



Duke University

PS 93

Guest Lecture, Fall 2011

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Lecture 15

**Wielding Economic Power:
Economic Sanctions & Foreign Aid**

Current U.S. Sanctions

<i>Country</i>	<i>Declared U.S. Concern</i>	<i>Type of Sanctions (in force since)</i>
Belarus	threat to democratic process, destruction of institutions	targeted restrictions on commercial transactions (2006)
Burma (Myanmar)	military coup; human rights violations, repression	comprehensive prohibition of trade and investment (1997, 2003)
Ivory Coast	human rights violations in the context of civil war	arms embargo, prohibition to provide military training; trade/financial restrictions (2003)
Cuba	Communism; hostility toward U.S.	restrictions on travel, remittances, commercial transactions, possible seizure of assets (1963)
Iran	Iranian pursuit of WMD; sponsorship of int'l terrorism	comprehensive prohibition of trade and investment, exc. carpets & food ('87, '95, '08)
North Korea	hostility toward U.S.; sponsorship of int'l terrorism	restrictions on imports from and financial transactions with N-Korea (2000, 2008)
Sudan	human rights violations; civil war	freezing of assets, geographically specific prohibition of trade, financial transactions (1997, 2006)
Syria	assassination of former Lebanese Prime Minister + 22 others	targeted freezing of assets, restrictions on trade and financial transactions (2005)
Zimbabwe	repression; threat to democratic process	targeted prohibition of all commercial transactions

Source: U.S. Treasury, Office of Foreign Assets Control (<http://www.ustreas.gov/ofac>)

Positive & Negative Sanctions

- Country A imposes **negative sanctions** on country B when it actually deprives or threatens to deprive B of something that is valued and **expected by B**
 - as punishment for B's behavior
 - or to forestall a specified behavior (by threat)
- Country A imposes **positive sanctions** on country B when actually rewards or promises to reward B with something valued and **not otherwise expected by B**
 - as reward for B's behavior
 - or to induce a specified behavior (through promise)
- "[not] expected by B" => baseline expectations matter
- behavior may consist of taking an action or refraining from it

U.S. Negative Economic Sanctions

<i>Country</i>	<i>Declared U.S. Concern</i>	<i>Type of Sanctions (in force since)</i>
Belarus	threat to democratic process, destruction of institutions	targeted restrictions on commercial transactions (2006)
Burma (Myanmar)	military coup; human rights violations, repression	comprehensive prohibition of trade and investment (1997, 2003)
Ivory Coast	human rights violations in the context of civil war	arms embargo, prohibition to provide military training; trade/financial restrictions (2003)
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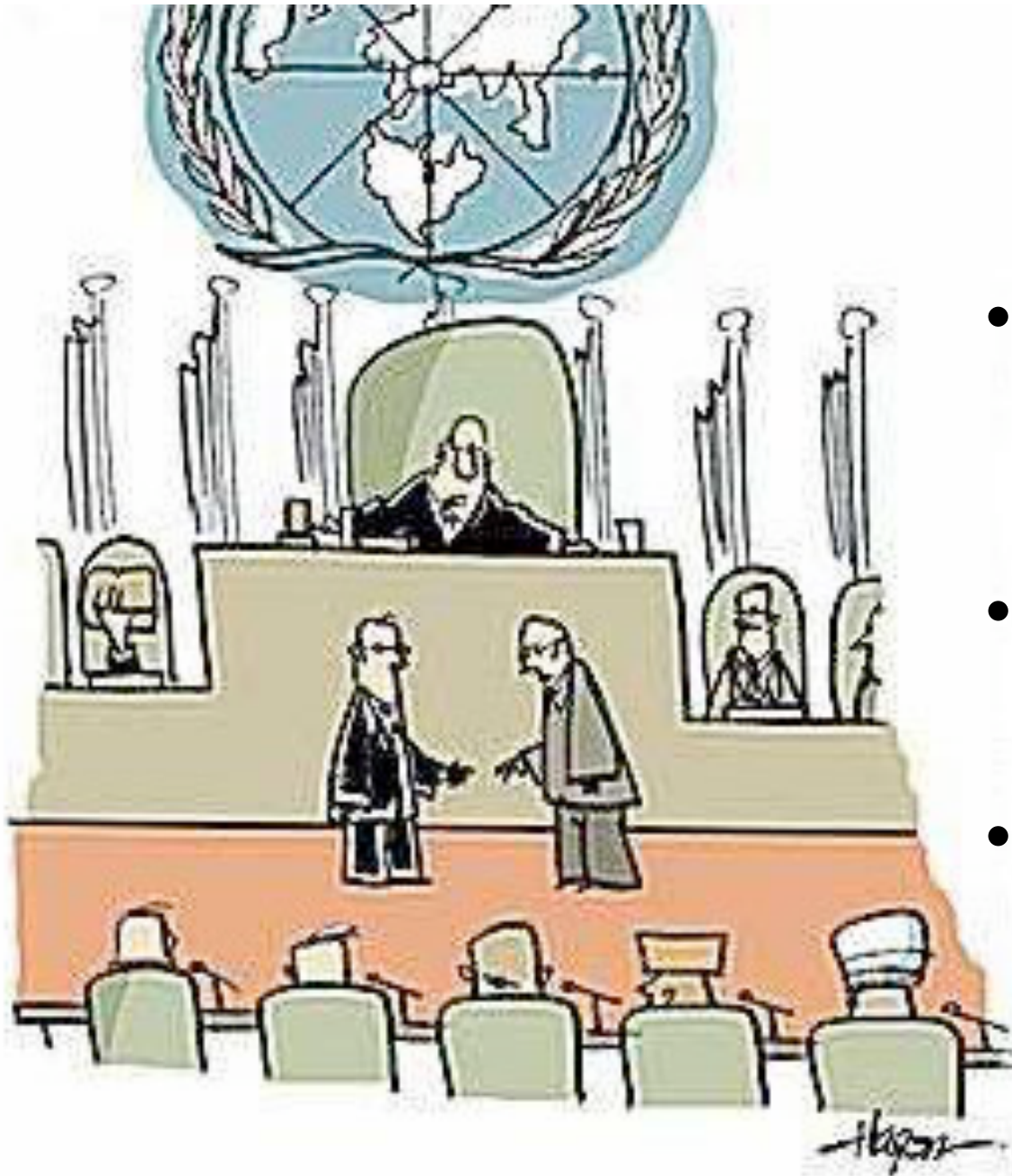
Source: U.S. Treasury, Office of Foreign Assets Control (<http://www.ustreas.gov/ofac>)

Objectives of Economic Sanctions

- Sanctions are usually influence attempts
- Sometimes declamatory/"symbolic" politics
 - for domestic consumption
 - purely expressive?
- As signal to others (3rd parties)?

Different Kinds of Negative Economic Sanctions

- targeted export/import tariffs or restrictions
- product boycotts; trade embargoes
- investment restrictions/prohibitions
- freeze or confiscation of assets
- travel restrictions
- freeze on preferential treatment
- aid cut-off



(In)Effectiveness of Sanctions?

- *Imposed* sanctions successful in changing behavior in 1/3 cases during Cold War
- *Threatened* sanctions successful 50+% (Drezner)
- Probability of success equal or higher than rate of successful war initiation during Cold War

"Rock Beats Scissors. Sanctions it is!"

Why Do Sanctions (Sometimes) Work?

- Interdependence & Vulnerability
=> Economic Power *is* Political Power
- Logic of costly signals
- Newer literature: focus on domestic politics
 - regime type
 - breadth of domestic support/challenges of targeted leaders
- "Smart Sanctions" Theory
- Targeting innocent by-standers (Solomon Major)

Ethical Dilemmas of Sanctions

- Sanctions can rarely be precisely targeted
=> penalize innocent civilian masses
for policies of governing elite?
- Perversely, worse in undemocratic target states
(population = hostage?)
- Humanitarian & Political Costs:
 - suffering and death (Mueller & Mueller)
 - long-term reputational damage in target country?

Foreign Aid

Foreign Aid

- Military Aid
- **Humanitarian/Emergency Aid, Development Aid**
- Technical Assistance/Administrative Training
 - including for:*
 - police forces
 - bureaucratic organization/administrative capacity (statistical offices)
 - economic policymaking (forecasting, central banking, antitrust enforcement)
 - engineering (esp. infrastructure: roads, bridges, etc.)
 - political institution-building, esp. in transition to democracy (building political parties, organizing elections)

Humanitarian & Development Aid

- "official" (governmental) vs. private development aid
- **Official Development Aid:**
Financial or in-kind resources given by the government of one country to the government or other recognized actors (local gov, NGOs, private entities) in another country to support the latter country's social, economic, or political development.
- **U.S. Agency for International Development (AID):**
"... extending a helping hand to people overseas struggling to make a better life, recover from a disaster or striving to live in a free and democratic country...
... U.S. foreign assistance has always had the twofold purpose of furthering America's foreign policy interests in expanding democracy and free markets while improving the lives of the citizens of the developing world."
- **Economic Power *is* Political Power**

Political Use of Aid: Examples

- U.S. aid to Egypt (post-Camp David Peace Accord)
- U.S. aid to Afghanistan (2002ff)
- Taiwan aid to Nauru until 2001
- PR China aid to Nauru 2002ff

Aid to Developing Countries: Reasons to Give ...

- Altruism, Pity, Improving Human Welfare
- Developing Markets Abroad for Exports
- Political Influence
(positive sanctions or potential for negative sanctions)
- Hidden Subsidies
for Donor Country Producers/Exporters (esp. tied aid)

Aid to Developing Countries: ... and Reasons *Not* to Give

- Moral Hazard
- Aid Dependency "Trap"
- Political Influence
(positive sanctions or potential for negative sanctions)
- Hidden Subsidies
for Donor Country Producers/Exporters (esp. tied aid)

< Cartoon omitted for copyright reasons >

“So cut foreign aid forty bucks!”

Source: *New Yorker*, 19 May 1973

Aid to Developing Countries: The Numbers ...

- 0.7% of GDP/GNI target for "official" development aid (agreed by OECD countries at 1992 Earth Summit in Rio)
- OECD-DAC Countries that met target in 2010: Norway, Luxembourg, Sweden, Denmark, Netherlands
- Average in 2010 : 0.32%
- Below 0.3% in 2010:
Portugal (0.29), New Zealand (0.26)
United States (0.21), Japan (0.20),
Greece (0.17), Italy (0.15), Korea (0.12)
- U.S. aid: 0.10% (2000), 0.11% (2001), 0.13% (2002), ...
0.16% (2007), 0.18% (2008), 0.21% (= \$30,154m, 2010)

Source: OECD Aid Statistics

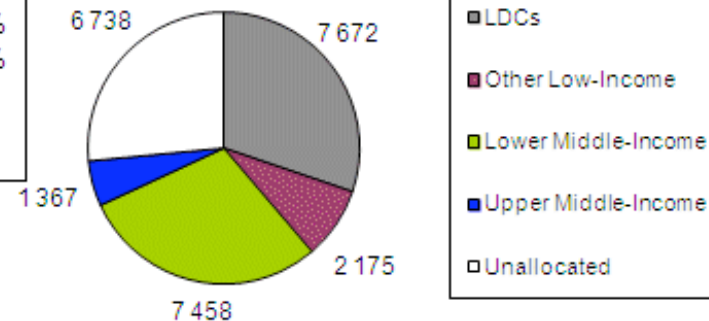
Where it Goes ...

UNITED STATES

Gross Bilateral ODA, 2008-09 average, unless otherwise shown

Net ODA	2008	2009	Change 2008/09
Current (USD m)	26 842	28 831	7.4%
Constant (2008 USD m)	26 842	28 469	6.1%
ODA/GNI	0.19%	0.21%	
Bilateral share	89%	87%	

By Income Group (USD m)



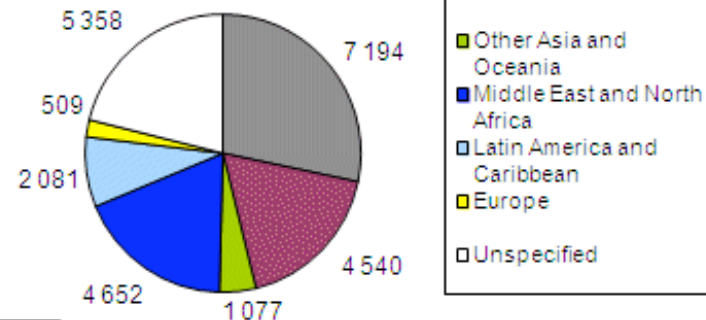
Top Ten Recipients of Gross ODA (USD million)

1 Afghanistan	2 549
2 Iraq	2 544
3 Sudan	901
4 Ethiopia	769
5 Palestinian Adm. Areas	667
6 Colombia	645
7 Egypt	552
8 Kenya	516
9 Pakistan	484
10 South Africa	451

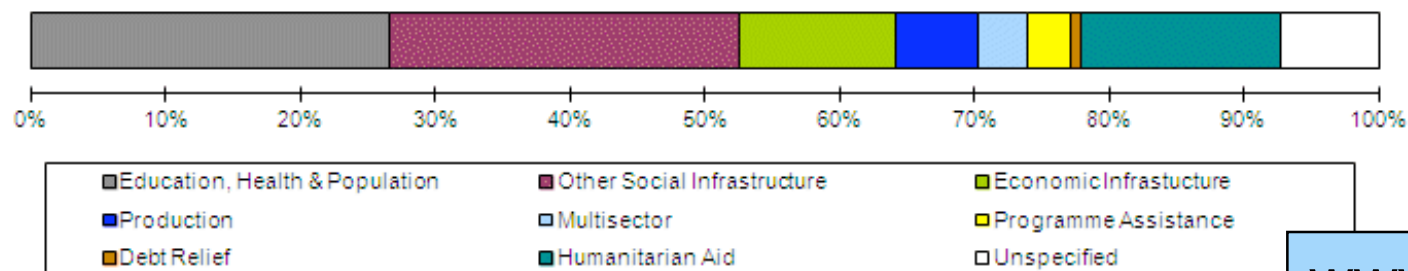
Memo: Share of gross bilateral ODA

Top 5 recipients	29%
Top 10 recipients	40%
Top 20 recipients	52%

By Region (USD m)



By Sector



www.oecd.org/dac

What Determines Government Aid Allocation?

Findings from Statistical Analyses

- Recipient need (inconsistent, sometimes not significant)
- Military alliances
- Geopolitical strategic importance (during Cold War)
- UN voting record (prospectively or retrospectively)
- UN Security Council membership
- Trade (export opportunities for donor country)
- "Good governance" (low corruption, democracy, after CW)

Private Foreign Aid

Based on:

Tim Büthe, Solomon Major, and Andre de Mello e Souza,
"The Politics of Private Foreign Aid: Humanitarian
Principles, Development Objectives, and Organizational
Interests in the Allocation of Private Aid by NGOs"
Forthcoming in *International Organization*.

Private Foreign Aid

- Large Number of Small Donations by Private Individuals, often collected & allocated by development NGOs
- Foundation Grants (Gates Foundation etc.)
- Business Charitable Giving, often "in-kind"
- Volunteer Time & Projects by Religious Groups

2 Questions

- Private-source Humanitarian/Development Aid ↑
- Total U.S. Private Aid > Gov. Foreign Aid (Rollins 2006)
- No Systematic, Aggregate Data

1. **What *Is* the Allocation of Private Humanitarian and Development Aid Across Countries?**

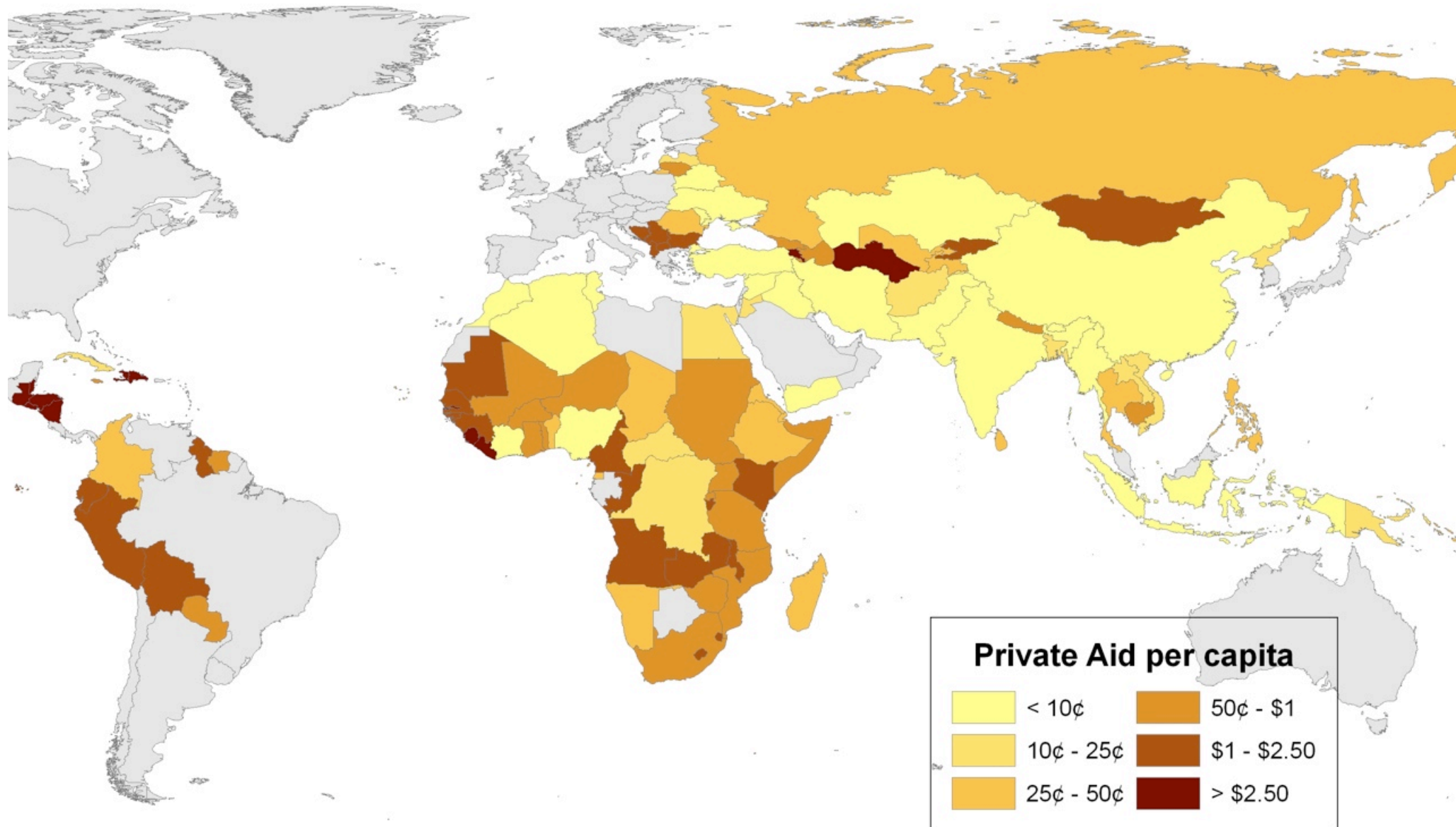
- Demand > Resources

2. **What *Explains* this Allocation of Private Aid?**

Research Project

- 4 Inter-related development issue areas:
 - health
 - education
 - water/sanitation/sewerage
 - emergency
- Expert surveys: Largest, most important NGOs/issue
 - not-for-profit
 - operational; carrying out on-the-ground projects
 - U.S.-based or U.S.-fundraising
- ➔ 48 NGOs
 - Data for 40 of 47 (annual); 2001 total: \$ 1.612 billion
- ➔ aggregate, *per capita* private aid by country for 119 low/lower-middle income countries (WB definition)

Global Distribution of Private Development Aid



(c) Büthe, Major, de Mello e Souza, 2011

Why?

3 Perspectives on NGO Private Aid Allocation

(1) Humanitarian Hypothesis:

- *IR Constructivism*: Norms \Leftrightarrow identities/roles \Leftrightarrow interests
- NGOs as "principled issue-networks"; discourses as source of roles
- Strong humanitarian discourse: imperative to help poor and needy;
- ➡ H1: Allocation driven by objective recipient need.

Humanitarian NGO Discourse

- Seeking "to relieve the suffering of individuals, solely guided by their needs" without consideration of other criteria such as "nationality, race, religious beliefs, class or political opinions."
(Statutes of the Int'l Red Cross and Red Crescent Movement, 1986)
- Help "the impoverished and disadvantaged ... based solely on need, regardless of their race, religion or ethnicity" (Catholic Relief Services U.S., 1990, 2007)
- We focus on "needs ... of individuals and families in the poorest communities in the world" (Care USA, 2001)
- "Serving the World's poorest [and] most vulnerable"
(World Vision USA, 2003)

Why?

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(2) Development Hypothesis:

- Contested consequentialist discourse, with emphasis on aid effectiveness and efficiency of outcomes;
- ➡ H2: Allocation driven by likely development effectiveness.

Development NGO Discourse

- "Care strives to attack the underlying causes of poverty through health and and education projects" (CARE USA, 2005)
- "Enabling the world's children to realize their god-given potential by tackling the *root causes* of poverty" (World Visions 2005)

But: contested!

< Cartoon omitted for copyright reasons >

*"Your generous contribution
helps fund these solicitations."*

Source: *New Yorker*, 23 December 2002

Why?

3 Perspectives on NGO Private Aid Allocation

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- Contested consequentialist discourse, with emphasis on aid effectiveness and efficiency of outcomes;
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(3) Aid Allocation as Fundraising Strategy:

- Organizational structure & competition ⇔ instrumental pursuit of material resources and managerialist growth of the organization;
- Project selection to maximize fundraising | shifting public attention;
- ➡ H3: Allocation driven by media-driven *perceived* need.

Operationalization (1)

- Measures of Aid Recipients' Objective Need:
 - Level of economic development: GDP *per capita*
 - Share of Population Living on <\$1/day (\$2/day)
 - Share of Population Below Local Poverty-Line
 - Human Development Index
 - Physical Quality of Life Index
 - Human Poverty Index
- Expectation: The richer/better-off the country, the less aid should it receive (per capita)

Operationalization (2)

- Measures of Expected Effectiveness/Efficiency:
 - [Control of] Corruption, as measured by
 - the World Bank
 - International Country Risk Group
 - Transparency International
 - [Absence of] Civil War, Inter-State War
 - [Absence of] Political Instability & Political Violence
- Expectation: The more conducive the socio-political conditions are to effective/efficient use of aid, the more aid should it receive (per capita)

Operationalization (3)

- Measures of Subjective Perceptions of Need:
 - Index of media coverage for each country (114/119)
 - based on qualitative content analysis of *New York Times* coverage (25,463 stories, LexisNexis keyword searches)
 - + TV News index based on Vanderbilt Archive
 - higher values = more frequent portrayal as place in need of humanitarian or development aid
 - 5 alternative ways of constructing the index
- Expectation: The greater the media-driven donor perception of need, the higher will aid allocation be

Key Findings

Hypothesized Explanatory Variable	Mean	Change in <i>per capita</i> private aid that results	
		from a 1 std dev decrease from the mean	from a 1 std dev increase from the mean
Economic development	US\$ 748 (p.c. GDP)	+ 70.1¢ [+26.6¢ +\$1.24]	- 40.9¢ [-65.4¢ -19.8¢]
Political Violence/Inst	< 1 event/year	+ 35.1¢ [-2.5¢ +87.3¢]	- 24.0¢ [-53.2¢ +4.6¢]
Media coverage	6 (net) stories suggesting need	- 13.3¢ [-41.3¢ +18.5¢]	+ 17.0¢ [-16.9¢ +61.7¢]

Based on OLS regressions that also controlled for:

- Christian population
- Population size
- Latin America

Notes:

Grey indicates: not statistically significant (we cannot be sure that the estimate captures real effect)
 In brackets: 95% confidence intervals (with 95% probability, actual effect is between the min and max)
 Estimates based on simulations using CLARIFY (King, Tomz & Wittenberg 2000)

Other Factors

- U.S. government sanctions (–)
- U.S. military personnel, military alliance (+)
- UN Gen Assembly voting records (+)
- Trade (with U.S.): (–)
- Immigrants from potential recipient country in U.S. (+)
- Recipient country government corruption (–)
- U.S. government development aid (–)
- U.S. military aid (–)

2 Major Lessons (Wielding Economic Power)

- Economic Power *Is* Political Power
- It Matters Who Wields Power in the Global Economy:
NGOs Allocate Private Development Aid Differently

Event Announcement

*University Seminar on
Global Governance & Democracy*

The Politics of Precaution: Regulating Health, Safety, and Environmental Risks

David Vogel

Professor of Political Science and Solomon P. Lee Chair in Business Ethics
University of California, Berkeley

MONDAY, 24 October 2011, 5pm
Sanford School of Public Policy, Room 223

Thank you!

Spring 2010 IPE Courses:

PS140, TTh 1:15-2:30, Prof. Erik Wibbels,
"Globalization and Domestic Politics" (\approx Intro IPE)

PS113, MW 10:05 - 11:20, Prof. Tim Büthe,
"Issues in International Political Economy"
(more adv. IPE + global governance)

Probably in 2012/13:

PS158/PPS181, "Non-State Actors in World Politics"

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