

**POLS2094  
WEEK 9 2026**

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**General questions for this week**

The goal for Week 9 is to expand our understanding of development and foreign aid. The main questions we will focus on this week are: What is “development” and why are some countries more developed than others? What are the drivers of foreign aid? Does foreign aid increase development? If so, how?

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**Reading notes and questions**

Please read the assigned readings before lecture and tutorial. We will be referring to them repeatedly during the week. For week 9, please read:

**Hallerberg et al. 2021. "Chapter 9: Who Gets Foreign Aid, and Why?" & "Chapter 10: Aid and/or Trade?" pp. 207-249. [42 pages]**

Chapter 9 explores the complex motivations and politics behind foreign aid distribution. It identifies three primary motives for donor countries: humanitarian concerns, strategic interests, and economic benefits. While donors often publicly emphasize humanitarian goals, the evidence suggests that strategic considerations frequently dominate aid decisions, as illustrated by cases like post9/11 Pakistan and Egypt. The chapter examines how aid flows have changed over time, noting that while dollar amounts have increased since 2000, aid as a percentage of donor GNI remains below the internationally agreed target of 0.7%. Domestic politics within donor countries significantly influence aid decisions, with factors such as government partisanship, economic interests, and institutional organisation all playing important roles. The chapter also discusses the growing significance of multilateral institutions like the World Bank and nongovernmental organisations in aid distribution. It highlights how donors often bypass recipient governments in favour of NGOs when human rights concerns exist. The chapter concludes by noting the emergence of new donor countries like China and India, which are reshaping the aid landscape, while raising questions about aid effectiveness that will be explored in the subsequent chapter.

This week’s lecture also touches on chapter 10’s subject matter, so I would encourage you to read chapter 10 if possible.

**Paduano, Stephen. 2019. “China's Investments in Rwanda Raise Familiar Questions about Debt.” The Atlantic. 3 August. [3 pages]**

This article examines China's growing economic influence in Rwanda and across Africa, highlighting both benefits and concerns. The article describes numerous Chinese-funded projects in Rwanda including government buildings, industrial zones, stadiums, and roads while noting Rwanda's increasing debt-to-GDP ratio (53%) and participation in China's Belt

and Road Initiative. Paduano explores the concept of “debt-trap diplomacy,” where recipient nations risk defaulting on Chinese loans and potentially surrendering strategic assets as collateral, citing examples from Zambia, Djibouti, and Kenya. The article contrasts China’s approach of offering aid without governance conditions against Western aid’s traditional focus on democratisation and good governance, an approach many African nations find appealing. Despite Western concerns about China’s influence, Paduano notes that most Africans view Chinese involvement positively, with 63% considering China's influence beneficial. The article concludes that while legitimate concerns exist about unsustainable debt, corruption, and “hidden” lending, a confrontational U.S. approach toward China in Africa would be counterproductive, suggesting cooperation would better serve all parties involved.

### **Reading questions**

Below are some questions to think about as you read the two assigned readings.

#### **Remember**

What are the three main motives for countries to provide foreign aid? How do these different motives shape which countries receive aid and how much they receive?

How does the strategic importance of a recipient country affect the amount and type of aid it receives?

According to Chapter 9, have humanitarian concerns been the primary driver of aid allocation decisions? What evidence supports this conclusion?

How did the end of the Cold War and the "War on Terror" after 9/11 change US patterns of foreign aid distribution? What does this tell us about the relationship between security concerns and aid?

#### **Understand**

How do domestic politics in donor countries influence foreign aid decisions? Consider the role of government partisanship, economic interests, and aid agency organisation.

According to Figure 9.1, how has foreign aid changed between 1960 and 2017? What is the difference between aid flows measured in real dollar terms versus as a percentage of donors' GNI. What does this discrepancy reveal about donor countries' commitments to development assistance?

What specific benefits has China's investment brought to Rwanda, according to Paduano (2019)? Why might African nations find Chinese investment appealing compared to Western aid?

How does Paduano (2019) describe the concept of “debttrap diplomacy.” What are the potential consequences for countries that fall into this trap?

## **Apply, analyse, and evaluate**

Compare the strategic motives for providing aid as discussed in Chapter 9 with China's approach to investment in Rwanda as described by Paduano (2019). What similarities and differences do you observe?

How might Hallerberg et al. analyse China's investment strategy in Africa as described by Paduano (2019)? Would they likely view it as a positive or negative force for development?

According to Paduano (2019), what specific concerns does the United States have about China's growing influence in Africa? How effective has the US response been?

Paduano (2019) suggests that “cooperation will fare far better than confrontation” regarding China's role in Africa. Do you agree with this assessment? What might a more cooperative approach look like?

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## **Lecture—Development and foreign aid**

### **Part I. What is development?**

#### **Motivating questions**

What is “development”?

Why are some countries more developed than others?

What are the drivers of foreign aid?

Does foreign aid increase development? If so, how?

#### **Two conceptualisations of development**

Economic development

Human development

#### **Economic development**

Economic development is the process by which a country increases its productive capacity, per capita income, and overall standard of living, resulting in the expansion of output, advancement of technology, and improvement in welfare.

It encompasses not just quantitative growth in GDP or income, but also qualitative improvements in economic structures, institutions, and the population's material well-being.

#### **Why is economic development desirable?**

Development is desirable because it expands human capabilities and opportunities, enabling people to live longer, healthier, and more prosperous lives with greater freedom of choice and action.

It also reduces vulnerability to poverty, hunger, and disease while potentially fostering more stable societies with stronger institutions and greater capacity to address collective challenges like climate change.

## **Nathan Rothchild**

Richest man in world when he died at 58 years old in 1836.

One of the richest people of all time (Forbes)

Died of septicaemia, something that antibiotics could prevent in almost anyone today.

## **Common measures of economic development**

Per capita income/GDP/GNI

Self-identification in organizations like WTO where “developing” status confers benefits

Capital accumulation (infrastructure, factories, equipment)

## **Dubai satellite timelapse video**

<https://youtube.com/shorts/tWtRBXPVwdc?si=-8RQbPHXiECWkj1g>

## **Levels of development**

World Bank classifications:

Low-income (<\$1,000 per capita),

Middle-income, and high-income (>\$12,375)

## **World Bank headquarters in Washington DC**

## **Five institutions in the World Bank**

## **World Bank financial summary**

## **World Bank 2025 voting percentage graph**

## **World Bank 2025 top 20 countries by funding**

## **World Bank lending phases**

Inception-late 1960s: Very large construction projects (dams!) with an anti-communist agenda.

Late 1960s-1980s: Basic needs of the very poorest in the aftermath of decolonisation.

1980s-early 2000s: “Structural adjustment” and the “Washington Consensus”—Privatisation, deregulation, removal of barriers to trade and financial flows.

2000s: the 2005 report, Economic Growth in the 1990s: Learning from a Decade of Reform: The Bank acknowledged failure of the Washington Consensus: “there is no unique universal set of rules . . . need to get away from formulae and the

search for elusive ‘best practices’” (p. xiii). Focus on the UN’s Millennium Development Goals  
 2010s-present: Rise of the BRICs, especially China.

**GDP per capita over time graph**

**GDP per capita over time graph of DRC and South Korea**

**Wealth distribution**

Inequality a crucial element of development  
 Gini coefficient as measurement (0-100 scale)  
 Developing countries often have higher inequality (e.g., Brazil, Colombia ~51, Namibia ~59)

**Inequality**

Top 12 most equal and unequal states

**Income inequality vs GDP per capita graph**

**Income inequality GINI coefficient graph, Australia**

**Australia’s GINI Lorenz curves**

**South Africa GINI Lorenz curves**

**Human development**

The human development approach was developed by the economist Mahbub Ul Haq and is anchored in Amartya Sen’s work on human capabilities, often framed in terms of whether people are able to “be” and “do” desirable things in life:

Be: well fed, sheltered, healthy

Do: work, education, voting, participating in community life.

Freedom of choice is central: someone choosing to be hungry is quite different to someone who is hungry because they cannot afford food.

**UN Millennium Declaration**

Emphasized freedom, equality, solidarity

**Millenium Development Goals**

#	Goal	Targets
1	Eradicate extreme poverty and hunger	Reduce by ½ the # people living on <\$1 a day
		Reduce by ½ the # people who suffer from hunger.
2	Achieve universal primary education	Ensure all boys & girls complete primary schooling
3	Empower women & promote gender equality	Eliminate gender disparity in education

4	Reduce child mortality	Reduce <5 mortality rate by 2/3rds
5	Promote maternal health	Reduce by 75% the maternal mortality ratio Achieve universal access to reproductive health
6	Fight malaria, HIV/AIDS, & other diseases	Halt & reverse the spread of HIV/AIDS. Achieve global access to treatment for HIV/AIDS Start reversal of malaria and other major diseases
7	Promote environmental sustainability	Integrate the principles of sustainable development into every nation's policies and programmes, and also reverse the depletion of environmental resources. Reduce biodiversity loss and rate of loss Reduce by ½ the # people without clean drinking water and basic sanitation Substantial improvement in the lives of > 100 mil. slum dwellers
8	Develop a universal partnership for development	Develop an open, predictable, rule-based, non-discriminatory trading and economic system; address the needs of the least developed countries; address the needs of small island and land-locked developing states; address the debt problems of developing nations; access to affordable essential drugs in the developing world; to take benefits of new technologies, especially info and comm.

Source: <https://www.mdgmonitor.org/millennium-development-goals/>

### HDI dimensions and indicators path diagram

### HDI over time graph of Zambia, Rwanda, Türkiye

### UNDP top 22 HDI countries

### Sustainable Development Goals—17 goals with 169 targets



Source: <https://www.un.org/sustainabledevelopment/news/communications-material/>

### Gross national happiness

Enacted in the constitution of Bhutan in 2008.  
Conceptualised by the King of Bhutan in 1972.

### How do we define development?

Economically  
Human-centred

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## Part II. Why are some countries more developed than others?

### Institutional development drivers

Property rights  
Veto players  
Democratic institutions

### Property rights encourage development

John Locke in his “Second Treatise of Government” argues that:

- (1) Property rights arise when people mix their labour with natural resources,
- (2) Government's primary purpose is to protect these rights.

Adam Smith argued that property rights as fundamental to market economies because secure property rights enable specialization and trade.

Smith, Douglass North, and others argue that secure property rights encourage investment and long-term planning.

Jeremy Bentham and John Stuart Mill advocate property rights on utilitarian grounds as they contribute to the greatest happiness for society.

### Jeremy Bentham (1748-1832)



<https://londonist.com/london/jeremy-bentham-ucl-body-auto-icon-where>

### Development observable by its absence

Hernando de Soto in *The Mystery of Capital* (2000) describes challenges for countries with weak legal systems.

Extra-legal property ownership leads to “dead capital”  
Bureaucratic barriers  
Limited access to credit  
Corruption and rent-seeking

Parallel legal systems  
Lack of contract enforcement

### **Veto players**

Multiple veto points can provide institutional stability and predictability (Tsebelis 2002).

Henisz & Zelner (2006) find higher infrastructure investment under governments with more veto players.

### **Democratic institutions vs autocratic institutions**

Let's explore arguments for and against democratic institutions....

#### **Arguments for democracy**

Democratic systems typically have stronger property rights, rule of law, and contract enforcement.

Greater checks and balances reduce corruption and arbitrary policy changes. Independent judiciaries provide more predictable business environments. Freedom of expression and education encourage innovation and knowledge transfer.

Merit-based systems allow talent to rise regardless of political connections. Universities and research thrive with academic freedom.

Elections create accountability, pushing leaders to deliver economic results. Free press and civil society highlight policy failures before they become catastrophic.

Peaceful power transitions prevent destructive regime changes.

#### **Arguments for autocracy**

Autocracies can implement policies quickly without democratic gridlock

Long-term planning possible without electoral cycle pressures

Economic reforms can be pushed through despite short-term pain

Ability to mobilize resources for targeted industrialization

Protection of infant industries from foreign competition

Strategic implementation of industrial policy

S Korea's Miracle on the Han River under President Park (1962-79) example of develop first, democracy later.

#### **Acemoglu et al. (2019)**

Acemoglu et al. (2019) find democracy may increase GDP by 20% in the long run.

Some states (either democratic or autocratic) perform well, others poorly.

#### **Sala-i-Martin (1998) extreme bounds analysis**

#### **Historical and structural factors**

Persistent core-periphery relationships  
Colonial legacies  
Resource extraction and power asymmetries  
Export-oriented economies built around primary commodities  
Dependency theory (Prebisch 1926; Cardoso & Faletto 1978)  
    Developing countries structurally dependent on developed economies  
Initial Factor Endowments  
Resource abundance vs. resource curse  
Labor vs. capital intensity

### **Development approaches and strategies**

Import substitution industrialization (ISI) vs. export-oriented industrialization

ISI—Build domestic industries behind protective barriers  
Export-orientated—Engage with global markets, exploit comparative advantage

### **Role of development banks**

Address market failures in capital provision.  
Provide long-term financing for infrastructure development  
Examples: World Bank, regional development banks (e.g. Africa, Latin America),  
China Development Bank

### **Drivers of economic development**

Institutional factors  
Political factors  
Historical factors  
Structural factors

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## **Part III. Drivers of foreign aid**

### **ODA over time graph**

### **Drivers of foreign aid**

Supply factors  
Demand factors

### **Demand drivers**

Need (short or long-term)  
Absolute and relative deprivation

### **Supply drivers**

Humanitarian interest

Strategic interest  
Economic interest

### **Humanitarian motives**

Alleviating poverty and addressing immediate needs  
Supporting long-term human development  
Responding to natural disasters and humanitarian crises

### **Strategic concerns**

Security interests (e.g., post9/11 aid to Pakistan)  
Maintaining influence in geopolitically important regions  
Using aid to secure allies (UN Security Council votes)

### **Economic interests**

Market creation for donor country exports  
Resource access and securing supply chains  
Tied aid benefiting donor country companies

### **Domestic politics of aid**

Public knowledge and support  
Limited public understanding (e.g., Americans overestimate aid at 26% of budget vs. actual 1%)  
Partisan differences in aid preferences (military vs. economic aid)  
Institutional Organization  
Agency fragmentation affects aid effectiveness (e.g., 25 agencies in US)  
Independent aid agencies associated with more consistent aid levels

### **Australia's view of foreign aid**

Chubb & McAllister (2023)

### **Australia's International Development Policy report**

#### **Emerging donors and new models**

China  
BRICs South-South  
FDI  
Remittances

#### **China's role in foreign aid**

Major emerging donor (\$354 billion from 2000-2014)  
Infrastructure-focused investments (e.g., Rwanda case)  
Different approach is less concessional, fewer political conditions  
“Full carrot with no stick” (Gerald Mbanda, Rwanda Governance Board)

## **South-South cooperation**

Growing role of countries like India, Brazil, South Africa  
Emphasis on technical cooperation and shared development challenges

## **Remittances over time graphs**

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### **Part IV. Does foreign aid increase development?**

#### **Does aid increase development?**

Mixed results on economic growth  
Aid works only with good policies in place (Burnside & Dollar 1998, 2000)  
Scepticism about overall aid effectiveness (Easterly 2003, 2009, 2011)

#### **Project-specific successes**

Marshall Plan after WWII  
Eradicating polio  
PEPFAR addressing HIV/AIDS

#### **Contingent factors**

Political context matters

Destination  
Aid more effective under democracies (Kosack 2003)  
Time horizons of leaders affect aid outcomes (Wright 2008)

Source  
Strategic vs. development-focused aid (Bearce & Tirone 2010)

#### **Aid and human development**

Aid \* democracy increases HDI (Kosack 2003)  
Aid increases HDI through growth not public spending (Gomanee et al. 2005)  
Health and education aid can reduce maternal mortality and gender inequality in youth literacy (Pickbourn and Ndikumana 2016)

#### **Health outcomes**

Health aid reduces infant mortality (Mishra and Newhouse 2009).  
PEPFAR reduced HIV-related mortality (Bendavid and Bhattacharya 2009)  
More consistent positive effects for health outcomes than economic ones.  
(Clemens et al. 2012)

#### **Education outcomes**

Education aid increases primary school enrolment rates (Dreher et al 2008).

Aid more relevant for improved enrolment (education quantity) than for increased achievement (education quality) (Birchler and Michaelowa 2016). Targeted education interventions showed more consistent positive results than general support (Riddell and Niño-Zarazúa 2016).

### **Human rights and aid**

Selective application of human rights conditionality in aid allocation, with strategic allies often exempted from sanctions (Nielsen 2013).  
Aid conditionality can improve human rights practices when donors maintain credible commitment to withholding aid (Montinola 2010).  
Human rights NGO shaming affected aid allocation decisions (Murdie and Peksen 2013).

### **Democracy promotion**

Aid generally supports democracy (Gisselquist et al. 2021).  
Technical assistance can promote democratic institutions (Finkel et al. 2011).  
Rush to multiparty system can limit further democratisation (Brown 2005).

### **Potential problems with aid**

Debt burdens  
Market distortions

#### **Debt burdens**

Example of Chinese lending in Africa  
Rwanda's debt-to-GDP ratio rising to 53% despite 8.6% growth  
Concerns about “debt trap diplomacy” (Zambia, Djibouti)

#### **Market distortions**

Aid can undermine local institutions and markets.  
U.S. food aid to Haiti in 1990s devastated local rice production.  
Dutch disease through currency appreciation leading to less exports  
Clothing market disruption  
Support authoritarian regimes  
Creating perverse incentives for corruption without accountability mechanisms

### **Alternative development approaches**

Trade/FDI  
Benefits: comparative advantages, efficiency, tech transfers, knowledge spillovers, market access, diversification  
Drawbacks: volatile terms of trade, limited export diversification, insufficient spillover in labour-intensive industries  
Corporate social responsibility  
ESG, modern slavery statements, sustainability  
Private regulation of labour standards (Nike)

NGO pressure campaigns and monitoring  
 Private aid—Gates Foundation, Carter Center, Chan Zuckerberg Initiative  
 Remittances

**Important terms**

Economic development	Human development
Gross domestic product	Gross national income
Capital accumulation	GDP per capita
Inequality	GINI coefficient
Lorenz curve	UN Millennium Declaration
Millenium Development Goals	Sustainable Development Goals
Human Development Index	Gross National Happiness
Property rights	Dependency theory
Import substitution industrialization	Export-oriented industrialization
Regional development bank	Remittances
Debt trap diplomacy	Market distortion
Corporate social responsibility	Private aid