Policy Brief

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The Sovereignty of Developing Countries: The Challenge of Foreign Aid

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Foreign aid can have several useful advantages. These include a positive influence on a recipient's country's economic growth, poverty level, and human development. Unfortunately, because of its perceived effectiveness, aid can be weaponized to challenge a state's sovereignty. Thus, international development outcomes are superseded by donors' strategic interests, which rely on asymmetric power dynamics to gain leverage and direct policy outcomes in ways that diverge from the recipient state's interests. As a result, a country forgoes its sovereignty while aid is provided selectively, ultimately leading to a dependence that hinders self-sufficiency. This paper discusses these dynamics and how policymakers can limit the trade-off between sovereignty and a developing country's policy autonomy.

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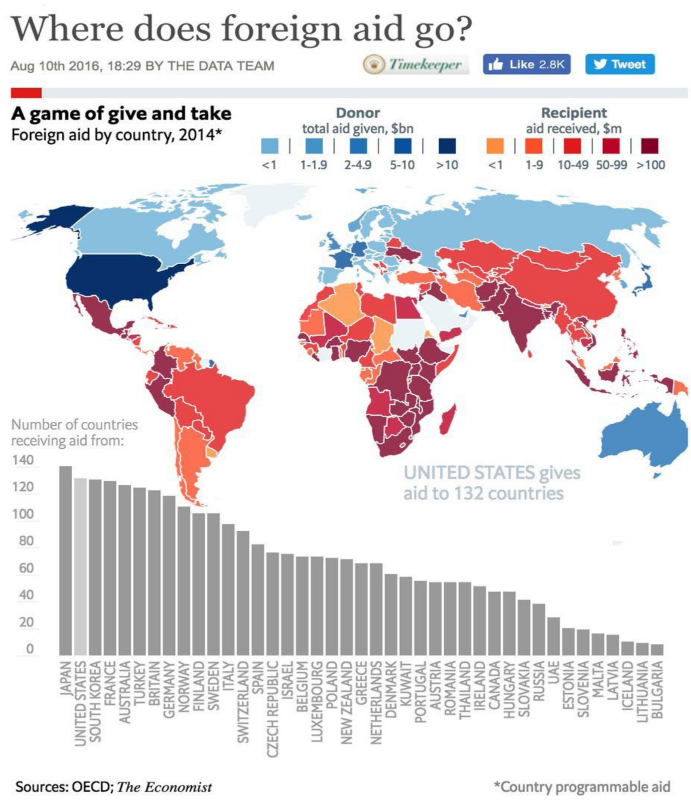
INTRODUCTION

Foreign aid has a well-established and significant role in international relations. The role of foreign aid in the repertoire of international development programs is extensively documented, with its goal being the promotion of human and economic development. Foreign aid can be defined as "all forms of assistance that a country derives from other governments or multilateral agencies and financial institutions to fill noticeable gaps, especially in production, savings, and investments; it takes diverse forms such as grants, loans, foreign direct investment (FDI), joint ventures, and technical assistance" (Omotola and Saliu, 2009, p. 88). Foreign aid offers numerous benefits, including a long-term positive influence on economic growth (Karras, 2006), and its function in reducing poverty has been acknowledged (Mahembe and Odhiambo, 2018). There is also evidence that aid improves human development and infant mortality prevention outcomes (Gomanee et al, 2005, p.299), making it a popular tool (Figure 1). However, given that foreign aid is "anything but simple" (Ridell, 2008, p.1), it is associated with several drawbacks. For instance, the provision of aid can facilitate opportunities for corruption and bureaucratic misconduct, which can threaten good governance (Booth, 2012). If this happens, foreign aid can play a hostile role that diverges from its purported purpose, especially considering that evidence indicates aid can have the consequence of increased inequality vis-à-vis income distribution (Herzer and Nunnekamp, 2012). Furthermore, poor quality institutions (Kabir, 2020) can reduce further the effectiveness of foreign aid—a consequence made especially stark given that many developing countries are characterized by institutional deterioration. This forms an important backdrop to claims that corruption has increased due to foreign aid, which can be fungible by nature because of its possible utilization by recipient states for a variety of unintended purposes (Mahembe and Odhiambo, 2018).

Figure 1



**This map has been modified for clarity

These nuanced dynamics can heighten the importance of any other deficiencies, one of which relates to the political economy of international development and is what this policy brief discusses: foreign aid's inherent challenge to the sovereignty of developing countries. For this policy brief, sovereignty can be defined as the "supreme public power [of a state], which has the right and, in theory, the capacity to impose its authority in the last instance" (Benoist, 1999, p.99). The central argument in this policy brief is that, while foreign aid may be beneficial in some instances, it also provides significant challenges to recipient state sovereignty, and therefore strategic autonomy. In particular, this policy brief will discuss foreign aid's far-reaching conditionality and facilitation of dependence, with the dependency theory particularly relevant here. The former sees the agency of a developing country illegitimately constrained, while the result of the latter is durably restricted and contingent policy direction by aid donors. Based on these elements, it will become clear that developing countries' sovereignty is at risk in the foreign aid paradigm, which fosters asymmetric power dynamics.

FAR-REACHING CONDITIONALITY

Foreign aid has consistently been given with far-reaching conditionality imposed on recipient states. Initially, political conditionalities (PCs) were defined as "the use of pressure by the donor government, in terms of threatening to terminate aid, or actually terminating or reducing it, if conditions are not met by the recipient" (Stokke, 1995, p. 12). This has shifted to a less reactive definition, with Molenaers et al (2015, p.2) defining "second-generation" PCs as "the allocation and use of financial resources to sanction or reward recipients in order to promote democratic governance and human rights."

What is consistent in each variation—both of which still play a role in modern foreign aid dynamics—is the limitation of a developing country's sovereignty, with its policy autonomy endangered through political interference. When a developing country accepts aid, it forgoes the ability to exercise some aspects of its sovereignty. For example, in Bangladesh, aid programs including debt relief, loans, and grants have been offered conditionally, with the unilaterally imposed stipulation of "good governance" required on the part of the Bangladeshi government in return (Parnini, 2009, p.553). The initial conditions then grew to include additional elements, including "transparent administration, the protection of human rights and democracy, as well as public sector reform" (Parnini, 2009, p.553). As such, the Bangladeshi State is limited in its position as the supreme public power, even if such conditionality fails to yield any beneficial effect in terms of its governance. This fault is especially stark when foreign aid is ostensibly deployed to promote development and combat poverty, and yet remains dominated by political and strategic considerations. Consequently, developing states are placed in the problematic position of accepting the aid despite having limited knowledge of the entire spectrum of accompanying caveats.

Furthermore, foreign aid only crystallizes the donor's leverage over these states, which further constrains their sovereignty. A country's recognized agency in taking decisions irrespective of foreign preferences is compromised, and the unbalanced power dynamics are further put into perspective. For example, Langan (2014) documented how this dynamic has been exhibited in European Union-Africa relations, namely in Tunisia, Ghana, and Uganda, where donor leverage has been utilized to compel free-market reforms contrary to the interest of the recipient country's poorer citizens. This has been described as neo-colonial in nature, a paradigm that Ghana's first President, Kwame Nkrumah (1965, p.ix), described as occurring when "the State which is subject to it is, in theory, independent and has all the outward trappings of international sovereignty… [yet] in reality, its economic system and thus its political polity is directed from outside." This encapsulates how neo-colonial dynamics, including the political co-optation of domestic officials due to weak and rent-seeking institutions, lead to a developing country's sovereignty being implicitly inhibited—a dynamic that comes to the fore when considering the application of far-reaching PCs and premature liberalization.

It should be noted that there is a "trade-off between maintaining donor leverage over aid-dependent host-governments, and managing relations with autonomous host governments emboldened by their access to revenue from rents" (Niño and Le Billon, 2014, p.93). This has implications for policymakers seeking to maximize the advantages of foreign aid in good faith and avoid the exploitation of developing states with weaker governance structures for the purposes of the furtherment of neoliberal aims. This includes not undermining the developing country's autonomy over how it employs various policy instruments, such as the allocation of public funds. This is especially true when proposed free market and neoliberal reforms promote the reduction of debt in African countries—the same debt which foreign aid played a role in creating due to its PC impositions and effects on the domestic political economy of the recipients (Omotola and Saliu, 2009).

In contrast, some assert that foreign aid does not inherently challenge developing countries' sovereignty (Zormelo, 1996). This argument revolves around a sovereign state's willful entry into agreements, the terms of which they are able to contest, as well as how such conditions are necessary for effectiveness of the aid in achieving its intended humanitarian purposes. From this perspective, stipulations support the sovereign responsibility of countries to improve the well-being of their citizens.

However, these positions can be flawed. First, developing states operate on an asymmetric playing field in aid agreements, and it is facile to presume these lopsided power dynamics are easily overcome. To illustrate, the World Bank's structural adjustment programs serve as an example of how explicit conditionality directly influences the recipient's policies, which are also henceforth restricted by increased donor leverage. (Kilby, 1999). This influence on developing state's sovereignty has led to documented instances of aid programs undermining "access to quality and affordable healthcare and adversely impact upon social determinants of health" in recipient countries (Thomson et al, 2017, p.1). This is less surprising when considering that the accounts of negotiations between aid donors and recipients are of a one-sided, ultimatum-laden nature. The power imbalance intertwines with the imbalance in development knowledge, where developed countries take advantage of superior facilities and adopt foreign aid as a vehicle to promote disparate policy prescriptions. As Girvin (2007, p.2) indicated in his account of Northern (donor) and Southern (recipient) states, "the dominance of Northern centres derives from their huge resources, their role as international centres of intellectual innovation, their close relationship with funding agencies, and from the intellectual socialisation of Southern decision-makers."

Moreover, arguments that stipulations are necessary for effectiveness may be unfounded. Imposed conditionality may disregard the social, cultural, economic, and political context in the recipient country, as well as subject it to arbitrary factors like the donor landscape and the advantageous negotiating status of governments influencing harmonization attempts. As a result, if foreign aid initiatives are decontextualized and not tailored to beneficiaries, a more pressing issue in terms of undermining potential effectiveness emerges. Additionally, conditionality is unendorsed in terms of the success of the policy and the aid itself (Doucouliagos and Paldam, 2009), which should be viewed as a fatal drawback. For example, with second-generation PCs and associated emphasis on democratic change, there is a paucity of evidence that aid influences support for opposition in multiparty elections, which is "a necessary condition for incumbent turnover" (Dietrich and Wright, 2015, p.232). This ineffectively leads to, as opposition members in Ghana stated, "transitions without change" (Gyimah-Boadi and Yakah, 2013, cited in Dietrich & Wright, 2015, p.218). Thus, not only is a state's sovereignty challenged, but this happens for no clear material benefit.

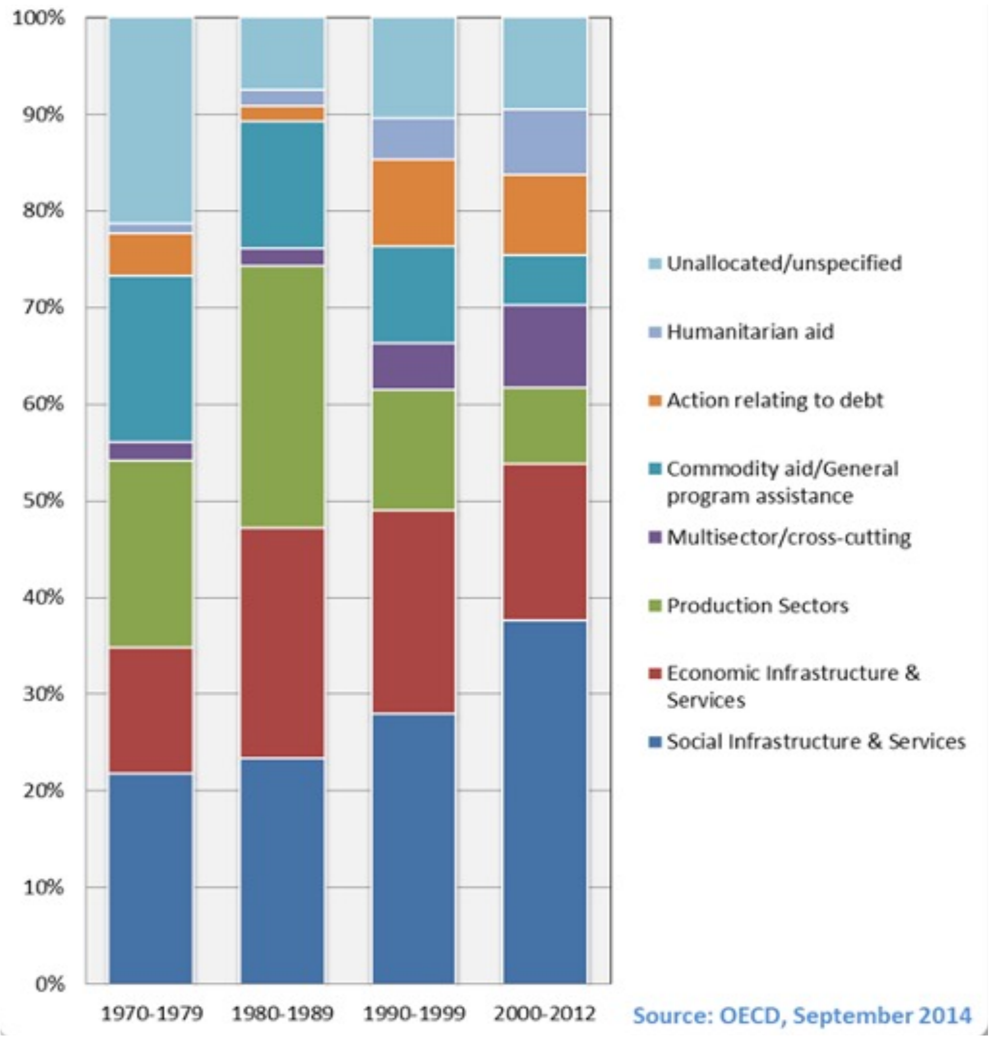
DEPENDENCE FACILITATION

The second reason foreign aid poses a challenge to developing countries' sovereignty is that it can lead to dependence and have adverse impacts on self-sufficiency. This ex-post-facto restricted policy direction means a developing country struggles to escape the vicious cycle expounded in dependency theory, defined as "seeing the global trade system as unbalanced towards the global North and biased [against] the global South" (Monyae and Ndzendze, 2021, p.22). In this conception, developing countries remain on the periphery, with economies that are both ill-prepared and ill-employed to transform labor and materials into manufactured goods.

This comparative lack of industrialization and ineffective use of factors of production place developing countries at a disadvantage, making them dependent on developed countries for manufactured goods. This facilitates a cycle in which developing countries use their wealth to enrich developed countries at the expense of their own production capacity, ultimately putting them in a position where foreign policymakers seek to promote economic and human development in their countries through foreign aid—though this increasingly emphasizes production sectors less (Figure 3). As a result, a key paradox emerges: developing countries' current lack of financial resources, resulting from historical dependence on developed countries, is what in turn breeds future dependence through foreign aid. This highlights how long-term, structural reforms are supplanted by transitory, agency-compromising solutions. It is notable that the asymmetric interaction patterns between developing and developed countries can be attributed to neo-colonial frameworks and blinkered nation-building processes. With aid-dependent former colonies fighting an uphill battle to reclaim their economic sovereignty, they are further directed away from self-sufficiency with donors giving "considerably more foreign aid to former colonies than to countries lacking past colonial ties" (Chiba and Heinrich, 2019, p.474).

Figure 3

Changing Allocation and Emphasis of ODA Aid, 1970-2012



To demonstrate how dependence can have adverse implications for a developing country, analyses of cross-country data suggest dependence can harm governance quality by "weakening accountability, encouraging rent-seeking and corruption, fomenting conflict over control of aid funds, siphoning off scarce talent from the bureaucracy, and alleviating pressures to reform inefficient policies and institutions" (Knack, 2001, p.310). With the policy direction of a developing country influenced, through accepting the aid and the concomitant long-term implications, it sees its sovereignty challenged, and the prospects of economic independence are harmed. For example, while the Rwandan state has wanted to further economic stability and socio-economic development, this has been heavily buttressed by external assistance, a dynamic on which it is highly dependent (Hayman, 2007). Its status as an aid-dependent developing country has arisen despite its goal of increased local ownership and an indigenous policy agenda, which has led to "heightened external entanglement in internal policy processes" instead (Hayman, 2007, p.20). This contradiction—Rwanda seeking to behave as the supreme public power but being disempowered from doing so—displays the slippery-slope nature of the challenge foreign aid poses to a developing country's sovereignty, particularly when the aid's disparate and ambiguous objectives are considered.

Alternatively, one approach to understanding dependence theory may be to understand what it is not—namely, modernization theory and its Euro-centric linking of modernity and industrialization with political development (Hills, 1994), which overlooks the nuances of historical context. This dichotomy is captured in the frames of reference of the respective theories. While dependency theory focuses on developing countries, modernization theory focuses on their developed counterparts (Kay, 2018). This may explain the varying policy implications, such as the dependency theory's suggestion of import substitution industrialization and the modernization theory's suggestion of adopting modern practices at the expense of traditional culture.

Conversely, some argue that dependency theory is misguided due to how sovereignty "constitutes the very basis of the aid relationship" as states have the agency to choose within a given framework (Brown, 2013, p.262). This conception suggests the eventual outcome of dependence is not connected to sovereignty. However, notwithstanding the unheeded power dynamics, this is where dependence theory is particularly salient. Given the way foreign aid is supposedly deployed to counter under-development, it is notable that under-development is primarily a result of the peripheral position of developing states, compared to richer and more advanced nations. Consequently, developing countries are impacted by the poor governance and policy repercussions that result from attempts to compensate and thereby assent to foreign-aid arrangements, which restarts the dependency cycle and prevents states from autonomous operation. For example, one study of sub-Saharan Africa discovered that "there is a robust statistical relationship between high aid levels in Africa and deteriorations in governance," which disincentivizes aid agencies and recipients from behaving differently (Brautigam and Knack, 2004, p.276). When this is combined with how official development assistance (ODA) consists of approximately 70% of the external financing of the least-developed countries (OECD, 2019), the clear leverage donors wield over states is demonstrated.

Ultimately, developing countries have as much freedom of choice as their structural impediments allow—that is to say, a limited amount before accepting foreign aid, and even less after, particularly when sovereignty challenges are considered. Given that there is evidence that shows economic growth being stimulated in recipient countries by foreign aid "only when the strategic benefits associated with providing aid are small for donor governments" (Bearce & Tirone, 2010, p.837), it follows that it is in the interest of donor governments to grasp the embedded asymmetric power dynamics and holistically improve international development outcomes. Likewise, aid initiatives would benefit from good faith multistate coordination, which would go a long way to supporting developing countries in structural transformation and de-facto sovereignty restitution.

CONCLUSION

In conclusion, the notable role foreign aid plays in international development outcomes comes at cost in terms of developing country sovereignty. This is the case for two linked reasons: foreign aid's far-reaching conditionality and its facilitation of dependence.

First, PCs have been increasingly used in foreign aid arrangements to compel and restrict the behavior of recipient states. This endangers their sovereign position as the supreme public power, with autonomy comparatively waived and exchanged for the goals of foreign policymakers. This can have a stifling effect, with disparate and ambiguous donor aims including good governance, protection of human rights, free-market reforms, and democratization. The ambiguous nature of these conditions is evident—despite foreign aid's ostensible goal of promoting economic growth, the legitimacy of these conditions is equivocal and illustrates muddled policy agendas that exploit asymmetric power dynamics. Arguments that suggest foreign aid does not pose an inherent challenge to developing countries' sovereignty may be short-sighted as they disregard an uneven playing field and the adverse impacts of PCs—not only on a country's sovereignty but also in relation to the ostensibly desired policy outcomes. The imbalance in development knowledge also has an impact, as developing countries take advantage of increased economic capacity and innovation to dictate terms. Moreover, contentions that misleadingly elevate effectiveness are also inadequate. There is limited support for conditionality, whether in terms of policy or aid. For example, democratization initiatives fail to empower the opposition in targeted countries, a prerequisite for that outcome; in this regard and others, developing countries seem to forego their agency gratuitously.

Second, foreign aid facilitates dependence, which has an effect on developing countries' self-sufficiency. The global trade system favors developed nations while developing countries occupy a peripheral role. A vicious cycle is thus instigated, in which a developing state's lack of industrialization means it becomes dependent on developed nations. As a result, instead of investing its wealth in implementing structural reforms, aid-recipient states increase their external entanglements and enrich developed nations that continue to grow disproportionately. Additionally, the argument that the dependence theory highlights external factors excessively is misguided. There is a large gap between developing nations and developed nations, and many countries in sub-Saharan Africa are structurally disadvantaged because of the historical behavior of external states. That argument dovetails with views that revolve around a developing country's freedom of choice in foreign aid arrangements, which overlook the aforementioned power dynamics and how the peripheral nature of these states constrains their options. Aid continues to represent a significant share of government budgets, giving donors increased leverage due to the recipient's inhibited policy autonomy.

Ultimately, developing nations' contingent policy direction disempowers them from acting decisively in line with their sovereign responsibilities, while aid dependence has adverse implications. Accordingly, this policy brief's main recommendation for donors and policymakers alike is that, to ensure sustainable positioning, these key dynamics need to be grasped and incorporated holistically to improve international development outcomes.

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