



Research Article

## THE IMPACT OF A DONOR'S DOMESTIC POLITICAL ECONOMY ON ITS POLICY AND PRACTICE OF DEVELOPMENT COOPERATION COMPARING TO THE IMPACT OF INTERNATIONAL NORMS AND PRINCIPLES

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### ABSTRACT

International norms and principles are considered as the main basement for the international development cooperation programs. Developed countries are thought that they are the leader of humanitarian aids and they do this just for the sake of developing and underdeveloped countries. However, the policy and practice of development cooperation are affected mainly by domestic political economy of donor nations. The international principles, non-government organizations (NGO) and other international organizations have less impact on the donors' action in international arena. Meanwhile, it is the domestic political economy and national interests of donor countries that influence their endeavor in the international development cooperation projects. The author of this paper will discuss how national political aims are stronger than international norms and principles when it comes to international cooperation.

## KEYWORDS

International norms and principles, donor countries, political economy, national interests, foreign aid, humanitarianism.

## INTRODUCTION

Developed states have had the main role in foreign aid programs in the name of donor nations. The motives of those donor nations have developed in many ways. Although the core aim of foreign aid is to promote liberal political and economic institutions to make the world a better place for all, some donor nations utilize foreign aid as a means of seeking their national interests. In the current international order, “no states can know the intentions of other states with certainty, especially their future intentions.”<sup>1</sup> With unclear or masqueraded intentions lots of donor nations seek their national interests by giving foreign aid. “While aid in the 1960s focused more on development, recent aid has increasingly reflected strategic considerations.”<sup>2</sup> Emerging as a development program for humanitarian issues, current foreign aid is mainly given by seeking

national interests. The driving factor for this change is undoubtedly the domestic political economy of donor nations. The political economy has a direct and substantial effect on the policy and practice of development cooperation programs of donor countries. Meanwhile, the international norms and principles as well as humanitarian purposes are ignored when national interests emerge as the main priority of donors. This paper will discuss the true nature of foreign aid and analyze how the domestic political economy affects the policy and practice of international development cooperation of donor states. To make the flow of the paper clear, I will divide it into two parts. The first part is the theoretical part in which four core motives from foreign aid will be explained and whom donor states gave foreign aid for what purpose will be

<sup>1</sup> John J. Mearsheimer, China’s Unpeaceful rise, *Current history*, Apr, 2006 p.160

<sup>2</sup> Subhayu Bandyopadhyay, E. Katarina Vermann, Donor Motives for Foreign Aid, **Federal Reserve Bank of**

**St. Louis** *Review*, July/August 2013, 95(4), p. 327

discussed. The second part is about how political economy affects the policy and practice of development cooperation than international norms and principles.

Theoretically, foreign aid is always given for specific purposes and they are all available in practice too. However, lots of donor nations hide their true purposes from giving foreign aid and show as if the aid is given as a moral obligation. At some point, especially when foreign aid firstly appeared, it was mainly given as charity and this motive is still the driving factor in international foreign aid programs and we cannot deny it. So, the first motivation from foreign aid is the philanthropic motive. Initially, charity was the main goal of the donor nations, and later as foreign aid was given as a moral obligation. Aid may be motivated by two moral motives. First and foremost, compassion for our fellow human beings' well-being, regardless of where they reside. Second, a concern for natural justice, which may be used to right historical wrongs such as colonialism or to secure a more equal distribution of the earth's resources. In other words "donors may care that their aid helps

residents of recipient nations enjoy a better standard of living.”<sup>3</sup> The second driving factor for foreign aid is compensation. Developed nations used colonialism to exploit the third world, and they got whatever they wanted. Economic progress in donor countries caused climate change, which harmed developing and poor countries, thus they should compensate. Although this idea is too idealistic, at some points in history donor states gave foreign aid as compensation, and also this thought is relevant to the current system. Donor nations are the most developed countries with thousands of factories that emit harmful gases into the environment. Those donor states are responsible for environmental issues and should compensate for underdeveloped countries. The third motivation for foreign aid is an investment. Aid may also be viewed as an investment, in which donors give away money and other resources in the hopes of greater returns in the future - both for themselves and for poor nations. Current China's foreign aid is mainly given as an investment and sometimes as a loan. The last factor for giving foreign aid is geographical influence. Aid may also be used by

<sup>3</sup> Subhayu Bandyopadhyay, E. Katarina Vermann, Donor Motives for Foreign Aid, **Federal Reserve Bank of**

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governments to gain or maintain influence and access to natural resources. This was particularly evident during the Cold War when the Western bloc led by Washington and the Soviet bloc led by Moscow battled for friends in Africa, Southeast Asia, and Latin America.

Several pieces of evidence found by scholars in the field show the fact that “the pattern of aid giving is dictated by political-strategic considerations. An inefficient, economically closed, mismanaged non-democratic former colony politically friendly to its former colonizer receives more foreign aid than another country with a similar level of poverty, a superior policy stance, but without a past as a colony.”<sup>4</sup> Donors also differ from each other. The Nordic countries had more tendency towards humanitarian aid. They take account of income levels, openness, and economic and political institutions of receiving countries. The other countries such as France and Japan give to their former colonies regardless of the institutions or poverty levels. The main part of the US foreign aid has been given to the Middle East countries and that could be mainly because

of national interests. The US has also spent much of its foreign aid for democratic purposes. The US case is very similar to current China foreign aid in Africa and the countries located in the old Silk Road. The aim of China is the only and only national interest. “Cross country differences are to a large, but not exclusive, extent explained by political factors, such as colonial links, alliances, strategic interests, etc.”<sup>5</sup> While foreign aid responds to political incentives, such as political openness, democratic level, and good institutions, foreign direct investments are more sensitive to economic conditions in the receiving countries such as economic openness, trade liberalization, and protection of property rights.

The determinants of foreign aid giving are divided into two groups. One group of determinants explains the idealistic purposes of foreign aid such as humanitarian aid. The second group of determinants is the tool for the political-strategic interests of donors. The first group determinants are poverty degree, income level, and the UN friend variable. If the donor nations give their foreign aid by considering these variables, this

<sup>4</sup> **A. Alesina and D. Dollar**, Who Gives Foreign Aid to Whom and Why? *Journal of Economic Growth*, Vol. 5, No. 1 (Mar., 2000), p. 33.

<sup>5</sup> **A. Alesina and D. Dollar**, Who Gives Foreign Aid to Whom and Why? *Journal of Economic Growth*, Vol. 5, No. 1 (Mar., 2000), p. 34.

means they have no political incentives for giving foreign aid. The poverty and income level show that the state cannot return the aid and foreign aid is given without and conditionality. There is an exception here. This is China again. China's money invested in poor nations of Africa cannot be accepted as foreign aid because of the conditionality of taking aid. However, this is the aid somehow as an investment and the foreign investment is the best solution for the development if it is utilized correctly. But when it comes to returning the loan, China is standing very strict against its aid recipients. "In what is yet another move to acquire foreign assets on account of a default of loans China allegedly has taken over the Ugandan Entebbe International Airport and other assets in the Eastern African country." <sup>6</sup>

The second group of determinants is democratic status, colonial past, openness, economic and political institutions of receiving nations. If donors pay attention to these determinants while

allocating foreign aid, this signifies that these donors are impacted by domestic political considerations.

Among these several variables of giving foreign aid, fostering democracy is the most seen in researches. Because usually democratized countries receive foreign aid significantly more and faster than the countries without democracy. "Donors increasingly used political conditionality attached to foreign aid and also put a large emphasis on supporting development projects that may directly impact and improve the quality of democracy. Political conditionality came in several forms, but most generally it involved providing positive incentives such as increased aid flows to countries undertaking democratic reforms." <sup>7</sup> "There is an asymmetry in donors' reactions to decreases in democracy: they tend to reduce aid but not by as large a percentage as they increase aid in response to positive change in a democracy." <sup>8</sup> The main aim of the Liberal Hegemony Strategy of the US is to support

<sup>6</sup>

<https://economictimes.indiatimes.com/news/international/business/china-reportedly-takes-over-ugandas-airport-on-account-of-loan-default/articleshow/87957646.cms/>

<sup>7</sup> Balázs Szent-Iványi, Are democratising countries rewarded with higher levels of foreign aid?, *Acta Oeconomica*, Vol. 65 (4), p. 594 (2015)

<sup>8</sup> **A. Alesina and D. Dollar**, Who Gives Foreign Aid to Whom and Why? *Journal of Economic Growth*, Vol. 5, No. 1 (Mar., 2000), p. 50.

democratic peace. According to this theory, the US will support the economy of the receivers and this economic liberalization will lead to political liberalization, in other words, the state will be democratic and democratic is a friend to the US and the US can keep its unipolarity and feel secure in this anarchic world. So, the biggest donor nation that takes the democratization level of the receiving states into consideration while giving foreign aid has been the US so far.

The next political variable is the colonial past of receiving countries. "The influence of the colonial past varies enormously by the donor, reflecting their different histories as colonial powers. For individual donors, the share of aid going to countries that were their colonies in the 20th century varies from 99.6 % (Portugal) to zero for countries such as Canada and Sweden that had no colonies... The "own colony" variable is higher than "other colony" variables Japan and the U.S. have similarly estimated elasticities of respect to colonial past, 6.3% of Japanese aid has gone to former colonies. France and the U.K., because of their greater number of former colonies, have

given 57% and 78%, respectively, of their total aid to their former colonies." <sup>9</sup> Although some scholars count this variable as more humanitarian aid for receivers, this is not always true. For example, Russia gives its foreign aid to two former Soviet Union countries, namely Tajikistan and Kyrgyzstan, with its "global food crises program". Some other programs are mainly for Central Asia (Eca Region Capacity Development, Epfm-Eca regional public finance management, etc.). These kinds of programs are mainly created for reconnecting the former colonies with the donor nations.

Openness is another variable for foreign aid giving. Some donor nations give their foreign aid only to those who have an open economy. Open economies receive almost twice as much aid as closed economies. Good economic policy is rewarded by donors. There are two reasons behind this. Some donors want not to waste their aid. Instead of giving aid to corrupted countries with a closed economy and waste aid, they prefer to give an open economy where the aid is used for specific purposes and this aid helps the receiving

<sup>9</sup> **A. Alesina and D. Dollar**, Who Gives Foreign Aid to Whom and Why? *Journal of Economic Growth*, Vol. 5, No. 1 (Mar., 2000), p. 53



countries. The second reason is that openness is one conditionality of giving aid. The donors should make sure that their money should be returned and closed economies cannot do that. Taking back the aid means that the donor nations are helping themselves by addressing their national interests. The case is the same as the next variable: economic and political institutions of receiving nations. Just like openness having good economic and political institutions can be a conditionality for receiving aid. The countries without good economic and political institutions have difficulty getting foreign aid. These decent institutions can guarantee donors that they will be rewarded for their aid one day.

Nowadays the role of international norms and principles declined significantly in the policy and practice of development cooperation. This is the result of the political economy of the donor nations. The policymakers seek national interests in the process of giving foreign aid regularly. Even NGOs specialized in foreign aid programs have to compromise with the states as the sources of aid are provided by the donor countries. "Groups

within states - e.g. parties, sectors, firms, and NGOs – press for various policies. Empirical evidence about how various unbundled components of a state see their interests affected by aid is the basis for explaining aid outcomes. Political leaders, interacting within executive and legislative branches set policy on levels and allocations of aid. Bureaucracies and personalities seek to improve their situation by strategic uses of aid; patronage and short-term solutions often dominate choices. In the second approach, the state is a unified actor with interests. These interests arise from a state's position in world affairs and its cultural values. Aid is used to advance interests, whether diplomatic, commercial, or cultural. Because donors pursue multiple goals, and these vary over time and among donors, it is difficult to generalize about the weight these goals play in explaining aid. For example, economic gains seem important in Japanese aid, political goals in French aid, and global welfare improvement in Nordic aid" <sup>10</sup> "Foreign aid has always been political. This fact has come as no surprise to scholars and practitioners of statecraft. Describing one of the

<sup>10</sup> Raymond F. Hopkins, "Political Economy Of Foreign Aid". *Foreign Aid Development: Lessons Learnt And Directions For The Future*. 2000, pp. 423-449.,

functions of aid, Hans Morgenthau, one of the founders of realist international relations theory, noted: “the transfer of money and services from one government to another performs here the function of a price paid for political services rendered or to be rendered”.<sup>11</sup> Even though donor nations' political agendas dictate assistance distribution, these aims usually match with the needs of citizens in recipient countries. Most donors today see reducing poverty and suffering in far-flung nations as being in their national interest for a variety of reasons. Multiple political grounds presently bind most donor countries under a shared development and humanitarian objective, whether out of ethics of duty or a determined decision to limit terrorist activity. However, aid is still subject to political meddling. Furthermore, the receipt and disbursement of cash get entwined with internal politics in the recipient country the moment foreign help crosses the border.

The field of development cooperation has become a complex structure with complicated mutual international relations. The true nature of foreign aid programs has faced several changes since the

end of the Cold War. Even though no states admit their real motives from foreign aid openly, they all know from deep inside that the foreign aid programs have been turned into a tool of strategic interest. International norms and principles are remaining only in books as theories. The development cooperation programs are driven by the politics and political economy of the donor nations.

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<sup>11</sup> Eric Werker, *The Political Economy of Bilateral Foreign Aid*, Harvard Business School, May, 2011, p. 1



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