

# Global & Strategis



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*Global & Strategis* adalah jurnal ilmiah yang diterbitkan oleh Cakra Studi Global Strategis (CSGS) sebagai balairung terbuka bagi debat dan diskusi tentang isu-isu global dan strategis. Berkecambah dalam naman CSGS yang berbingkai visi pengembangan “pendekatan global atas persoalan strategis dan pendekatan strategis atas persoalan global”, *Global & Strategis* mengungkap semangat dan visi pengembangan serupa. Tidak hanya menjadi ruang tumbuh bagi pendekatan inter-disipliner dan holistik terhadap selubung sempit pendekatan persoalan strategis selama ini, *Global & Strategis* juga merupakan ruang hidup bagi tumbuh dan berkembangnya sudut pandang strategis terhadap kompleksitas, kecenderungan absurditas, dan tidak terjangkarkannya pendekatan persoalan global dewasa ini. Diterbitkan dua kali setahun setiap Januari dan Juli, *Global & Strategis* mengundang diskusi, tinjauan, dan analisis kontemporer terhadap spektrum luas persoalan yang membentang dari problematika klasik hubungan luar negeri, pertahanan keamanan, dan permasalahan-permasalahan strategis kebangsaan; problematika dinamika eksternal dan isu-isu strategis ekstrateritorial; problematika regionalisme, sivilisasionalisme, dan isu-isu strategis lintas kawasan; hingga problematika transnasionalisme, universalisme, kosmopolitanisme, nasionalisme, fundamentalisme, dan persoalan-persoalan mondial globalisasi.

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# The Politics of Foreign Aid: A Positive Contribution to Asian Economic Growth?

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## ABSTRACT

*Whether a positive relationship exists between foreign aid and economic development is debatable. Supporters of foreign aid argue that aid money can translate into economic growth, while skeptics suggest that aid cannot lead to prosperity due to poor management of aid funds. In this paper, we examine the effect of foreign aid by investigating 26 developing countries of Asian Development Bank. The quantitative evidences suggest that direct link between foreign aid and economic development is weak. However, aid receiving countries in Asia are more likely to realize better economic growth if they are less corruptive and with higher education quality, which increase the likelihood of using the aid money in a wiser way. In addition, trade liberalization, considered as a critical engine for domestic economic growth seems to dampen the economic development in development countries.*

**Keywords:** *foreign aid, economic growth, theoretical pluralism, Asia.*

*Hubungan baik antara bantuan luar negeri dan perkembangan ekonomi masih bisa diperdebatkan. Para pendukung dari bantuan asing berpendapat bahwa uang bantuan tersebut dapat mendukung pertumbuhan ekonomi, sedangkan kelompok skeptis berpendapat bahwa bantuan tidak secara langsung berhubungan dengan kesejahteraan karena buruknya manajemen terhadap dana bantuan tersebut. Tulisan ini menganalisis dampak dari bantuan asing dengan melakukan investigasi terhadap 26 negara berkembang dari Asian Development Bank. Bukti-bukti kuantitatif menunjukkan bahwa hubungan langsung antara bantuan asing dan perkembangan ekonomi tergolong lemah. Namun, negara-negara penerima bantuan di Asia selayaknya menyadari bahwa pertumbuhan ekonomi akan lebih baik jika mereka mengurangi korupsi dan memiliki kualitas pendidikan yang lebih tinggi sehingga meningkatkan kemungkinan untuk menggunakan dana bantuan dengan lebih bijaksana. Selain itu, liberalisasi perdagangan, yang dianggap sebagai hal krusial bagi pertumbuhan ekonomi domestik justru meredam perkembangan ekonomi di negara-negara berkembang.*

**Kata-Kata Kunci:** *bantuan asing, pertumbuhan ekonomi, pluralisme teoritik, Asia.*

Foreign aid, as a vital and innovative instrument of foreign policy, did not exist in the 1950s. Such emerging idea and policy practice that rich countries should offer resources for improving the human condition in poor countries through bilateral or multilateral channel has been widely recognized and uncontested in the 2000s (Lancaster 2006). As Roger C. Riddell (2007) argues, foreign aid today has become “a large and complex enterprise that reaches all corner of the globe.” The development and transformation of foreign aid, however, is not without altercations among academia and policy communities. Much attention has been concentrated on the volume of aid, the strategic importance to economic foreign policy, the purpose of aid-giving countries, the effectiveness of aid project, and also the critiques on its implication to local development and growth. Clearly, today the confined understanding of foreign aid as an element of economic foreign policy has been augmented in the context of global governance.

Undeniably, in contemporary world politics, each country is either aid donor or aid recipient,<sup>1</sup> while some countries such as China and India are both donors and recipients (Chanana 2006). The case of China is of specific interest for it challenges the conventional connotation and modality of foreign aid. As Kristian Kjøllesdal and Comte Analysebyrå contend, “China is gradually taking over in providing the frame of reference for foreign aid.” (Kjøllesdal & Analysebyrå 2010). During the late 1970s, China was then an aid recipient from Japan<sup>2</sup> and the first amount of US\$220 million was mostly allocated to local infrastructure. In the meanwhile, Beijing has been providing aid to North Korea and African countries for two decades. The rapid economic growth has further transformed China from an aid-receiving country to aid donor in the 2000s. In Southeast Asia *per se*, its aid volume has surpassed that of the United States. For instance, in 2002, China’s aid to Indonesia was double that of U.S. aid. In 2006, China provided four times more aid to the Philippines than the United States, while the amount to Laos was three times that of the U.S. (Kurlantzick 2006). More recently, Premier of the People’s Republic of China, Wen Jiabao paid his state visit to Indonesia and Malaysia in the late April of 2011, saying that China will continually assist ASEAN countries in an altruist manner. By providing capacity building projects and human resources to ASEAN countries, specifically to Cambodia-Laos-Myanmar-Vietnam (CLMV), China believes the social

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<sup>1</sup> For example, Taiwan was receiving foreign aid assistance from the United State during the early cold war era, and now becomes an important aid donor to many developing countries (Chien et al. 2010).

<sup>2</sup> Japan is the largest bilateral aid donor to China. The Official Development Assistance (ODA) constitutes the most important instrument of Japan’s China policy since the 1970s. However, Japanese Government decided in 2005 to end its loan aid to China by 2008 (Drifte 2006; Takamine 2006).

and economic conditions of the abovementioned countries will be improved.

The emerging influence of China's foreign aid not only flows to South-east Asia, but also to Africa (Samy 2010) and Latin America (Bernal 2010). When donor countries like China continue highlighting the positive contribution of aid assistance which is helpful to poverty eradication, promoting local development and increasing economic growth of recipient countries, it is imperative to scrutinize the reliability of such advocacy. Against this backdrop, this paper is aimed at surveying the politics of foreign aid by examining its implication to economic growth in Asia. In the following sections, we will first review critical literatures of foreign aid and depict renewed discussion among them. Then, a statistical model on the relations between foreign aid and economic growth based on the data of 26 Asian countries will be specified accordingly. Our finding shows that the flow of foreign aid to Asia may not bring necessary contribution to economic growth of Asian countries.

## **Literature Reviews**

### ***Theoretical Pluralism of Foreign Aid***

The study of foreign aid is illuminated by Hans Morgenthau, the father of classic realist international theory. In 1962, Morgenthau proposed six types of foreign aid in his insightful article "A Political Theory of Foreign Aid" that is, humanitarian, subsistence, military, bribery, economic development, and prestige. He argues, as a highly contending instrument of foreign policy in the United States, the advocates of foreign aid praise it as "the fulfillment of an obligation of the few rich nations toward the many poor ones," while the dissenters regard it as "a gigantic boondoggle, a wasteful and indefensible operation which serves neither the interests of the United States nor those of the recipient nations" (Morgenthau 1962). Morgenthau's argument, in line with realist concerns, elucidates contemporary deliberation on theory and policy of foreign aid.

For scholars of international relations (IR), conceptual investigation and theoretical interpretation frames the contour of foreign aid. Carol Lancaster well puts in *Foreign Aid: Diplomacy, Development, and Domestic Politics* that different IR paradigms approach foreign aid in different ways (Lancaster 2006, 3-5). For example, Realist, concerning the power politics of state-to-state interaction (Mearsheimer 2001, 29-31), regards

foreign aid as an instrument or tool of great power diplomacy.<sup>3</sup> The practice of foreign aid, therefore, serves as an enhancement of national interests of donor countries. The Liberals, sharing basic assumption of world politics with realists, treat foreign aid as the means to facilitate inter-state cooperation. In addition, the liberal internationalists argue that the aid projects and programs from multilateral institutions will advance the of Millennium Development Goals (MDGs) in pursuit of global governance (Feeny & Clarke 2008, 198-212).

When rational approaches of IR theory such as realism and liberalism shed light on the practice of foreign aid, the critical approaches, by contrast, provide an exacting evaluation of it. The Marxist and the scholars of World System Theories contend the logic of foreign aid is embedded in the context of dependency. Foreign aid is instrumentally serving as a tool of dominant state to secure the modality of exchange between the Center and the Periphery.<sup>4</sup> Constructivism, in addition, a central approach caring much about the construction of international politics (Wendt 1999), tends to delineate non-material forces and ideas that contour foreign aid as a norm of either altruism or power manipulation. The construction and diffusion of such norm will generate new pattern of state-to-state interaction (see Table 1).

**Table 1**  
**Theoretical Pluralism of Foreign Aid**

	<b>Realism</b>	<b>Liberalism</b>	<b>Marxism</b>	<b>Constructivism</b>
<b>Focus</b>	power politics	cooperation	inequality	social construct
<b>Main Concerns</b>	strategic imperative of donor state in the context of power politics	International cooperation and good governance	dependency and exchange between center and periphery state	the making and diffusion of foreign aid
<b>Unit of Analysis</b>	state	state and international institution	system	non-material forces
<b>Orientation</b>	the <i>instrument</i> of economic diplomacy	the <i>mechanism</i> facilitating coordinaiton	the <i>exchange</i> of asymmetric inter-state relations	the <i>norm</i> of international interaction

Source: the authors.

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<sup>3</sup> As a regional power, Japan's aid philosophy is to secure markets for Japan's goods and keep good relations with countries with energy and natural resources that are scarce in Japan (Morrison 2005, 25).

<sup>4</sup> Johan Galtung proposed five types of imperialism based on economic, political, military, communication, and cultural exchange between the dominant power and the periphery states (Galtung 1971, 81-94).

The theoretical emphasis provided is by no means dealing with detailed inter-paradigm debates. Such pluralist constellation of IR theory exhibits prevailing understandings of the purpose and practice of foreign aid. Although none of them assume to provide adequate account of foreign aid, one may explore multiple facets of such notion through contending approaches. Apart from the intellectual debates, a more critical debate concerns the effectiveness of foreign aid. This paper will further explicate the discussion based on its implication to economic growth at locality.

### ***More Aid, Higher Economic Growth?***

The summer of 2005 has seen a strong voice calling the world to relieve debts owed by poor countries to Organization for Economic Cooperation and Development (OECD) members. This movement was led by then President of the United States George Bush and Prime Minister of the United Kingdom Tony Blair. Both aimed at cancelling debts of 18 countries, of which 14 is from Africa. The Group of Eight (G8) summit held in 2005 was an ideal platform for lots of advocates to push forward such global movement “debt relief”. Their goals were asking OECD countries to pour more money to poor countries. With the need to service their gigantic debt figures, poor countries then would not have sufficient financial resources to continue domestic economic development. Without the generosity from the rich, the poor are doomed to collapse. Echoing this voice, Jeffrey Sachs, an eloquent economist and chief advisor to United Nation Secretariat, together with his pop music star disciple “Bono”, demanded that the world should double its amount of foreign aid (Sachs 2005).

In fact, arguments concerning positive influence of foreign aid articulate such assistance will spur economic growth of recipient countries and, therefore, is favorable for them based on the following reasons. First, foreign aid will increase social infrastructure and economic productivity (Feeny & Clarke 2008, 204). From the recipient perspectives, the assistance aids to improvement of education programs and infrastructure *per se* are commonly agreed as critical capacity building efforts (Arse 2005). In the case of Japan’s ODA to China, as argued by Tsukasa Takamine, the yen loans contributed to China’s economic growth but in an indirect way. The rationale of Takamine’s argument begins with the contribution of Japan’s loan to China’s industrial infrastructure. With the strengthened infrastructure, the inflow of foreign direct investment (FDI) from Japan is introduced to China. The FDI becomes a key factor that encourages China’s foreign trade. As it increases, the “expanded and diversified foreign trade” will boost China’s economic development and growth as well as its integration to global economy (Takamine 2006, 30).

Second, foreign aid will facilitate economic performance by promoting bilateral trade between donor state and recipient ones. Take China-African relation for example, in 2006, Beijing initiated a China-Africa development fund of US\$ 5 billion devoting to the promotion of Chinese investment in African countries and also to the construction of economic zones in the region. Such ODA policy with specific on boosting trade volumes, perceived by African leaders, will increase macroeconomic stability of Africa and spur economic growth of recipient countries (Samy 2010, 76 & 83).

It is true that every advanced industrialized country has its official foreign aid scheme designed to help the poor states (van der Veen 2011, 2). Those who are involved in the policy making process of economic foreign policy and who are working for the capacity building programs firmly believe the positive contribution of foreign aid to the poor countries is evident and essential. Strengthening general economic performance and increasing economic growth in recipient countries, for them, seems to provide a plausible justification not only for foreign aid itself, but for the advanced industrialized countries as well.

### ***Emerging Skepticism: Panacea for Economic Growth?***

Although such benevolent appeal has resonated with many people, some scholars were skeptical of the effectiveness of foreign aid. Much attention has been concentrated on its implication to poverty eradication and also its positive contribution to economic growth of recipient countries.

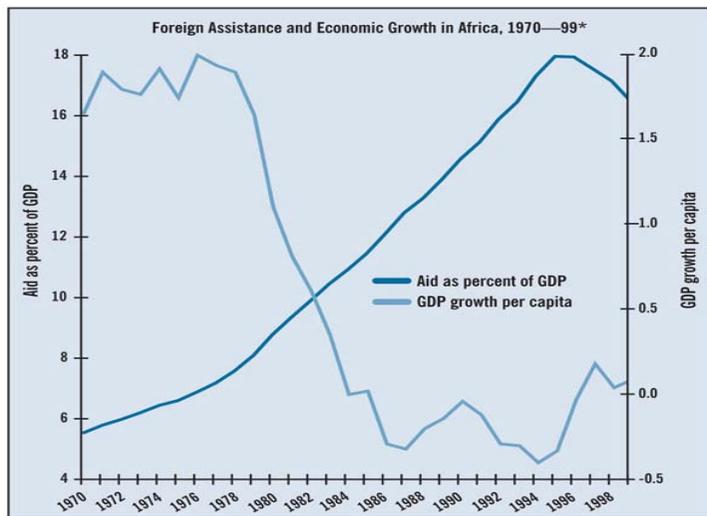
With specific regard to poverty eradication, some argue that fighting poverty by pouring convenient money will not be feasible. The main reason is that the flow of foreign aid may not be spent in the way to lift people out of poverty but to fuel corruption in recipient countries. Although some of the foreign aid project itself is aimed at ending corruption (Tavares 2003, 99-106), an interesting case contended by Herbert H. Werlin still shows the failure of World Bank contribution to Nigerian environmental improvement project. In 1986, an amount of US\$ 164.3 million loan supported from the World Bank had been poured into local waste management improvement in Lagos, however, after 8 years, evidence shows that only 1/3 of the city's waste has been collected (Werlin 2005, 524). Similar cases happened in Africa, as Dambisa Moyo, a former economist at Goldman Sachs, argues, "money from rich countries has trapped many African nations in a cycle of corruption, slower economic growth and poverty" (Moyo 2009).

This, to some, is the tragedy of foreign aid. The chief economist of Timbro Fredrik Erixon contends, "aid often underpins corruption, and higher aid levels tend to erode the governance structure of poor coun-

tries” (Erixon 2005). For him, the convenient fiscal support from foreign countries may lead to self-serving cronyism and inefficient governance in poor and congenitally unsustainable countries. To those who doubt the effectiveness of foreign aid, poor countries coincide with corrupt leader, ineffective government and inefficient governance. As a consequence, convenient or expedient financial resources like foreign aid, or natural resources, would only benefit to a small amount of powerful figures, specific bureaucrats, or political/economic elites, rather than the society. This is why foreign aid for the past four decades has not brought salient contributions to poor countries. Instead, the economic circumstances in poor countries have become more alarming.

There are increasing critiques refuting the fact that foreign aid will increase economic growth for poor countries. William Easterly, an economist from New York University, demonstrated a shocking statistical figure, showing that the total amount of foreign aid giving to Africa is negatively correlated to the economic growth of African continent. From 1970 to 1999, while rich countries had kept pouring foreign aid to African countries, the performance of Africa’s GDP growth per capita had been worse off (see Figure 1). Easterly said that “the idea that ‘aid buys growth’ is on shaky ground theoretically and empirically.” (Easterly 2003). His finding has posed a huge challenge to foreign aid advocates.

**Figure 1**  
**Aid and Growth in Africa (ten-year moving average)**



Source: Easterly 2006, 46.

While several scholars have soundly proved that the foreign aid is detrimental to economic development, most of their empirical evidences pertain to African countries, the poorest region in the world. Regions

outside Africa are less investigated. In order to contribute to the literature regarding foreign aid, we would seek to find empirical evidences regarding the effects of foreign aid on Asian developing countries. By providing plausible account for this, this paper will see whether a positive, negative or no relationship between them exists. In doing so, twenty six members of Asian Development Bank (ADB)<sup>5</sup> with GNI per capita less than US\$10,000 are included in the sample.<sup>6</sup> The initial finding shows that in Asia, the relationship between “foreign aid” and “economic growth” is weak, which somehow correspond to Easterly’s argument. However, “trade liberalization” and “democratic system” show a negative and a positive correlation respectively with “economic growth” which contradicts the “neo-classical international trade theory” and supports the argument of “democracy promotes growth.”

### Research Design

In this section, variables of concerns will be identified and a model for statistical analysis will be specified. The unit of analysis is state, which includes twenty six ADB members from Asia. Each variable stands for a specific aspect of interest in a given year from 1990 to 2009. This time-frame is decided due to the maximum availability of quantitative data.

#### ***Dependent Variable: Economic Growth***

The main concern of this article is whether foreign aid would have a positive effect on economic growth. Economic growth, *GROW*, is operationalized as real GDP growth of a certain country in year  $t+1$ . We assume that economic variation would not be reflected immediately by the inputs of factors such as foreign aid or FDI. Therefore, it would be more reasonable to investigate the relationship between foreign aid received in year  $t$  and GDP growth in year  $t+1$ . Real GDP growth more than 20% or less than -20% are treated as abnormal outliers excluded in this project. In this regard, 479 valid observations are included in the analysis. The data of GDP growth comes from database run by *UNCTAD* (United Nations Conference on Trade and Development).

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<sup>5</sup> Because ADB keeps statistical data for its member states, plus many worldwide datasets adopt ADB’s data, I mainly choose ADB member states as the units in this project.

<sup>6</sup> World Bank considers countries with GNI per capita less than US\$11,905 as developing countries. They are Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Kazakhstan, Kyrgyz Republic, Laos, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Tajikistan, Thailand, Turkmenistan, Uzbekistan, and Vietnam in this project.

### ***Independent Variable: Foreign Aid***

The independent variable, *AID*, in this analysis is foreign aid. We use the ratio of total foreign aid amount to total GDP amount in a given year  $t$  to measure the degree of foreign aid. Factoring in the amount of GDP allows us to control the physical and economic size of a country. It gives us a more reasonable indicator reflecting how much foreign aid does a country actually secure compared with others. Negative amounts of foreign aid found in the dataset are excluded. As a total 479 valid observations are included in the analysis. The data of foreign aid amount comes from OECD's database, the *OECD.Stat*.

### ***Control Variables***

Five variables are controlled in this statistical model, which are widely discussed as what generate economic growth. They include trade liberalization (*TRADE*), foreign direct investment (*FDI*), political system (*POLITY*), corruption (*CPI*), and the level of education (*EDU*). The hypothesis goes that the deeper the trade liberalization in a country, the more foreign direct investment received by a country, the more democratic a country is, the less corruptive of a country's public service, the higher the education level of a country is, then the better the economic performance of a country would be.

Trade liberalization is measured as the ratio of total trade volume to total amount of GDP in a given year, which indicates how much a country is dependent on external trade. The trade data comes from *UNCTAD*. Foreign direct investment is measured as the ratio of total FDI volume to total amount of GDP in a given year, which indicates how much a country's economy rely on foreign investment. Then, the FDI data comes from *UNCTAD*. For measuring political system, I adopt the widely-used dataset *POLITY IV* for operationalization. A country's political system is measured from -10 to 10, with -10 as the most autocratic and 10 as the most democratic. Corruption indicator comes from world-wide survey conducted by Transparency International. They create "corruption perception index (CPI)"<sup>7</sup> to measure how corruptive a country is. The score ranges from 0 to 10, with 0 as the most corruptive and 10 as the cleanest. The last control variable education is measured by the average years of schooling surveyed by United Nations.

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<sup>7</sup> CPI is measured by asking a country's citizens to subjectively evaluate corruption in their countries. Although CPI might not be a perfect indicator, it's by far the most ambitious and extensive project regarding corruption.

**Statistical Model**

An ordinary least square (OLS) regression analysis is adopted, including one independent variable and five control variables. Table 2 below list all variables of interest. The multivariate regression is specified as below:

$$GROW = \alpha + \beta_1 \cdot AID + \beta_2 \cdot TRADE + \beta_3 \cdot FDI + \beta_4 \cdot POLITY + \beta_5 \cdot CPI + \beta_6 \cdot EDU$$

**Table 2  
Variable List**

Type of Variable	Variable	Acronym
Dependent Variable	GDP growth in year t+1	<i>GROW</i>
Independent Variable	Foreign aid / GDP in year t	<i>AID</i>
Control Variable	Trade volume / GDP in year t	<i>TRADE</i>
	FDI / GDP in year t	<i>FDI</i>
	POLITY IV score in year t	<i>POLITY</i>
	Corruption perception index in year t	<i>CPI</i>
	Average years of schooling in year t	<i>EDU</i>

Source: the authors.

**Research Finding and Discussion**

In this section, we would first check correlation for each pair of variables specified above and check if hypothesized relationship is valid and whether there is issue of multicollinearity. Then we will specify four regression models in order to see which models would give us the best explanatory power, check whether hypothesized relationship survives, and observe any interesting relationship exist that can contribute to existing literatures.

**Pearson Correlation**

Pearson correlation check below (see Table 3) demonstrates correlations between each pair of variables observed. For GDP and AID, although we can find significant correlation between two variables, it remains rather weak that cannot demonstrate strong evidence for the claim that “foreign aid enriches developing countries in Asia”. In addition, two interesting correlations stand out in the cross-tabular analysis. First, cor-

ruption perception index positively correlates to trade openness,<sup>8</sup> which supports the argument that “trade openness contributes to lower corruption” because “competition from foreign firms will reduce rents enjoyed by domestic firms, reducing rewards from corrupt behavior by government officials” (Knack & Azfar 2003). Second, education has positive correlation with both corruption and trade openness, which corresponds to the argument that “people with higher education would resist corruptive behaviors and also embrace the idea of free trade.”

**Table 3**  
**Pearson Correlations Table**

		GROW	AID	TRADE	FDI	POLITY	CPI	EDU
GROW	Pearson	1	.189**	-.088	.122*	-.027	-.149*	.199**
	Sig. (2-tailed)		.000	.055	.011	.568	.031	.001
	N	472	469	472	437	448	208	253
AID	Pearson	.189**	1	.069	-.060	-.071	-.169*	-.294**
	Sig. (2-tailed)	.000		.136	.207	.134	.014	.000
	N	469	470	470	437	445	208	254
TRADE	Pearson	-.088	.069	1	.198**	.034	.538**	.303**
	Sig. (2-tailed)	.055	.136		.000	.469	.000	.000
	N	472	470	479	437	448	208	259
FDI	Pearson	.122*	-.060	.198**	1	-.154**	-.066	.245**
	Sig. (2-tailed)	.011	.207	.000		.002	.359	.000
	N	437	437	437	437	413	195	234
POLITY	Pearson	-.027	-.071	.034	-.154**	1	.251**	.108
	Sig. (2-tailed)	.568	.134	.469	.002		.000	.095
	N	448	445	448	413	448	205	240
CPI	Pearson	-.149*	-.169*	.538**	-.066	.251**	1	.314**
	Sig. (2-tailed)	.031	.014	.000	.359	.000		.000
	N	208	208	208	195	205	208	166
EDU	Pearson	.199**	-.294**	.303**	.245**	.108	.314**	1
	Sig. (2-tailed)	.001	.000	.000	.000	.095	.000	
	N	253	254	259	234	240	166	259

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\*. Correlation is significant at the 0.05 level (2-tailed).

Source: the authors.

### Regression Analysis

From Table 3, we can see that corruption and education seem to correlate with many other variables; therefore including them in the model might generate the issue of multicollinearity. To avoid it, we will use 4 models to check the relationship between foreign aid and economic growth by excluding either corruption, education or both. Model 1 in-

<sup>8</sup> A higher corruption perception index indicates better performance of integrity perceived in the society.

cludes all 5 control variables. Model 2 excludes the corruption indicator “CPI”. Model 3 excludes the education indicator “EDU”. Model 4 excludes both “CPI” and “EDU” (see Table 4).

**Table 4**  
**Multivariate Regression Analysis**

<b>Variable</b>	(1)	(2)	(3)	(4)
<b>AID</b>	0.379 (0.173)	* 0.082 (0.072)	0.158 (0.149)	0.092 (0.059)
<b>TRADE</b>	-0.026 (0.008)	* -0.15 (0.006)	* -0.015 (0.008)	-0.025 (0.005) *
<b>FDI</b>	0.058 (0.068)	0.114 (0.065)	0.092 (0.071)	0.284 (0.064) *
<b>POLITY</b>	-0.194 (0.047)	-0.112 (0.042)	* -0.198 (0.047)	* -0.033 (0.038)
<b>CPI</b>	0.923 (0.479)		0.354 (0.455)	
<b>EDU</b>	0.128 (0.165)	0.176 (0.133)		
<b>R Square</b>	0.170	0.082	0.132	0.084
<b>F-Test</b>	4.945 *	3.832 *	5.655 *	9.348 *

\*. Correlation is significant at the 0.05 level (2-tailed).

Source: the authors.

Table 4 presents the result of four multivariate regression models. The number in each cell represents coefficient with the standard error in parenthesis shown below each estimate. *R square* for each model ranges from 0.082 to 0.17, which means that only 10% of total variance can be explained by these models. Though the R square might not be big or salient enough for some people, the result of *F-test* shows that in all four models, at least one of the explanatory variables is related to the dependent variable. Therefore, models demonstrated here may show a certain explanatory power.

In Model 1, the result shows that foreign aid is positively correlated with economic development in Asian developing countries. Economic growth

can somehow be attributed to more foreign aid from developed countries. However, in Model 2, 3 and 4, the positive relationship vanishes, weakening the factor of foreign aid on economic growth. This might tell a story of that foreign aid would have positive influence if we take the issue of corruption and education into consideration. Therefore, developing countries with less corruption and higher education would realize better economic growth by using foreign aid more wisely.

Interestingly, trade liberalization, considered by international trade theorists as an important engine for domestic economic growth, shares a negative correlation with economic development in all four models. These evidences might help boost the thought in Asian governments that higher trade barriers for protecting domestic industries are a necessary developmental strategy. Also, the result helps dismiss the claim and urge made by international financial institutions, such as IMF, to open up domestic markets of developing countries. Less trade liberalization, actually, might be more helpful for countries at the developing stage. In addition to the variable of trade liberalization, we also see some evidences that economic development can be more properly realized in democratic countries. As a country becomes more democratic, it has a better chance to realize economic growth. For other three control variables, FDI, corruption and education, there is no clear correlation between them and economic growth. However, they correlate with each other very well (see Table 3). Together, these three variables might embody another theoretical concept contributive to economic growth.

### **Conclusion**

This paper investigates the politics of foreign aid by providing a brief review of pluralist account on the purpose and practice of foreign aid, as well as presenting a statistical model in accordance with the debates on the effectiveness of foreign aid. Our finding is corroborating with William Easterly's claims that foreign aid giving to developing countries has little to do with economic growth. While Easterly locates a negative relationship in African countries, this statistical analysis does not find a negative one in Asian countries. Rather, the result shows that there is a very weak, or no, relationship. The thought of pouring more money into developing countries advocated by Jeffrey Sachs needs to be revisited. What's more alarming is that opening domestic market too much might cause a worse situation of economic development. The urge of freer trade in developing countries by international financial institutions might not be beneficial at the current stage.

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