
DOI: 10.1007/s11127-008-9286-x
- Omar S. Bashir and Darren J. Lim (Forthcoming). “Misplaced Blame: Foreign Aid and the Consequences of UN Security Council Membership”. *Journal of Conflict Resolution*.
DOI: 10.1177/0022002712453710
- Alberto Alesina and David Dollar (2000). “Who Gives Foreign Aid to Whom and Why?” *Journal of Economic Growth* 5.1, pp. 33–63.
DOI: 10.1023/A%3A1009874203400
- James H. Lebovic and Erik Voeten (2009). “The Cost of Shame: International Organizations and Foreign Aid in the Punishing of Human Rights Violators”. *Journal of Peace Research* 46.1, pp. 79–97.
DOI: 10.1177/0022343308098405
- Helen V. Milner and Dustin Tingley (2012). “The choice for multilateralism: Foreign aid and American foreign policy”. *Review of International Organizations*, pp. 1–29.
DOI: 10.1007/s11558-012-9153-x.
URL: http://scholar.harvard.edu/files/riomilnertingley_0.pdf
- Axel Dreher, Jan-Egbert Sturm, and James Raymond Vreeland (Jan. 2009). “Development aid and international politics: Does membership on the UN Security Council influence World Bank decisions?” *Journal of Development Economics* 88.1, pp. 1–18.
DOI: 10.1016/j.jdeveco.2008.02.003

Week 10 (Mar 20): The Recipient-Politics of Foreign Aid — Jeff Weber

Required Readings

- Gordon Rayner and Steven Swinford (Feb. 5, 2011). “WikiLeaks cables: millions in overseas aid to Africa was embezzled”. *The Telegraph*.
URL: <http://www.telegraph.co.uk/news/worldnews/wikileaks/8304640/WikiLeaks-cables-millions-in-overseas-aid-to-Africa-was-embezzled.html>
- Amanda A. Licht (2010). “Coming into Money: The Impact of Foreign Aid on Leader Survival”. *Journal of Conflict Resolution* 54.1, pp. 58–87.
DOI: 10.1177/0022002709351104
- Daniel Y. Kono and Gabriella R. Montinola (2009). “Does Foreign Aid Support Autocrats, Democrats, or Both?” *Journal of Politics* 71.02, pp. 704–718.
DOI: 10.1017/S0022381609090550
- Joseph Wright (2009). “How Foreign Aid Can Foster Democratization in Authoritarian Regimes”. *American Journal of Political Science* 53.3, pp. 552–571.
DOI: 10.1111/j.1540-5907.2009.00386.x
- Richard A. Nielsen, Michael G. Findley, Zachary S. Davis, Tara Candland, and Daniel L. Nielson (2011). “Foreign Aid Shocks as a Cause of Violent Armed Conflict”. *American Journal of Political Science* 55.2, pp. 219–232.
DOI: 10.1111/j.1540-5907.2010.00492.x

Recommended Readings

- Human Rights Watch (2010). *Development without Freedom: How Aid Underwrites Repression in Ethiopia*. New York, NY.
URL: <http://www.hrw.org/sites/default/files/reports/ethiopia1010webwcover.pdf>
- Kevin M. Morrison (2007). “Natural resources, aid, and democratization: A best-case scenario”. 131.3-4, pp. 365–386–.
DOI: 10.1007/s11127-006-9121-1.
URL: <http://falcon.arts.cornell.edu/kmm368/bestcase.pdf>
- Stephen Knack (2004). “Does Foreign Aid Promote Democracy?” *International Studies Quarterly* 48.1, pp. 251–266.
DOI: 10.1111/j.0020-8833.2004.00299.x
- Joseph K. Young and Michael G. Findley (2011). “Can peace be purchased? A sectoral-level analysis of aid’s influence on transnational terrorism”. *Public Choice* 149.3-4, pp. 365–381.
DOI: 10.1007/s11127-011-9875-y
- Burcu Savun and Daniel C. Tirone (2011). “Foreign Aid, Democratization, and Civil Conflict: How Does Democracy Aid Affect Civil Conflict?” *American Journal of Political Science* 55.2,

pp. 233–246.

DOI: 10.1111/j.1540-5907.2010.00501.x

- Simone Dietrich and Joseph Wright (Apr. 2012). “Foreign Aid and Democratic Consolidation in Africa”.

URL: http://visionsinmethodology.org/wp-content/uploads/2012/04/Dietrich_VIM2012.pdf

Week 11 (Mar 27): The Effects of Foreign Direct Investment — Tim Hicks

FDI is when foreign actors purchase, construct, or otherwise invest in productive assets in a country. Oatley (2008) provides an overview of the relationships between “the state and the multinationals”. Krugman (1997) provides a justification for embracing low wages abroad. Drezner (2000) and Cavanagh and Anderson (2002) question some of the perceived ‘facts’ regarding globalization in this sphere, albeit from different viewpoints. The remaining readings provide evidence on the relationship between FDI and economic outcomes.

Required Readings

- ➔ Thomas Oatley (2008). *International Political Economy: Interests and Institutions in the Global Economy*. Fourth. Pearson, chapter 9 (also, chapter 8 may be of interest)
- Paul Krugman (1997). “In Praise of Cheap Labor: Bad jobs at bad wages are better than no jobs at all”. *Slate*. March 20th.
URL: <http://web.mit.edu/krugman/www/smokey.html>
- Daniel W. Drezner (Nov. 2000). “Bottom Feeders”. *Foreign Policy* 121, pp. 64–70
- John Cavanagh and Sarah Anderson (Sept. 2002). “Happily Ever NAFTA?” *Foreign Policy* 132, pp. 58–60
- Luiz R. de Mello (1997). “Foreign direct investment in developing countries and growth: A selective survey”. *Journal of Development Studies* 34.1, pp. 1–34.
DOI: 10.1080/00220389708422501
- * E. Borensztein, J. De Gregorio, and J-W. Lee (1998). “How does foreign direct investment affect economic growth?” *Journal of International Economics* 45.1, pp. 115–135.
DOI: 10.1016/S0022-1996(97)00033-0
- Layna Mosley and Saika Uno (2007). “Racing to the Bottom or Climbing to the Top? Economic Globalization and Collective Labor Rights”. *Comparative Political Studies* 40.8, pp. 923–948.
DOI: 10.1177/0010414006293442

Recommended Readings

- Brian J. Aitken and Ann E. Harrison (1999). “Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela”. *American Economic Review* 89.3, pp. 605–618.
DOI: 10.2307/117035
- Niels Hermes and Robert Lensink (2003). “Foreign direct investment, financial development and economic growth”. *Journal of Development Studies* 40.1, pp. 142–163.
DOI: 10.1080/00220380412331293707
- * Henrik Hansen and John Rand (2006). “On the Causal Links Between FDI and Growth in Developing Countries”. *World Economy* 29.1, pp. 21–41.
DOI: 10.1111/j.1467-9701.2006.00756.x

- Brian Greenhill, Layna Mosley, and Aseem Prakash (2009). *American Political Science Review* 103.04, pp. 669–690.
DOI: 10.1017/S0003055409990116
- Jason Sorens and William Ruger (2012). “Does Foreign Investment Really Reduce Repression?” *International Studies Quarterly* 56.2, pp. 427–436.
DOI: 10.1111/j.1468-2478.2012.00722.x

Week 12 (Apr 3): The Politics of Foreign Direct Investment — Tim Hicks

Armed with an understanding of the effects of FDI, we move on to analyse the politics of when and why FDI occurs at all. What political features of countries make them more likely to be recipients of this form of investment? Some of the recommended readings go on to study the political consequences of FDI and globalisation more generally.

Required Readings

- Nathan M. Jensen (2003). “Democratic Governance and Multinational Corporations: Political Regimes and Inflows of Foreign Direct Investment”. *International Organization* 57.3, 587–616.
DOI: 10.1017/S0020818303573040.
URL: http://law.wisc.edu/gls/documents/foreign_investment_recommended5.pdf
- Tim Büthe and Helen V. Milner (2008). “The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements?” *American Journal of Political Science* 52.4, pp. 741–762.
DOI: 10.1111/j.1540-5907.2008.00340.x
- John S. Ahlquist (2006). “Economic Policy, Institutions, and Capital Flows: Portfolio and Direct Investment Flows in Developing Countries”. *International Studies Quarterly* 50.3, pp. 681–704.
DOI: 10.1111/j.1468-2478.2006.00420.x.
URL: https://mywebpace.wisc.edu/jahlquist/web/isq_final.pdf
- Antonis Adam and Fragiskos Filippaios (2007). “Foreign direct investment and civil liberties: A new perspective”. *European Journal of Political Economy* 23.4, pp. 1038–1052.
DOI: 10.1016/j.ejpoleco.2006.08.006

Recommended Readings

- Friedrich Schneider and Bruno S. Frey (1985). “Economic and political determinants of foreign direct investment”. *World Development* 13.2, pp. 161–175.
DOI: 10.1016/0305-750X(85)90002-6
- Susan Strange (1992). “States, Firms and Diplomacy”. *International Affairs* 68.1, 1–15.
DOI: 10.2307/2620458
- Avik Chakrabarti (2001). “The Determinants of Foreign Direct Investments: Sensitivity Analyses of Cross-Country Regressions”. *Kyklos* 54.1, pp. 89–114.
DOI: 10.1111/1467-6435.00142
- Elizabeth Asiedu (2002). “On the Determinants of Foreign Direct Investment to Developing Countries: Is Africa Different?” *World Development* 30.1, pp. 107–119
- Eric Neumayer and Laura Spess (2005). “Do bilateral investment treaties increase foreign direct investment to developing countries?” *World Development* 33.10, pp. 1567–1585

- Matthias Busse and Carsten Hefeker (2007). “Political risk, institutions and foreign direct investment”. *European Journal of Political Economy* 23.2, pp. 397–415
- John S. Ahlquist and Aseem Prakash (2008). “The influence of foreign direct investment on contracting confidence in developing countries”. *Regulation & Governance* 2.3, pp. 316–339.
DOI: 10.1111/j.1748-5991.2008.00040.x
- Shannon Lindsey Blanton and Robert G. Blanton (2009). “A Sectoral Analysis of Human Rights and FDI: Does Industry Type Matter?” *International Studies Quarterly* 53.2, pp. 469–493.
DOI: 10.1111/j.1468-2478.2009.00542.x
- Susan Ariel Aaronson and M. Rodwan Abouharb (2011). “Unexpected Bedfellows: The GATT, the WTO and Some Democratic Rights”. *International Studies Quarterly* 55.2, pp. 379–408.
DOI: 10.1111/j.1468-2478.2011.00646.x
- Matthew D. Fails (2012). “Inequality, Institutions, and the Risks to Foreign Investment¹”. *International Studies Quarterly* 56.3, pp. 516–529.
DOI: j.1468-2478.2012.00725.x