Economic Integration, Foreign Direct Investment & Multinational Enterprises

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Abstract

The multilateral trading system (MTS) has undergone profound changes since early 1990s: Despite the triumph of multilateralism through the successful conclusion of Uruguay Round negotiations that led to the establishment of the World Trade Organization (WTO) there has since then been an increasing regionalism tendency in the world economy. As a consequence the world trading system now can be characterized by the co-existence of regionalism and multilateralism. The first part of this paper provides a theoretical and practical overview of this increasing regionalism. After a brief discussion of economics of regional integration, the paper sheds some lights on the politico-economic aspects of regional integration and the emergence of mega-FTAs as a new phenomenon.

Since the world economy has been globalized, companies have been active to establish their own production networks by investing their money in multiple countries. The second part of this paper provides a handbook-style literature review on foreign direct investment (FDI) and multinational enterprises (MNEs). It tries to define key concepts, such as FDI, MNEs, and global value chains, and explore stylized facts on FDI and MNEs. In addition, this part introduces theories and empirical studies to analyze motivations of FDI and MNEs, firm heterogeneity, and determinants of FDI.

Keywords: *regionalism and multilateralism, Mega-FTAs, Foreign Direct Investment, multinational corporations, global value chains*

I. Economic Integration

1. Introduction

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The coexistence of regionalism and multilateralism is one of most interesting features of today's world economy. Whereas the world trading system was largely shaped by a series of multilateral trade negotiations conducted under the auspices of GATT (General Agreement on Tariffs and Trade) until the beginning of 1990s, it has since early 1990s been influenced also by the increasing regionalism tendency. As the two forces seemingly are in stark contradiction in terms of the modality of providing trade preferences (discriminatory or not), the proliferation of regionalism has received strong academic and policy-related attention. Regionalism in the meantime has very strongly spread to the East Asian region, which had long remained unaffected, mainly due to the countries' favoritism of multilateralism, which finally contributed to the solidification of the coexistence of regionalism and multilateralism.

This survey article is an attempt to provide an overview of a few selected aspects of economic regionalism, which is otherwise termed "economic integration". After discussing the basic theoretical aspects of economic integration in Section II, the article in Section III provides a brief analysis of the current state of play of regionalism in the world economy. Section IV is devoted to legal aspects of regionalism, looking it from the angle of its consistency to and relationship vis-à-vis multilateral trading order.

2. Basic Theory of Economic Integration

Definition

Economic integration refers in general to a phenomenon in which economies of different countries increase the exchange of goods and services (trade integration), of investment funds (investment integration) and/or of financial resources (financial integration). In reality, economic integration can, in principle, be driven by two different forces – policy or market forces. The policy-driven integration, which is otherwise called 'institutional integration' takes place through adoption of international agreements and treaties, for which the European integration provides an excellent example. In fact, the process of European integration has been fuelled by a number of treaties adopted among the participating countries, with the Treaty of Paris (adopted in 1951 and implemented in 1953) and the Treaty of Rome (adopted in 1957 and implemented in 1958) being the first such treaties that shaped the basic direction of the economic integration in Europe. In contrast, the East Asian region until the end of 1990s provided an excellent example of market-driven integration, which implies that East Asia was able to expand the trade and investment ties among the economies in the region without the support of the government-to-government policy coordination. Influenced largely by the mighty Japanese multinational corporations (MNCs) since the beginning of 1980s, the East Asian region increasingly has formed a so-called "regional production network (RPN)" with enhanced trade and investment integration. With other East

Asian countries emerging as more powerful economic powers, such as Korea and Taiwan in 1990s and China in 2000s, the process of formation of the RPN in the region is still going on.

Stages of Economic Integration

Economic integration, in general, passes through a series of consecutive stages. Balassa (1961) provided a first insight on it, and suggested 5-stage economic integration – (1) free trade area (FTA), (2) customs union (CU), (3) common market (CM), (4) economic union (EU), and (5) full economic integration (FEI). As can be imagined, Balassa's stages of economic integration are based on the incremental difficulties encountered by the participating countries when passing through these different stages, which are exhibited in the following Figure 1. For instance, the adoption of a common external tariff (CET) is much more difficult than merely eliminating internal barriers and quantitative restrictions towards member country products, as the tariff rates reflect competitiveness of related industries and preferences of consumers. Also, the establishment of a supra-national institution needs long experiences of common conduct of economic policies as a pre-requisite, as it implies a certain degree of abandonment of policy sovereignty. In reality, the establishment of a 'real' supra-national institution can only be observed in the European Union, with the European Commission and the European Central Bank (ECB) taking the responsibility of implementing the various EU's community policies and the single monetary policy of the Eurozone countries, respectively.

Figure 1: Stages and Elements of Economic Integration

Elements \ Stages	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
	Free Trade Area	Customs Union	Common Market	Economic Union	Full Economic Integration
Elimination of Internal Barriers	O	O	O	O	O
Elimination of Quantitative Restrictions	O	O	O	O	O
Common External Tariff	X	O	O	O	O
Free Mobility of Production Factors	X	X	O	O	O
Economic Policy Coordination	X	X	X	O	O
Supra-national Institutions	X	X	X	X	O

Note: *O: adopted; X: not adopted.*

Source: *Author's Own Figure, based on ****

It should also be noted that this five-stage economic integration nowadays can only be regarded as a guiding principle, and not as an "absolute must" when pursuing economic integration. Especially, in the context of economic integration attempts pursued in East Asia, the 'reverse sequencing' provides an interesting point of policy consideration. With most of East Asian countries having long been immune to regionalism until late 1990s but having started serious efforts since the outbreak of 1997 Asian Financial Crisis giving more initial preference to financial cooperation and integration rather than to trade integration in the form of an East Asia-wide FTA, studies have been conducted that checked the desirability of reversing the sequence of economic integration as proposed by Balassa (1961).[3]

Economic integration can be analyzed also from another angle, using three different concepts: deepening, widening and enlargement. Deepening of economic integration refers to a phenomenon in which the economies involved pass through the afore-mentioned stages. Widening is understood as a process of including additional policy areas over time. For instance, countries start their economic integration in trade sectors, but add investment, financial and other sectors into the agenda at a later stage. Enlargement means the expansion of membership. For instance, the European Union, which was established as a six-country integration project in the 1950s, now encompasses a total of 28 member states after 7 rounds of membership expansion.

Effects of Economic Integration

First stages of economic integration – FTA and CU – give rise to two distinctive effects: trade creation and trade diversion. Trade creation occurs primarily between member countries with the home-country domestic products that were protected by trade barriers before being replaced by import products originating in partner countries that are not any more subject to any trade barriers after the formation of an FTA or a CU. This replacement of less-efficient home-country products by more efficient partner-country products, which was originally termed "trade creation" by Viner (1950), is mainly due to changes in relative prices. As the home-country market is more dominated by more efficiently produced products, trade creation in general is welfare-improving. Trade diversion effects refer to a phenomenon of a change in origins of import products in a member country of an FTA and/or a CU, mainly due to changes in relative prices between products from another member country and non-members. As trade barriers are only lifted vis-à-vis member-country products, the more efficiently-produced non-member-country products are replaced by products from member countries. With products from less efficient sources being more sold in the markets of a member country; the trade diversion effects are in general welfare-reducing. Standard textbooks discuss under what conditions the trade creation effects can be maximized.[4]

With the deepening process of economic integration continues, more sophisticated

[3] The possibility and costs and benefits of a 'reverse sequencing' in East Asia were well documented in Wang and Shin (2002).

[4] For a more detailed discussion of conditions for trade-creating FTAs and Customs Union, see, for instance, Robson (1998) and Salvatore (2013).

effects are arising. Some effects are short-lived and therefore do not exercise any impacts on the market expansion, whereas some other effects are longer-lasting and have therefore market-expanding effects. The former are called "static" and the latter "dynamic effects", respectively.[5]

3. Current State of Economic Integration

Trends in RTA Activities in the World Economy

Since the beginning of 1990s, the world economy observes a long trend of increasing number of FTA agreements, which has been challenging the effective management of the multilateral trading system under the GATT/WTO. By establishing the Committee on Regional Trade Agreements (CRTA) in 1996, the WTO has been closely monitoring the regionalism activities of its member countries. In fact, the WTO maintains a set of rules governing regional trade agreements: GATT/WTO Article XXIV, GATS Article V and Enabling Clause. They are used for investigating the FTAs and Customs Unions for their consistency to the multilateral trading rules.

The current trends of RTAs has since then been regularly analyzed by the WTO, and its update is shown on a specific website (https://www.wto.org/english/tratop_e/region_e/rta_pta_e.htm) within the WTO Homepage. It should be noted that among the variety of forms of economic integration, the WTO is governing only the customs unions and free trade agreements, as its competence is limited to trade matters, whereas the stages up from common market involves other areas, as well. The Figure below clearly documents the two "waves" of RTA activities in the world economy: early 1970s and early 1990s onward. Whereas the 1st wave of RTAs soon weakened, the 2nd RTA wave is still going on, and ever-strengthening, as shown in Figure 2 below.

Politico-economic Factors Leading to Increasing Regionalism

Analysts point to the following three as most influential factors contributing to this new upward trend in RTAs since early 1990s. First, the change in US trade policy from a strong favoritism of multilateralism to a balanced approach between regionalism and multilateralism around the mid-1980s led to an increasing number of FTAs of the US. As the most important guardian of multilateralism turned its back, the dynamics of multilateral trade liberalization has become weakened, which in turn mobilized an increasing number of other countries to participate in the new trend of regionalism. Second, geo-political changes taking place around the beginning of 1990s – the demise of the Cold War and liberation of many

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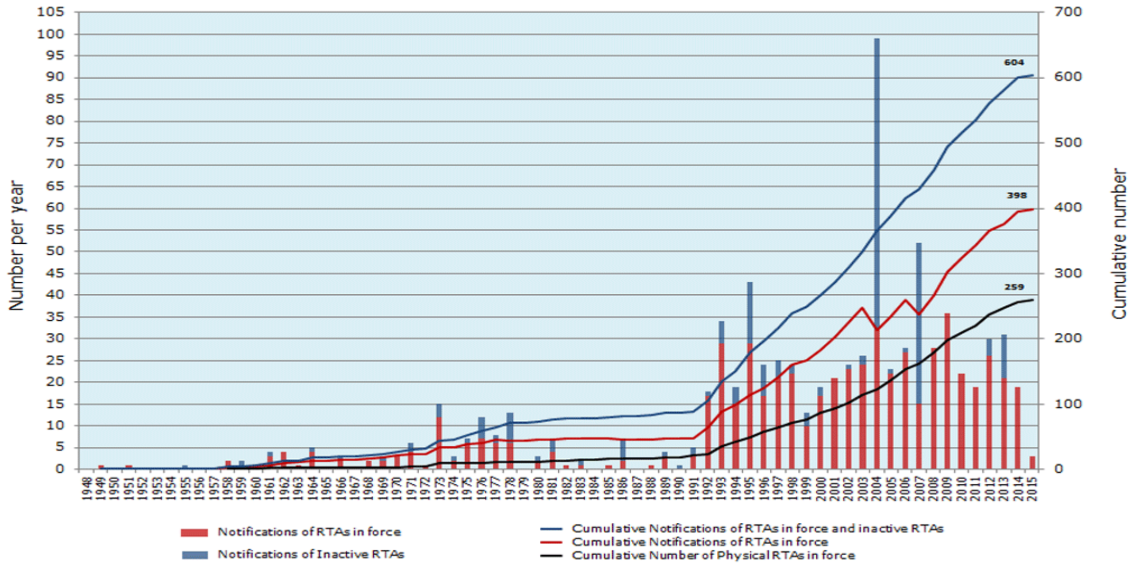
[5] For details, see Robson (1998, pp. 32-34).

Central and Eastern European Countries from the governance of the Soviet Union had prompted them to get closer to the EU, leading them to concluded Association Agreements in 1990s and finally to negotiate their membership to the EU in mid-2000s. They have contributed to a substantial part of the rise in the number of RTAs during the first half of 1990s. Third, East Asian countries, which were long immune to the regionalism tendency of the world economy, have become increasingly interested in regionalism around the end of 1990s and early 2000s. It is observed that the 1997 Asian Financial crisis (AFC) has functioned as a trigger for this trade policy change of many East Asian countries. As East Asia has become a battlefield of worldwide regionalism activities, the Asian Development bank (ADB) created an independent office that should monitor Asian countries' related policy actions.

Figure 2: Number of RTAs Notified to the GATT/WTO (1948-2015)



Source: WTO Homepage. https://www.wto.org/english/tratop_e/region_e/regfac_e.htm (viewed on March 30, 2015)

Emergence of Mega-FTAs as a New Phenomenon

One of most outstanding features in recent surge in the worldwide RTA activities is the increase in the number of Mega-FTAs. In fact, a number of large-scale FTAs are being negotiated currently. The currently negotiated Mega-FTAs take two distinctive forms. First, Mega-FTAs are large-scale FTAs in terms of the number of countries involved. The Trans-pacific Partnership (TPP), which originally started as a four-country small-scale FTA among Chile, Brunei, New Zealand and Singapore, has been expanded to encompass 12 countries, with the US and Japan joining at a later stage. After some twenty rounds of negotiations, the negotiating parties have largely fixed the texts of the great majority of trade issues covered.

The TPP, under the leadership of the United States (US), has set the end of 2015 as a new target date of the completion of negotiations. The Regional Comprehensive Economic Partnership (RCEP) is another Mega-FTA of this kind. The RCEP has been under negotiation since March 2013, involving 16 countries – ASEAN 10, Korea, Japan, china, Australia and New Zealand, as well as India. It is a unique feature of RCEP in that the negotiating parties except ASEAN are all those that already brought an FTA with ASEAN. In a sense, the ASEAN has been playing a pivotal role in both the emergence and the negotiation process of the RCEP.[6] The second form of Mega-FTAs is pursued between and among a small number of mighty powers in the world economy. The negotiation on the Trans-Atlantic Trade and Investment Partnership (TTIP) is currently carried out between the US and the European Union (EU). Give the very high share of both the US and the EU in the world economy the TTIP is categorized as a Mega-FTA without involving many countries. The US and the EU had previously intended to negotiate a similar FTA in mid-1990s under the name of the Trans-Atlantic Free Trade Area (TAFTA), which did not succeed for a number of reasons. The renewed negotiation on the TTIP also has been facing increasing criticism from both the EU and the US.[7] Some analysts point to the geopolitical intention of TTIP that aims at counter-balancing the ever-increasing economic and political influence of China.

4. Legal Aspects of Economic Integration

Relationship between Regionalism and Multilateralism

How regionalism has affected multilateralism has been subject to an interesting academic debate since the beginning of 1990s when the second wave of regionalism started to take a shape. There are basically two different schools. The views of the first school, which argued that regionalism is a "stumbling block" to multilateralism, are well summarized by Bhagwati (1996) and Bhagwati and Panagariya (1996). In contrast, the second school argues that regionalism may have positive impacts on the process of multilateral trade liberalization, and therefore serve as a "building block" to multilateralism. (Young 1993, Bergsten 1996, etc.)

The increasing regionalism since the beginning of 1990s and the academic debates on the potential impacts of regionalism on the multilateral trading system led the WTO and OECD to carefully study the relationship between regionalism and multilateralism, the results of which are included in two separate policy studies: WTO (1995) and OECD (1996). Park

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[6] This key role played by ASEAN for Asian and Asia Pacific regional integration is called the "ASEAN-Centrality".

[7] A most recent criticism from the US comes from Jeffrey Sachs, who pointed to five reasons for rejecting both the TPP and TTIP. See, for the details, Huffington Post, April 5, 2015. http://www.huffingtonpost.com/roger-hickey/economist-jeffrey-sachs-s_b_5823918.html.

(2000) also provided both a substantive overview of this academic debate and the summary of these two reports issued by the WTO and OECD, drawing a temporary conclusion that both the WTO (1995) and the OECD (1996) viewed regionalism not as an obstacle to multilateralism, but acknowledged its potential contribution to widening the areas of more liberal trade within the multilateral trading system. As the sole international organization that is mandated to govern the global trade relations, the WTO was nevertheless alerted by the newly created dynamics of increasing regionalism around the first-half of 1990s, which led to the establishment of the Committee of the Regional Trade Agreements (CRTA) within the WTO as an in-house unit for monitoring the regionalism activities of the WTO member countries.

WTO Rules Governing Regionalism

As noted previously, the proliferation of regionalism in the world economy has been posing potential threat to multilateral trading order. The potential threat stems from the very nature of regionalism that allows discriminatory treatments among the member countries of the WTO and therefore deviates from the most important principle of the WTO system: non-discrimination. Due to this potential threat, regionalism is allowed only under certain conditions, which are stipulated in three different places: GATT/WTO Article XXUV; GATS Article V and Enabling Clause.

As most of the RTAs are negotiated for trade in goods, this article takes a closer look at the goods-related provisions that are regulated by GATT/WTO Article XXIV. RTAs are allowed basically under the following three conditions. First, the RTAs newly formed should not increase the overall level of trade protection (Article XXIV: 5 (a) and (b)). Second, the RTAs should aim at liberalizing the "substantially-all-the-trade" of the participating countries (Article XXIV: 8 (b)). Third, such agreements have to be brought into a full implementation within a "reasonable period of time", which - through the adoption of a specific Understanding – has been clarified as meaning within 10 years. These three rules can be interpreted as setting conditions for allowing RTAs such that the trade interests of third countries are not damaged by the implementation of such agreements. The GATT Article XXIV: 4 stipulates for this purpose:

> "They also recognize that the purpose of a customs union or of a free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.

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II. Foreign Direct Investment and Multinational Enterprises

1. Stylized Facts on FDI and GVCs

Since 1990s, the world economy has been globalized so that companies have been establishing their own production network in multiple countries by investing their money in those countries, which have advantages to attract foreign direct investment (hereafter FDI). In that sense, multinational enterprises (hereafter MNEs) and FDI have been important elements of international commerce and factor mobility across countries.

FDI can be defined as 'investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one country, a foreign direct investor or a parent enterprise, in an enterprise in an economy other than that of the foreign direct investor'.[8] FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates. An equity capital stake of 10%[9] or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as the threshold for the control of assets.

According to UNCTAD (2013),[10] there have been several stylized facts about recent developments in FDI in a globalized world. First, FDI grew dramatically in the last 20 years, far outpacing the growth of international trade and income. The average growth rate of FDI is much greater than that of GDP in the world (16.9% and 6.6% in 1980s; 23.2% and 3.9% in 1990s; and 12.2% and 7.1% in 2004-2013). Inflows of FDI grew much faster than either international trade or income. Despite their rapid growth, FDI flows remain much smaller than trade flows.

Secondly, FDI originates predominantly from advanced countries. The predominant source of FDI is the advanced countries such as EU15 (including Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden, and United Kingdom), Iceland, Norway, Switzerland, Canada, the United States, Australia, New Zealand, and Japan. Among individual countries, the United States is the world's largest foreign investor, 24.1% of all outward stocks in 2013. The EU as a whole

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8 http://www.oecd.org/investment; accessed on November 24, 2013; Glossary of Foreign Direct Investment Terms and Definitions.

9 This threshold has been recommended by the International Monetary Fund (IMF).

10 United Nations Conference on Trade and Development (UNCTAD) has been publishing World Investment Report, an annual report focusing on trends in FDI worldwide at the regional and country levels and emerging measures to improve its contribution to development (http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/World_Investment_Report.aspx; Access on November 3, 2013). This annual report is an excellent reading material to understand recent trends in FDI and FDI-related policy issues.

accounted for 40.3% of all outward stocks in 2013, and its share has risen sharply partly because of the rise in intra-EU investments associated with deepening integration in EU following the creation of the Single Market in 1992. Notice that the EU's FDI is exaggerated relative to the U.S. FDI, as intra-U.S. investments are classified as domestic investments. In the developing world, only the Asian countries, especially China, Hong Kong, Taiwan, Korea, and Singapore, supply a significant share of world flows.

Thirdly, in the past, FDI went predominantly to advanced countries, but the share of developing countries has been rising and was over 50% in 2012. Most FDI inflows went to the advanced countries in the past since MNEs often seek large and growing markets. As for developing countries, the share of worldwide FDI received by the developing and transition economies jumped from 24.6% in the period of 1988-93 to 52% in 2012. These flows go overwhelmingly to Asia and Latin America, and China alone took around one-quarter of the total. The increase in FDI flows to developing countries reflects the growing importance of FDI as a source of financing of these economies.

Fourthly, Greenfield Investment has been a dominant type of FDI, while cross-border mergers and acquisitions (M&A) account for the increasing share of FDI flows, especially to high-income countries.[11]

Fifthly, most FDI flows are concentrated in skill- and technology-intensive industries. The most noticeable trend in the sectoral distribution of FDI stocks in the OECD countries is the increase in the share of services, mainly financial services, and the parallel decline of the primary sector. This trend reflects the overall shift of world GDP from the primary sector and agriculture towards services. Within manufacturing, the largest shares are in chemicals, electrical and electronic equipment, transport equipment, and so on.

Sixthly, MNEs are larger and sometime more productive than national firms.[12] MNEs are generally large companies compared with local firms, both in home and host countries. Foreign subsidiaries of MNEs are more productive than local companies. The home activities of MNEs are also more productive than those of national firms.

Seventhly, MNEs are increasingly engaged in international production networks, which mean that manufacturing processes are broken down into separate parts and spread across different countries before the finished product is assembled. According to WTO (2013), for an 'American' car, 37% of the production value is generated in the United States, implying that American carmakers have been globalized their production processes by producing parts and components in foreign countries and offshoring certain technical and administrative tasks such as customer services, back offices, information collecting and

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[11] The establishment of a foreign subsidiary may take place in one of two ways: either as a 'greenfield investment', where a new plant is set up from scratch, or as a merger with or acquisition of an existing firm (M&A). The majority of FDI takes place through M&A activity rather than through greenfield investment.

[12] After a pioneer work of Melitz (2003), there have been a lot of works done to prove this relationship between productivities of heterogeneous firms and their activities.

managing services, and so on.

2. Theories on Foreign Direct Investment and Multinational Enterprises

Motivations of FDI and MNEs

Then why do companies go multinational? This question is also compatible with questions about motivations of FDI because companies need to invest their money in foreign countries in order for them to go multinational. If an MNE is exactly identical to local companies in a foreign country, they will not find it profitable to enter the domestic market of the foreign country. After all, there are added costs of doing business in another country, including communications and transport cost, higher costs of stationing personnel abroad, barriers due to language, customs, and being outside the local business and government networks. Therefore, the MNE must arise due to the fact that it possesses some special advantage such as superior technology or lower costs due to scale economies.

A Tradition work to explain motivations of FDI was developed by Dunning (1977) establishing the so-called *OLI Framework*. The OLI Framework stands for Ownership, Location, and Internalization advantages. A firm's *Ownership Advantage* could be a product or a production process to which other firms do not have access, such as a patent, blueprint, or trade secret. Whatever its form the ownership advantage confers some valuable market power or cost advantage on the firm sufficient to outweigh the disadvantages of doing business abroad.

The foreign market must offer a *Location Advantage* that makes it profitable to produce the product in the foreign country rather than simply produce it at home and export it to the foreign market. Although tariffs, quotas, transport costs, and cheap factor prices are the most obvious sources of location advantages, factors such as access to customers can also be important. Many MNEs are in services industries, for example hotels, in which on-site provision of the services is an inherent part of the companies' business.

The MNE must have an *Internalization Advantage*. If a company has a proprietary product or production process and if, due to tariffs and transport costs, it is advantageous to produce the product abroad rather than export it, it is still not obvious that the company should set up a foreign subsidiary. Reasons for wishing to do business abroad are referred to as internalization advantages: the product of process is exploited internally within the firm than at arm's length through markets. International occurs because it is more profitable to conduct transactions and production within a single organization than in separate organizations.

In addition, there have been studies to explain motivations of FDI and MNEs over types of FDI: horizontal versus vertical FDI. Horizontal FDI implies that an MNE duplicates its home-country-based activities in a foreign (host) country through FDI, while vertical FDI means that an MNE moves upstream (backward) or downstream (forward) in a different stage of production networks. Markusen (1984) and Helpman (1984) established a general equilibrium model to explain these two different types of FDI. Markusen (1984) focused on horizontal FDI, explaining that MNEs have motivations to invest in host countries in order to jump over barriers to trade, the so-called *tariff-jumping FDI,* and to have better access to markets, the so-called *market-seeking FDI*. Helpman (1984), focusing on vertical FDI, explained that MNEs try to reduce production costs by establishing their foreign affiliates in host countries where they have natural resources, the so-called *resource-seeking FDI*, or cheaper production factors, the so-called *efficiency-seeking (or cost-reducing) FDI*.

Extension of Firm Heterogeneity to FDI Issues

As discussed previously, Melitz (2003) studied how heterogeneous firms in their technology levels perform in the domestic markets in the home country and in the exporting market, by building a theoretical model to endogenously determine the sales in the domestic market and export performance. Since Melitz (2003), more works have extended the model to one with FDI issues in order to build a theoretical model to explain motivations of FDI based on firm heterogeneity. Helpman, Melitz, and Yeaple (2004) theoretically showed that more productive firms establish their own affiliates in a larger number of host countries. Yeaple (2009) and Chen and Moore (2010) proved this theoretical prediction to be consistent with the actual data for U.S. and European MNEs, respectively.

Determinants of FDI

Since 2000s, there have been a lot of works to explain determinants of FDI and to empirically prove the theoretical backgrounds of FDI determinants. An interesting one was Belderbos and Sleuwaegen (1996), empirically analyzed Japanese firms and showed that the probability of foreign investments in advanced countries increases with (1) R&D intensity, (2) the relative importance of sales force and marketing advantages, and (3) the ability to transfer organizational and managerial skills to foreign affiliates.

Besides those firm-specific factors within MNEs, one can consider factors that MNEs cannot control: exchange rates, taxes of host countries, institutional issues, social infrastructure, and so on. Froot and Stein (1992), examining the connection between exchange rates and FDI, argued that under globally integrated capital markets, subject to information imperfections, external financing is more expensive than internal financing so that changes in wealth translate into changes in the demand for FDI, implying that a depreciation of the domestic currency can lead to foreign acquisitions of certain domestic assets. They also showed that there is a positive relationship between FDI inflows to the United States and a depreciation of US dollars. In addition, Grubert and Mutti (1991), Swenson (1994), and Kogut and Chang (1996) also showed that a short-term change in exchange rates will lead to an increase in FDI because MNEs have a strong motivation to internalize foreign subsidiaries through FDI when exchange rates fluctuate very widely.

The difference of the tax rates between the host and home countries is also an important determinant of FDI. While a higher tax rate in the host country will reduce FDI inflows, a higher tax rate in the home country would encourage MNEs to invest more in host countries. De Mooij and Ederveen (2003) summarized key results of empirical analyses on impacts of tax rates on FDI performance.

The institutional framework and social/political infrastructure in the host countries, especially developing countries, can also play an important role in determining FDI performance. Since corruption and poor institution in the host country generate unexpected extra costs of doing business for MNEs and raise uncertainty on expected profits from investment, MNEs would have difficulty in making FDI-related decisions. Even though institutional framework and social/political infrastructure in the host countries are key determinants, there has been less empirical work on this issue simply because it is relatively difficult to measure an individual country's institutional framework and social/political infrastructure. However, Wei (2000a, 2000b) showed that there is a negative relationship between FDI performance and corruption-related variables.

Protectionism, including high tariffs, is also a key FDI determinant. High barriers to trade would raise costs of exporting firms' products and hence those firms would better invest their money in the country with protectionism by establishing their own production facilities (the so-called *tariff-jumping FDI*). However, there have been mixed empirical results on the relationship between tariff rates in the host country and FDI inflows in that country. Small and medium-sized enterprises would not simply transfer their domestic production process to a foreign subsidiary because FDI itself is in needs of huge fixed costs to establish its own production platform in a foreign country.

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International Relations and International Organizations

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Abstract

This review article consists of two parts. The first part introduces major theoretical mechanisms that explain the outcome of international relations: realism, liberalism, and constructivism. In particular, the role of international organizations in determining the outcome is examined using three theories. The second part reviews international organizations in greater detail. As the number of international organizations increase, the literature of international organizations has been expanded. The article focuses on the most recent studies of international organizations from three perspectives: political outcomes, determinant factors, and institutional problems of international organizations. The literature in each category helps broaden our understanding of international organizations.

Keyword: *Realism, Liberalism, Constructivism, International organizations*

I. Theories of International Relations

In the first part, three most prominent theories, i.e., realism, liberalism, and constructivism, are explained focusing on their assumptions, main arguments and predictions, evidences, and their expectations for the role of international organizations.

1. Realism

Realism is a theory that analyses all international relations as power driven. This school of thought argues that all states engage with each other in the pursuit of power. The contemporary theory of realism that abounded after the WWII is rooted in an older thought; those that originate from famous characters such as Thucydides, Machiavelli, Hobbes, and Rousseau. Today various fields including the field of international relations embrace this theory.

The main idea of this theory is that states, in the realm of international politics, should behave in such a way that pursues and ensures the security of the state. The doctrine of *raison d'état*, or *reason of state*, explains this idea of national interest and is the fundamental principle of international conduct, the state's "First Law of Motion". The state, which should

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always pursue power, is the key actor in international politics, and should always rationally decide the best way to survive in a threatening environment. (Baylis and Smith 2011) It is also important that states do not adhere to a notion of "ethical" behavior; realism does not believe in the idea of a universal moral principle, so it believes that states should not sacrifice their own self-interest in pursuit of it.

The three core elements that define this school of thought are statism, survival, and self-help. Statism is the idea that the state is the main actor and this state should keep itself sovereign. Sovereignty means that "the state has supreme authority to make and enforce laws, this is the basis of the unwritten contract between individuals and the state." (Baylis and Smith 2011) In realism this concept of sovereignty is directly associated with the use of force; realists believe that war is a rational tool used when it is the state is in need of security and survival. This leads us to the second principle of realism, which is the pre-eminent goal of all international politics, survival. States react to activities that may threat the survival and security of its own. Finally, realism is based on the idea of self-help; security is only realized through self-help, meaning hat no other state or institution can be relied upon to guarantee survival. (Baylis and Smith 2011)

Kenneth Waltz, a pre-eminent scholar and a major defensive realist, through his work "Man the State and War" (1959) has presented his ideas on the causes of war or international conflicts. He is described as a defensive realist because he believed that the pursuit of hegemony is unwise, if a state tries to maximize the share of world power, the system will rebuke them. (Mearsheimer 2006) As of the causes of war, first, he suggests that war is caused by "the evilness of men, or their improper behavior" (Waltz 1959), so human nature. Second, Waltz proposes that the inner association of the state unit is crucial in understanding the state's affinity towards war. Thirdly, Waltz believed that the causes of war could be ultimately traced to the anarchic character of international relations. So, when states have overlapping interests, the propensity of towards war will increase.

On the other hand, an offensive realist—John Mearsheimer (1979)—believes that it is the accumulation of power and if necessary, the pursuit of hegemony, that will ensure the survival of a state. According to Mearsheimer, status quo power does not exist; a great power that has advantage over its rivals will behave more aggressively because it can do so. "The best way to ensure security is to achieve hegemony now, thus eliminating any possibility of a challenge by another great power." (J. Mearsheimer 2001) However, Mearsheimer does not believe in global hegemony, but in regional hegemony; and when a state achieves this, will be able to interfere in other regions.

Realists have a strong negative opinion towards international organizations. They believe that the existence of an overarching power over the behavior of states is unreal. There is no single body that can act as a referee; they simply do not have the power to do so, since their existence depends on the states itself. IOs aren't able to fulfill the hopes that are invested in them. "International organizations will never be more than a reflection of the distribution of power in the international system". (Meierhenrich 2012) The little meaning in them is that states use IOs as an instrument for their own advantage.

2. Liberalism

Liberalism is an alternative perspective of realism. In realism, an accomplishment of a state comes at the expense of another, so the relationship between states is seen as a zero-sum game. Liberalism on the other hand, says that a state accomplishes not at the expense of others. This school of thought views positively on human nature, it believes that people can be good, and therefore are able to create collaboration with each other. Liberalism and realism come and go throughout history, while realism had a strong influence before the twentieth century; liberal thinking was dominant after the First World War. However this insurgence was extinguished with the coming of the cold war. Again in the 1990s, liberalism reemerged in the Western states, but after the happenings of 9/11 realist ideas have taken the lead again.

Liberals contend that power issues itself is the result of ideas, and ideas can change. So, regardless of the unfriendliness towards liberalism, this does not imply that it can't be re-made in its picture. Liberals believe in three reasons for conflict and peace. First, the idea that democratic states do not go into war with each other because it assumes that democracy will reduce war—the democratic peace theory. It says that the undemocratic nature of international politics, specially foreign policy and the balance of power are causes of conflict. National self-determination, collective security, and open governments responsive to public opinion are viewed as determinants of peace. (Baylis and Smith 2011)

Second, liberals believe that if a state is interconnected with another state, economically and politically, there is less probability that they will go into war with each other. It says that interventions by governments domestically and internationally disturb the natural order. Individual liberty, free trade, prosperity and interdependence will bring peace among states. Finally, contrary to realists, this school of thought suggests that a world government with powers to mediate and enforce decisions will bring peace, since fallacies in the balance of power system are the causes of conflict between states. It says that International Governmental Organizations, such as the United Nations, are important middle players for states to come to agreements without war. (Baylis and Smith 2011) For liberals, international cooperation is key for peace making and it is in the interest of all; IOs are bridges to help promote trust among states and ultimately stipulate trust for cooperation.

Liberalism was first developed out of the Enlightenment period and is mostly demonstrated through the works of Kant, Bentham and Locke. Kant, a widely known German philosopher and a major liberal scholar, searched for a path out of what he named "the lawless state of savagery" in foreign relations suggesting a theory called "perpetual peace". Kant's path to achieve perpetual place was based on three principles. First, he declared that the civil constitution of every state should be republican. He also said that perpetual peace would be accomplished through a federation of free states and a universal humanity. (Kant 2011) These were considered the basis of liberalism and were later on further developed by many other scholars.

President Woodrow Wilson is also famous for his support for liberalist beliefs. Woodrow Wilson believed in the right to self-determination and pushed for the formation of the League of Nations. In December 1917, he announced 14 points that would bring a "just and secure peace” and not merely “a new balance of power”. He called for peace of reconciliation, based on democracy, self-determination, without annexations and indemnities, and a postwar League of Nations. Eight of the fourteen points treated specific territorial issues and five concerned general principles for a peaceful world.

3. Constructivism

Previous theories, realism and liberalism, claim that decision-making—states, leaders, and other actors—is rational. This was the view up to the early 1990s until the end of the cold war. The cold war challenged the already existing theories and dared scholars for a new justification for international relations. With sociology and anthropology taking great part of international relations during the 1980s and 1990s, this brought up what is called the theory of social constructivism. This theory suggested that humans don’t just act out of rational choices, but are also influenced by social settings, which eventually affect our decision-making. Constructivism says that significant aspects of international relations are historically and socially constructed, rather than being inevitable consequences of human nature or other essential characteristics of world politics. This school of thought also believes that the identity of an entity is constructed by social interactions.

Constructivism in international politics is based on ideas and human consciousness; stresses a holistic and idealist view of structures; and “how the structure constructs the actor’s identities and interests, how their interaction is organized and constrained by that structure, and how their very interaction serves to either reproduce or transform that structure” (Baylis and Smith 2011). In contrast to realism and liberalism, constructivism explains all wars by referring to their distinctive identity and characteristics.

Many scholars have rooted to this theory; a prominent advocate of constructivism is Alexander Wendt through his work “Social Theory of International Politics” (1999) followed by this later article “Anarchy is What States Make of It: the Social Construction of Power Politics” (1992). His first writing suggests that the role of shared ideas and norms define a state’s behavior; Wendt also highlights the significance of shared values and norms in international relations rather than individualistic and materialistic reasons for state behaviors. Wendt argues that both realist and liberal institutionalisms fail to commit to its original purpose, but fall into a form of materialism. He says that all concepts used by both theories are also socially constructed—meaning that they transform through human behavior. An example of a constructivist view is that an adversary state to the United States will be more concerned for an increase of U.S. military power than a close ally of the U.S., this means that international relations are influenced by perceptions. Wendt believes that an “anarchy is what states make of it” (Wendt 1992)

Unlike realists, constructivists have a relatively positive view on international organizations. They believe states can learn from other states through organizations. IOs can act as a common ground through which states are able to unite or socialize with other states and to receive new values and norms. (Finnemore 1996) They understand world politics concentrating on the role of ideas and interests as determinants of the interaction of states

"Constructivists seek to identify the social norms and shared identities that are developed and disseminated by international organizations" (Pease 2012)

II. Growing and Deepening: The Recent Development of International Organization

1. Introduction

For the last several decades, the world has witnessed the growing number of international organizations. With this phenomenon, the literature of international organization is also being deepening. The power, importance, and influence of international organizations have been scrutinized. Sheer volume of scholarly literature of international relations has focused on the descriptions and explanations of international organizations. In addition, international institutions have been a main target of important theoretical debates in the study of international relations (Duffield, 2007).

In this paper, we review the recent literature on international organizations and find out that it can be organized into three categories: political outcomes, determinant factors, and institutional problems of international organizations. These are not very distinct from the classical literature of international organizations. Nonetheless, we think it interesting that scholars now consider international organizations as an important actor as states. In addition, we find out that scholars have used diverse methodologies to test their hypotheses on international organizations including case studies (Cole, 2013; Shany, 2012; Goodliffe, 2012; He and Murphy, 2007), game-theoretic models (Fang, 2008; Stasavage, 2004), and quantitative methods (Daxecker, 2012; Greenhill, 2012; McLean, 2012; Poast, 2012; Bearce and Bondanella, 2007).

Despite the varieties of approaches, it is clear that statistical methods are dominant to study international organizations. The use of statistical methods is due to the development of data sets and the growing populations of international organizations. As Wallace and Singer (1970) began to collect the data set regarding international organizations, their data set now covers the period of 1815-2005. In addition, the Union of International Associations provide the comprehensive data set covering most of international organizations in the world including non-governmental organizations.[2] We cover the most recent literature of international organizations into three different categories from the next section.

2. Recent Development of International Organization

As mentioned, the recent literature on international organizations can be roughly classified into three categories: political outcomes, determinant factors, and institutional problems of international organizations. First, numerous scholarly works concentrate on the

[2] See its website (http://www.uia.org/).

political consequences of international organizations (Cole, 2013; Hultman, Kathman, and Shannon, 2013; Daxecker, 2012; Carpenter, 2011; Metternich, 2011; Greenhill, 2010; Keohane, 2009; Fang, 2008; Bearce and Bondanella, 2007; Santa-Cruz, 2005). Their research concerns are basically examining the success and failure of original purpose of international organizations, which varies from peacekeeping to election monitoring. In some cases, scholars explore the effects of international cooperation beyond the primary aims of each international organization. Based on these observations, scholars investigate why and how the political consequences are resulted in.

Regarding the first-hand object of a specific international organizations, Hultman, Kathman, and Shannon (2013) focuses on the peacekeeping activities of United Nations (UN), and argues that it is well-functioning when it comes to protect civilians in civil war. Their evaluation on the operations of UN is fairly positive. In case of election monitoring conducted by international organizations, there are two different perspectives on the assessment of its result. While Santa-Cruz (2005) focuses on the bright side of redefined sovereignty, Daxecker (2012) claims its negative influences such as post-election violence in Africa. In addition to peacekeeping and election monitoring, international organizations' activities on human rights issues are very actively studied. Cole (2013) analyzes the case of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), and insists that CEDAW has strong positive influence on political rights of women. Nonetheless it has no effect on economic rights, and a negative effect on social rights to the some extent. Lupu (2013b) also shows that CEDAW has positive effect on women's rights, but the Convention against Torture (CAT) and the International Covenant on Civil and Political Rights (ICCPR) have not had significantly affected human rights positively, by adopting a new method of combining ideal-point estimation and propensity-score matching that can address selection effect. Lupu (2013a) also finds that ICCPR has dramatically promoted freedoms of speech, assembly, association, and religion, but has no impact on personal integrity rights, because of the important role of information in domestic judicial enforcement.

As briefly mentioned above, scholars are interested in political outcomes of international organizations beyond their own mandate. It implies that membership in international organizations promotes normative and constrictive ideas among states which leads to the positive influence or development of norm within countries. For example, Greenhill (2010) argues that membership in international organizations that has nothing to do with human rights issues tend to have positive influence on member state's human rights conditions. The logical analysis behind his argument depends on the constructivist concept of socialization effect. He believes that international organizations tend to play crucial role in promoting democracy and are able to bring interests convergence among member states. Similarly, from the perspective of constructivism, Bearce (2007) focuses on the institutional socialization process, arguing that international organizations, especially intergovernmental ones, contribute to the convergence of member states' interest.

International organizations can also influence domestic politics. Fang (2008) argues that international organizations can shape the behaviors of political leaders with their influence on domestic politics. On the other hand, Koehane (2009) focuses on the political results of democracy. His main question is quite simple, but important: what is the impact of international organizations in terms of domestic democracy? Is it negative or positive? The answer is that multilateral organizations improve national democratic procedure, which is contrary to the conventional wisdom that international organizations undermine democracy. Since multinational institutions limit the power of special interest groups, protect individual freedom and rights, improve the value of democratic deliberation, and enhance capabilities to accomplish important civic goals, he argues that international organizations are helpful for domestic democracy.

Second, recent literature focus on dynamics that have an impact on organizations (Poast and Urpelainen, 2013; Ronit and Schneider, 2013; Goodliffe et al., 2012; McLean, 2012; Towns, 2012; Goodliffe and Hawkins, 2009; He and Murphy, 2007; Thakur, 2006; Foot et al., 2003). Their main question is about the main factors that possibly determine the formation and development of international organizations. Conventionally, it is widely accepted that hegemonic powers play crucial role in multinational institutions. In line with this realistic point of view, Foot, MacFarlane, and Mastanduno (2003) analyze the relationship between the hegemony of the United States and international organizations. They show that the United States is not stimulating the formation of international organizations any more, but it is still a very important factor to understand international institutions. Thakur (2006) also considers the tension between the US and the UN, while examining the case of transformation in UN focusing on its role and structure for preventing humanitarian violence.

With these kinds of literature, new perspective on international organizations regarding new actors has emerged. In other words, literature focusing on the role of the underdeveloped countries and non-governmental organizations are recently increasing. For example, Poast and Urpelainen (2013) have interesting findings that democratizing states create new international organizations rather than joining existing ones, in order to achieve their own policy goals that are substantively different from established democracies' agendas. It is arguable whether their emphasis on these new actors and innovative trends of international relations is reflecting reality because the power of these democratizing or developing countries is still limited and their voices tend to be ignored in the major international organizations.

Another study regarding the role of non-state actors' contribution to the field of international organizations by He and Murphy (2007) is worth attention. It shows that non-governmental organizations have influenced international economic contracts by providing information. Ronit and Schneider (2013) also insist that private organizations that represent diverse interests are crucial in global political arena. The emergence of these non-governmental organizations make it possible for powerless states or even people to set up their agendas and spread their voices in the international arenas. At the same time, non-governmental organizations function like a bridge to connect between more powerful and powerless states by providing information (Murdie and Peksen 2013).

In addition, there are studies explaining the reason why states participate into the strongly self-restraining international institutions. From the rationalist point of view, Goodliffe (2009) argues that trade network played a significant role to strengthen international organization by explaining negotiation process to create International Criminal

Court (ICC). The theory is developed in his next research that seeks to answer a question of why governments join the ICC and constrain themselves to enforce human rights (Goodliffe, Hawkins, Horne, and Nielson, 2012). They claim a state's dependent network that comprises a set of other countries controlling resources the state values has significant influence on the decisions of states to sign and ratify the ICC. McLean (2012) also argues that member states' preferences affect policies of international development agencies. When providing development assistance, donor states provide more autonomy to international organizations if the member states have similar foreign policy preference with international organizations. Her theory is articulated by using the rational speculations.

Third, institutional problems such as democratic deficit and accountability within the international organizations are constantly raised by scholars (Grigorescu, 2007; Hawkins, Lake, Nielson, and Tierney, 2006; Zweifel, 2005; Stasavage, 2004). As representatives of international institutions are not democratically, or directly, elected by citizens of every country, many international organizations suffer from problems like technocratic decision making, insufficient accountability and transparency. These problems are closely related to the issue of legitimacy, from the birth of the international organizations. Stasavage (2004) also investigates the transparency in the operations of international organizations. In order to examine his question whether it is desirable to have transparency in domestic and international bargaining, he develops a game-theoretic model to examine. He also finds historical evidence from eighteenth-century debates and the recent case of European Council Ministers to support his argument that transparency has clear benefits. It is believed that his empirical research contributes to the normative notion that transparency is necessary.

Zweifel (2006) also tries to examine whether international organizations embodies the interest of humanity as a whole or they are just vehicles for the hegemonic states. While covering both global and regional organizations such as the UN, the World Bank, the WTO, EU, NAFTA, NATO, and the AU, he suggests that democratic principles should function at the international level by combining democratic theory and international relations.

Beyond the normative insights, Grigorescu (2007) focuses on the transparency issue by providing an empirical study on the characteristics of international organizations that tend to be more transparent. The study utilizes an analogy of domestic politics to investigate global dimension, and shows the important roles of member states, bureaucracies of international organizations, and international non-governmental organizations. A book edited by Hawkins, Lake, Nielson, and Tierney (2006) also deals delegation and agency issues in international organizations by using principal-agent (P-A) theory. It adopts and extends P-A theory to explore cases of International Monetary Fund, the World Health Organization, the Commission and Court under the European Convention on Human Rights, and so on. Their analyses demonstrate that P-A theory, originally explaining domestic phenomena, can be applied to wide range of international aspects regarding delegation problem. In other words, agents are actually seeking their own interests that are contrary to the principals' objectives. It can happen in international organizations because of difficulty of monitoring agent autonomy, which in turn makes authors to conclude the book with the importance of information provision.

3. Conclusion

The world has overcome two great wars. The lessons we learned from these conflicts are to prevent the conflict through the power of institution, e.g. international organizations. Setting aside the debate about its effectiveness, the United Nations has been successful to address the conflict among countries and to provide services for poor people. In addition, the European Union is moving toward more institutionalized organizations to integrate the used-be world's most conflictual area. This success of international organizations has promoted the growing number of international organizations, and these phenomena will continue in the future. Scholars also follow this development of international organizations and deepen their studies to understand the behaviors and importance of international organizations. As we cover the most recent literature in the study of international organizations, we hope to contribute to the further development in international organization literature.

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Issues in Economic Development:
Trade, Urban Development & Foreign Aid

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Abstract

Part I surveys the empirical evidence on the relationship between trade and economic development. It further gives an outlook of future opportunities and threats for developing countries trying to instrumentalize trade for their development. It is commonly found that openness to trade spurs economic growth and development. This becomes most obvious when comparing success and failure of the two most prominent industrialization strategies of the 20th century, import substitution and export orientation. Furthermore, it is identified that there are regional differences in current development strategies, with Asian countries focusing on manufacturing exports and African and Latin American countries findings themselves back in the role of the natural resource suppliers. Part II introduces three ways in which the contemporary literature on urban development relates to processes of globalization. It first introduces the current debate over the ontological significance of defining the urban and rural as territorial containers rather than processes. Second, this paper summarizes the renewed salience of regional economies under globalization as entrepreneurial actors competing on the basis of untraded interdependencies. Finally, it highlights three fundamental approaches to addressing the need for research on the international diffusion of urban policy, practice, and theory, particularly in non-Western contexts. Part III deals with African development and foreign aid. African countries have been receiving various forms of foreign aid since their independence in the middle of 20th century, however, many are still heavily dependent upon foreign aid. Hence, the efficiency of foreign aid rendered to Africa has been on many intense debates. Regardless of the ongoing debates on aid effectiveness, optimistic views on aid argues that aid does have positive impacts on the country's socio-economic indicators as it brings resources in various forms to the recipient country. This paper looks into the evidence of foreign aid and critically discusses the effectiveness of aid and ways of increase the efficiency to promote successful development in Africa.

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I. Trade and Economic Development[RR1]

1. Lessons learnt from the 20th century

At the beginning of the 21st century, openness to trade has been commonly identified as a major contributor to economic growth and development. This consensus, however, has not always been in place in the past. Considering the opposite of openness, historically a number of countries have tried to decouple from global markets and be self-sufficient. During the 20th century, such attempts were often motivated by the Prebisch-Singer hypothesis that had identified a secular relative deterioration in the prices of primary commodities, the major export goods of many developing countries. In combination with the dependency theory popular among developing countries in the midst of the 20th century, this finding led many countries to adopt the so-called *import-substitution industrialization* (ISI) strategy. The belief was that only by industrializing poor countries would be able to reap equal benefits from the world trading system in the long run. Following ISI, countries often applied effective protection rates of above 100 percent, effectively shutting down their markets to manufacture imports in order to stimulate domestic industrial activity. In particular many Latin American countries followed the ISI strategy (Gereffi and Wyman, forthcoming).

The need to industrialize to achieve economic development was also noticed by another group of developing countries, not eager to follow ISI. This group of countries, mainly located in East Asia, embarked on the strategy of *export-oriented industrialization* (EOI) which would lead them to unprecedented catch-up and the East Asian economic miracle. Following the Japanese example, the four Asian Tigers (South Korea, Hong Kong, Taiwan, and Singapore) developed their economies using a '*comparative advantage following*' (CAF) strategy coupled with smart trade policies (Chandra et al., 2012). All four tiger economies were constraint by limited domestic market size and a lack of natural resources. Thus, focusing on human capital development and the world market not only allowed the import of new technologies and a more efficient allocation of resources based on comparative advantage, but also to exploit enormous economies of scale and to import physical capital.

What has been the major proximate channel of growth in East Asia, factor accumulation or productivity growth? Indeed, it remains an open debate until today whether the Asian miracle should be called a 'miracle' after all, i.e. whether it was indeed mainly about improvements in technology and efficiency. Krugman (1994) was one of the first to argue that the Asian miracle is a myth. According to him, if most of the tiger economies' growth could be explain by well-understood channels of factor accumulation, there would be no miracle. Young (1995), based on conventional growth accounting and applying a Solow growth framework concluded that much of the East Asian growth spurt was due to the accumulation of human and physical capital rather than TFP growth. Chen (1997) criticizes these early studies and argues that the results depend a lot on how TFP is defined. He adds that conclusions drawn by Young and Krugman depend too much upon the assumption that all technological change is TFP. Nelson and Pack (1999) argue that Young-type studies ignore the dynamics of shifts in size of firms and sectors of specialization and would therefore tend to underestimate productivity growth. Ang and Madsen (2011), using a second-generation endogenous growth model, argue that R&D has played a key role for growth in the Asian miracle economies.

While ISI countries recorded remarkable growth rates between the 1950s and 1970s, this would not have been possible without piling up huge amounts of debt necessary to finance the import of capital goods most countries were not able to successfully substitute. Large structural fiscal and current account deficits, as well as hyperinflation in many ISI economies eventually led to a major crisis of the import substitution model in the 1980s (Edwards, 1993). The necessary restructuring, often assisted by the IMF and the World Bank, triggered a lost decade of economic stagnation. Industries developed over decades behind high tariff walls lacked competitiveness and had become a stumbling stone for economic development. Thus, by the beginning of the 1990s most developing countries had returned to an export-oriented growth model. Wacziarg and Welch (2008) show that while in 1985 less than 30 percent of all countries were open to trade, this number increased to almost 70 percent in 1995.

Sachs et al. (1995) were among the first to comprehensively study the empirical relationship between trade openness and economic growth. They show that countries always open during the period 1970-89 experienced significantly higher rates of per-capita GDP growth when compared to a group of closed economies. In addition, the findings indicate that the group of open economies displayed a strong tendency toward economic convergence, i.e. initially poorer countries showed faster growth rates. The authors further identify a positive correlation between openness and the overall investment rate. Moreover, they find closed economies in the 1970s to have had a higher risk of macroeconomic crisis in the 1980s. Finally, Sachs et al. show that transition economies of Eastern Europe and Central Asia experienced strong economic downturns between 1989 and 1994. While those still closed in 1994 continued to experience negative growth, economies reformed already by 1993 were all experiencing moderate positive growth in 1994.

While Sachs et al.'s results present a landmark in the literature on trade and growth, they were only able to identify correlation, not causation. Thus the question remains, is it that openness leads to economic growth or might it just be the case that the fittest economies (with the highest growth prospects) self-select into the arena of international trade? While probably both hypotheses are valid, policy makers are mainly interested to know if and to what extent the former channel applies. Frankel and Romer (1999) address the problem of reverse causality by employing an instrumental variables (IV) approach. The authors use countries' geographic characteristics (e.g. size and distance from trading partners) to obtain IV estimates of the effect of trade on income. The findings provide no evidence of bias in OLS estimates. Further, results suggest that trade has a quantitatively large and robust, yet only moderately statistically significant, positive effect on GDP.

Wacziarg and Welch (2008) extend the Sachs et al. study to the 1990s. Controlling for country fixed effects, they find that economies liberalizing their trade regimes during the 1950-98 period experienced a rise in average annual growth rates of approximately 1.5 percentage points compared to before liberalization. In addition, liberalized economies' investment rates increased by 1.5-2.0 percentage points, confirming that one of the channels through which openness affects growth is indeed through increased physical capital accumulation.

Additional evidence in favor of a positive effect of trade on growth can be inferred from countries' geographical barriers to trade. Having access to the sea or to a navigable river that leads to the sea has been found to be a major determinant of countries' economic growth (Sachs and Warner, 1997a). This is because landlocked countries as well as countries further away from global economic centers are known to face substantially higher transport costs (Limao and Venables, 2001). The prevalence of geographical barriers further varies across world regions. While the fraction of landlocked countries is zero in the group of fast-growing Asian economies, it is 11 percent among all developing economies and as high as 33 percent among African economies (Sachs and Warner, 1997b).

2. Trade for development in the 21st century: Opportunities and Threats

The liberalization reforms during the 1980s and 1990s present both chances and challenges for the developing world. On the one hand, the most efficient and geographically well-located economies are likely to be able to further industrialize and create valuable employment and skills. On the other hand, for many developing countries structural adjustment in the 1980s and 1990s resulted in deindustrialization and re-primarization of exports (Stein, 1992). Particularly Latin American and African manufactures are threatened by increasingly fierce competition from Asian (and here especially Chinese) manufactures in both their home and export markets (Mesquita Moreira, 2007; Jenkins and Barbosa, 2012).

While Latin American manufacturing exporters are having a hard time competing with Chinese firms, the mostly resource-rich region is currently experiencing a boom in natural resource exports to China. As an example, exports from Brazil to China have increased from about US$ 2 billion in 2000 to 30 billion in 2010. While Brazils manufacturing trade deficit with China has grown to US$ 20 billion in 2010, in the overall bilateral trade balance Brazil still keeps a slight surplus as of 2010 (Jenkins and Barbosa, 2012).

Firms in sub-Saharan Africa, on the other hand, should in theory be able to undercut Asian economies in terms of production cost in light manufacturing. For example, an unskilled worker in the leather industry in Ethiopia is paid US$ 16-33 a month, while the same worker in China already earns US$ 237-488 and in Vietnam US$ 78-93 (Dinh et al., 2012). In the production of polo shirts, an unskilled worker in China is getting paid about three times the wage of a Vietnamese and Tanzanian worker, and about seven times the wage of an Ethiopian worker. Despite the labor cost advantage, average overall production cost in African countries very often exceed Chinese production cost since African countries often face higher input cost, higher trade cost, and lower productivity.

For countries to build up a competitive manufacturing sector, it is therefore not sufficient to have achieved macroeconomic and political stability, which many less developed countries in Africa and Latin America have done remarkable progress in over the past two decades. What is needed in addition is a vibrant and competitive business environment which stimulates rather than over-regulates business activity and provides adequate infrastructure. The World Bank's Doing Business reports published since 2003 have helped a great deal in understanding country-specific constraints to doing business around the world (World Bank, 2013). Indicators measure both complexity and cost of regulatory processes as well as the strength of legal institutions. International rankings further allow countries to identify their strengths and weaknesses, have led to a race to the top, and have helped stimulate business-related reforms since.

Chandra et al. (2012) point out that industrial upgrading has increased wages and is causing China to graduate from labor-intensive to more capital- and technology-intensive industries. China has currently between 85 and 100 million workers in manufacturing, most of which in labor-intensive industries. This offers an unprecedented opportunity to low-income sub-Saharan African economies to start a phase of labor-intensive industrialization. While all low-income countries will compete for job spillovers from China, the winners must implement credible economic development strategies consistent with their comparative advantages.

In a similar fashion the WTO and the OECD started the Aid-for-Trade (AfT) Initiative in 2005. The aim is to raise awareness among policy makers about the positive role that trade can play in economic development and to direct more aid into trade facilitation projects in order to connect developing countries to global value chains. In short, the goal is to reduce trade costs for both exports and imports, one of the major constraints for developing economies. In fact, as shown earlier by Bloom et al. (1998), transportation costs of imports as a fraction of total import value was only 3.6% in the U.S. and 4.9% in Western Europe, while it amounted to 19.5% in sub-Saharan Africa. The major focus of AfT lies on improving economic infrastructure (roads, ports, customs and border-related infrastructure) and helping countries to build productive capacity (OECD/WTO 2013). Vijil and Wagner (2012) provide evidence that infrastructure AfT indeed enhances countries' export performance.

With the global commodity price boom during the 2000s many developing countries have returned to traditional development patterns based on primary exports. In fact, latest developments seem to indicate that the recent "Africa rising" is not a development story in its usual sense, i.e. a structural change driven by a growing industry sector. Most African countries have experienced recent economic growth in the face of a shrinking industry share in GDP. A strong reliance on natural resources exports is known to come with a number of potential risks and pitfalls. While it can be a blessing for some countries able to well manage those risks (e.g. Norway, Chile, Canada), there are numerous historical cases where it presented and still presents an obstacle to genuine development. Those pitfalls are usually addressed as the "Natural Resource Curse" and include long-term trends in world prices, price volatility, crowding out of manufacturing, autocratic/oligarchic institutions, anarchic institutions, and cyclical Dutch Disease. Frankel (2012) presents a list of best practices of how to address these pitfalls with a set of proper policies. The likelihood of success will highly depend on the quality of institutions in a given country.

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II. Urban Issues in a Globalizing World

1. Introduction

The urban, as a dense network of material and conceptual flows, is an all-encompassing field of study, incorporating economics, social relations, housing, production, culture, food systems, and on and on. One can easily ask, "What is not urban?" And, indeed, after the United Nations announced in 2006 that the world is now more urban than rural, leading various institutions to claim that humanity has entered the Urban Age, contention over what constitutes the urban has reemerged. The rapid contemporary urbanization that has led to this major demographic transition constitutes one facet of globalization. Globalization has also driven two other areas of scholarly interest in recent years. The first is a new emphasis on cities as the appropriate scale for organizing capitalist competition. The second is a growing interest in the diffusion of planning theories and practices at both the national and international levels. This brief piece will briefly explain the emergence and content of these three areas of contemporary scholarly interest.

2. Planetary Urbanism

The United Nations Human Settlements Programme (UN-HABITAT) has declared that in 2006 the world's urban population exceeded its rural population. That is, for the first time in history, more than fifty percent of the world's population lives in cities (UN-HABITAT, 2008). And the transformation is indeed miraculous. From a mere ten percent of the world's population in 1900, the percent of urban dwellers passed 50 percent in 2006 and is expected to reach the developed country average of 75 percent in 2050 (Burdett and Rode, 2007). The London School of Economics and Political Science with support from the Deutsche Bank has adopted this statistical claim that we now live in an urban world and initiated a research program entitled "The Urban Age Programme". The notion that we have entered an Urban Age has been widely adopted as both a rhetorical device and a policy framing discourse by authors as diverse as (Davis, 2004) and McKinsey (McKinsey Global Institute, 2011).

This notion has been called into question as "empirically untenable" and "theoretically incoherent" by Brenner and Schmid (2013, p. 4). In the first case, they argue that the number of urban dwellers is a "statistical artifact" borne of the post-World War II drive to measure urbanization. This critique is based on two concerns. The first of these is a long standing issue well known to urban planners and geographers: there is no definitive way to determine where cities end and countrysides begin. Researchers have experimented with many variables and combinations of variables, including population density, total population, commuting sheds, and contiguity. But these attempts ultimately and inevitably fail, making the distinction meaningful only for policy applications and even then entailing arbitrary geographical bounding. The second concern is that both definitions of urban and data quality on human settlements vary from country to country. This leads equivalent settlements to be included as urban in one country but not another. As a consequence, one cannot determine the precise number of urban dwellers nor the point at which the world population became more urban than rural.

This first critique would be fairly trivial if it was not indicative of the theoretical incoherence of the attempt to territorially divide the world into clear spatial envelopes on the basis of concentration. Building on earlier work by Wirth (1969) and Castells (1977), Brenner and Schmid argue that rather than considering the sociospatial fluidity of urban ways of life (cf. Deleuze and Guattari, 1987; Graham and Healey, 1999), the urban age approach ontologically fixes the character of the urban and the rural, leading to anemic analyses of sociospatial processes. In practice, this leads the rural to be treated by urban age theorists as essentially black boxes indistinguishable from place to place, while the urban is used to define so many aspects of sociospatial reproduction that the notion becomes effectively empty. Following this critique, they join with Merrifield (2012) under the rubric of planetary urbanism in reprising Lefebvre (2003)'s claim that the so-called rural is incorporated into the so-called urban through the flows of people, capital, and goods that circulate between them. To overcome this theoretical incoherence, Brenner and Schmid (2013) argue that analyses of the urban must identify concrete processes and examine their sociospatial instantiations.

It may be suggested, however, that the planetary urbanists' critique of the universalizing ontological character of separating the urban and the rural may also be turned back on it. These researchers start from an understanding of Western processes of urbanization and implicitly extend this understanding to characterize urban processes all over the globe (Merrifield, 2012). To the extent that all urban processes have been incorporated into Western capitalist production (see the next section), this may be an accurate supposition. However, though incorporating non-Western urban practices is not incompatible with the planetary urbanism approach, the application of Western analytical frameworks to the rest of the world suppresses the significance of non-Western urban processes and arguably places them in a "black box" outside of Western urban processes, leading again to weaker analyses.

3. Regional world

Even as globalization has integrated the planet into a single urban system, it has generated a renewed focus on cities and regions as engines of economic growth. As production networks expanded from their national bases to span the globe through off-shoring and outsourcing, some pundits pronounced that the economic playing field had been leveled, that the world had become, in effect, flat (Friedman, 2005) as opposed to "spiky" (Florida, 2005). However, responding to the globalization of large, footloose transnational corporations, some scholars "rediscovered" the importance of locational proximity for economic development (Whitford and Potter, 2007; Zeitlin, 2005). This research was initiated in the early 1980s by highlighting the resilience of industrial districts (e.g., Becattini, 1990; Brusco, 1982; Piore and C. F. Sabel, 1984; C. F. Sabel, 1982) and reviving interest in

Marshall's work on external economies and "industrial atmosphere" (cf. Marshall, 1890; Piore, 1992). Initially the province of urban planners, geographers, and economic sociologists, the relevance of local proximity eventually found its way into economics (Krugman, 1991), business (Porter, 1990), and other disciplines. This research has been examining both why cities and regions matter and how they have been reconstructed politically.

One of the primary explanations of the ongoing traction of localities vis-à-vis footloose capital lies the notion of "untraded interdepencies", those social relations that cannot be transfered to another geographic location (Storper, 1995). This view suggests that non-market factors contribute to the collective evolution of an industrial cluster through learning (Scott, 2001), and can be broken down into three primary categories: knowledge networking, governance, and access to amenities (Powers, 2013). Knowledge networking consists of the means through which information and tacit knowledge (Nelson and Winter, 1982) is transferred and developed and has been described as the "buzz" of a place (Malmberg and Maskell, 2006). Due to the locational proximity of firms or workers, knowledge can be transferred more readily through more frequent encounters and interaction (C. Sabel, 1994; Saxenian, 1996). Knowledge transfer and collective action can also be facilitated through quality regional governance (Crouch et al., 2001; Crouch et al., 2004; Meyer-Stamer, Maggi, and Seibel, 2004). Finally, access to amenities, like parks, entertainment, and climate can attract talented workers, which is of particular importance for knowledge-based industries (Amin and Thrift, 1992; Clark et al., 2002; Florida, 2002).

While there appears to be a fundamental urban or regional basis for economic production, this role has been seized upon by many governments and used to justify decentralization, inter-urban competition, and uneven infrastructure investment, contributing to the so-called weakening of the nation-state under globalization. Indeed, some writers contend that the "rediscovery" of regional economies was driven by the needs of large corporations in the 1970s and 1980s, who wanted to reduce production costs by escaping national-level regulations and placing localities into competition with one another (Amin and Robins, 1990). Brenner (2004) describes this as a shift from post-World War II "spatial Keynesianism", which relied on demand-led growth and national policies of spatially redistributing production throughout the national territory, to a "post-Keynesian competition state", which places the burden of economic growth and welfare on individual regions, leading to uneven urban development, the rise of "global cities" like Tokyo, and the abandonment of cities like Detroit (cf. Sassen, 2002; Thomas, 2007).

4. Diffusion of urban policy, practice and theory

As cities and regions have been simultaneously placed into competition with each other and connected to each other through global production chains (Gereffi, Humphrey, and Sturgeon, 2005; Harvey, 1989), the transfer and diffusion of urban policies, practices, and theories have taken on new forms. The mechanisms and content of this national and international diffusion of knowledge and practice has gained renewed interest in recent years, particularly in economic sociology (e.g., Nadvi and Halder, 2005; Saxenian, 2002; Whitford and Potter, 2007).

At present the literature on the international diffusion of urban theory and practice is limited. Following McCann (2011), Healey (2013) has called for new research in this area, suggesting that researchers should consider combining the emerging approaches of actor-network theory (ANT), interpretive policy analysis (IPA), and the circuits of knowledge or policy-mobilities approaches. ANT, which treats human and non-human actors as possessing comparable agency, focuses on how material technologies are translated to work in new environments (Callon, 1986; Latour, 2005). Building on the communicative action theory of Habermas (1984) and on Foucault and Gordon (1980), IPA examines the way discourses shape the institutions that drive planning practices and outcomes (Fischer, 2003; Forester, 1999; Healey, 1997; Innes, 1996; Roy, 2010). Finally, the circuits of knowledge approach adopts a more structural approach that pays attention to the ways in which policies and practices are adapted to new urban settings, for example, through rapid, uncritical replication as "fast policy" (Peck, 2002; McCann, 2011).

Healey (2013) also suggests that such research must take place because new circuits of knowledge are currently in formation. This specifically refers to the emergence of non-Western circuits of knowledge, of which the export of Korean planning knowledge is one substantial component and unstudied. To date, the literature on the diffusion of planning knowledge has focused primarily on Transatlantic diffusion (Ward, 2000) and the introduction of Western planning models to Asia, though some attention has been paid to the transfer of planning techniques from Japan to its colonies during the imperial period (e.g., J. Kim and Choe, 1997; K.-J. Kim, 2003). Literature on the transfer of planning knowledge from developed countries in Asia to developing countries is virtually nonexistent, leaving much room for new research.

5. Conclusion

This brief review has introduced three ways in which the contemporary literature on urban development relates to processes of globalization. It first introduced the current debate over the ontological significance of defining the urban and rural as territorial containers rather than processes. Second, this paper summarized the renewed salience of regional economies under globalization as entrepreneurial actors competing on the basis of untraded interdependencies. Finally, it highlighted three fundamental approaches to addressing the need for research on the international diffusion of urban policy, practice, and theory, particularly in non-Western contexts.

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III. African Development and Foreign Aid: Aid Effectiveness Matters

1. Introduction

Foreign aid pursues to promote economic development, welfare, humanitarian and other various purposes in recipient countries. Foreign aid over the past 50 years has brought mixed results as its objectives are not always met due to poor institutional development, corruption, inefficiencies and bureaucratic failures. The pattern of aid-giving by donor countries are contributing to this failure, mainly because the purpose of aid by donor countries has focused more on national strategy rather than poverty reduction (Alesina and Dollar, 2000). Andrew (2009) believes that there is a complexity of evaluating whether an improvement in a country's economic growth rate or income per capita is attributable to foreign aid or not. Alesina and Dollar (2000) say that "chicken and egg" problem on measurement of aid impact to development.[4] Gomanee, *et at.* (2003), and Karras (2006) prove that foreign aid brought positive impact on economic development.

One of the determining factors for the lack of efficiency in the delivery of foreign aid lies on the demand, and similarly supply. This is clearly witnessed in Africa since their independence in the 1960s. In a similar view, this paper pursues to analyze the progress of aid and development in Africa.

2. African Development

There have been some progress in economic and social development in Africa over the last 50 years, but the overall achievement was lower than other part of the world. For most of 20th century many Asian countries were performing better than African countries. Thus, in overall, the gap between Africa and developed countries has widened. However, there are several African countries who have achieved rapid growth over a couple of decades, notably Ethiopia, Rwanda as well as some resource rich countries like Nigeria, Angola, Botswana, Ghana etc.[5] During the last decade, the Economist finds that among the top ten fastest growing economies in the world, six of them are African countries. More importantly, few countries such as Ethiopia and Rwanda, managed high economic growth without very limited natural resources Figure 1.

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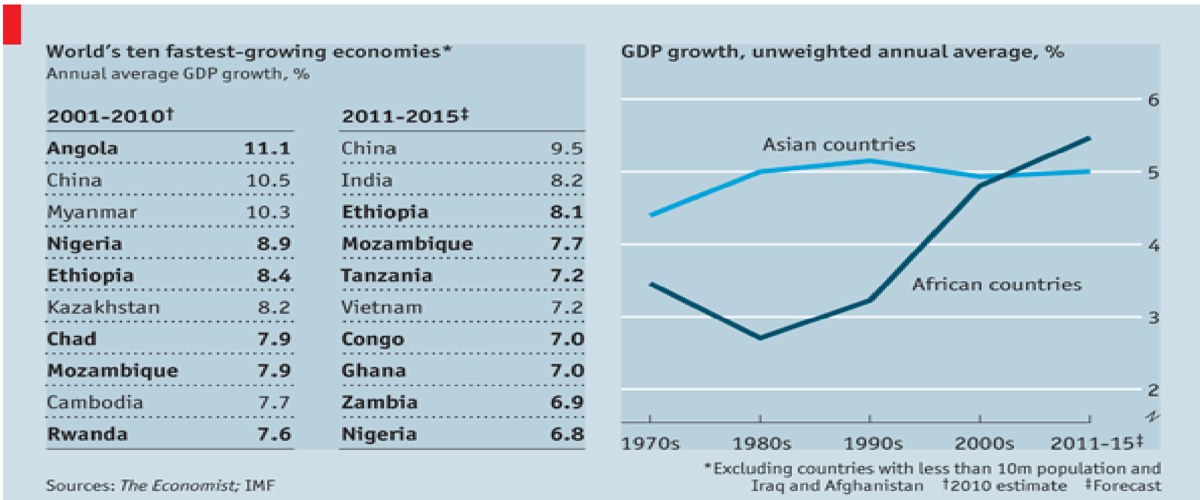
[4] One of the problems of measuring aid impact is many things cannot be presented in money values or in quantity.

[5] Nigeria and Angola are oil exporting countries, and Ghana became oil producer recently.

Figure 1: Fast growing economies and comparison between Asia and Africa



Source: The Economist, 2011

The Ethiopian agricultural sector was sharing more than 70% of GDP and 85% of workforce in the 1990s and now dropped to 45% and 55% respectively. It shows that the country has had some progress in economic development. Since, aid is contributing a large portion of government revenue and many aid agencies worked in Ethiopia. Aid certainly must have brought benefits to the country. The Rwandan economy grew fast since 1995 marking more than 8% per annum. One of the crucial sources of growth could be foreign aid providing social and economic infrastructure as well as government budget support in these two countries.

3. Aid to African Development

Foreign aid to Africa brought positive or negative impact to development.[6] The argument for negative impacts on aid could be related to relative inefficiency in delivering aid, but not practically possible to predispose the cause to one factor. Those countries, which are not performing well, have root causes of chronic hunger and poverty and spurring economic growth in a region with incredible resources and arable land. As Kanbur(2000) noticed that recipient countries service donor consultants and thus neglecting domestic issues and development.

Many have debated that foreign assistance has done little to change the development trajectories of African countries. It is estimated that the West has spent more than $2.3 trillion for foreign aid programs during the last five decades (Easterly, 2006). Easterly notes that "[t]he big problem with foreign aid is that the people paying in the bills are rich people who have very little knowledge of poor people". Moyo (2009) states that aid

[6] There could be quantitative or qualitative analysis in the impact of foreign aid.

helped poverty reduction growth but poverty levels continued to increase and growth rate has declined. The sheer amount of financial resources directed towards the developing countries has brought many debates on aid effectiveness. Most of the developing countries still remain as recipient countries. International society has increased discussion on aid effectiveness more vigorously since the Paris Declaration in 2005, there has been more active discussion on aid and development.[7] International aid community has made efforts in encouraging multilateral aid and untied aid to increase aid effectiveness.

How to increase efficiency of foreign aid? Increasing total aid in scale, but the scale of aid accordingly is to increase aid efficiency (Sachs, 2005). However, the scaling up aid may not always bring efficiency as recipient countries have different level of absorptive capacity for aid. Jeffrey Sachs's book 'The End of Poverty' and the United Nations Millennium Development Goals (MDGs) have shown that more aid into Africa would lead the end of absolute poverty. He claims that aid provides resources for health, education and economic infrastructure. Hence, it should induce development of the recipient.

However, Riddell (2007) brought a question in his book "Does Foreign Aid Really Work?" He insists that aid has not achieved that result that donors expected due to "mixed interests, voluntarism in aid-giving and multiplicity of donors." He also raised issues of "commitment, capacity, ownership and governance in recipient countries."[8] Developing countries and least developed countries in the international community on grant aid as perhaps a way to promote the development is true. Thus, affirming what Riddell says on increasing the size to match the scale of capital grant aid. We should consider that original purpose of the aid is to be able to run operating strategies effectively and systems must be reorganized.

To back up government revenues, many recipient countries receive aid in hard currency which causes the Dutch Disease if aid amount is relatively large compared with the size of recipient economy. This would bring adverse effect to the export sector with relatively appreciated local currency. With limited export earnings from the primary sector, the terms of trade can easily move against recipient. Hence, aid brings adverse effects to the balance of trade (Nkusu, 2004; and Fielding and Gibson, 2012).

4. Aid Effectiveness in Africa

Easterly (2006) and Collier(2009) believe that foreign aid does not stimulate growth and contribute very little poverty reduction. There are empirical studies proving the benefits of aid to Sub-Saharan African states.[9] Part of the problem lies in the interest of aid donors. Multilateral aid agencies have different objectives as compared to bilateral donors.

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[7] Paris Declaration was endorsed by OECD DAC member countries in 2005. There are five main areas both donors and recipient countries need to work together and improve aid efficiency. After that, more of work at the international level carried out and drawn AAA in 2008 and HLF4 in 2011.

[8] These issues are all included in the Paris Declaration especially ownership.

[9] Armah and Nelson(2008) used panel data to analyze the impacts of foreign aid in 21 African

Aid can be carried out either through bilateral institutions or multilateral agencies, thus aid effectiveness could be different. There would be projects and programs that bring results in short terms or long-terms. The allocation of bilateral aid across recipient countries provides evidence as to why it is not more effective at promoting growth and poverty reduction". Specifically Alesina and Dollar (2000) noted, "Factors such as colonial past and voting patterns in the United Nations explain more of the distribution of aid than the political institutions or economic policy of recipients". Consequently, the international aid community has tried to decrease bilateral aid and to encourage multilateral aid instead. Bilateral aid could engage in some national interests of donors, such as some return from aid with conditions. Multilateral aid could bring strong measures to recipient countries such as SAP (Structural Adjustment Program) in the 1980s in Africa. Multilateral aid, which is given to recipient countries in the form of cooperation with donors and institutions, provides an efficient way of giving aid. International aid agencies have to assist the growth of developing countries by encouraging OECD DAC member countries to give bilateral or multilateral aid. Over the past few years, as debates on aid effectiveness intensify, many scholars and non-government organizations took notice on the defects of bilateral aid. The patterns of allocation of aid by donor countries were criticized for donors' intentions where national interests outweighed reduction of poverty.

A recipient can play numerous potential donors off one another, the donors may end up giving more aid and getting less influence. Since information about recipients is a collective good, it tends to be underprovided by individual donors. Multilateral agencies are supposedly better at providing information, especially that necessary to monitor the recipient.[10]

The interaction between multilateral organizations and the recipient countries is less politicized than that of bilateral organizations. If the multilateral organization has some autonomy over its member states, then it can better exercise aid in a conditional way, that is, by making aid conditional on policy changes, than an individual donor could. It may not only minimize the inefficiency of aid donation, which is attributed to overlapping factors coming from the absence of cooperation, but also enable aid disbursement to be reduced. After all, that may contribute to both qualitative and quantitative outcome.

Multilateral agencies like the World Bank which provides assessment on whether the recipient country has complied with agreed conditions, since the 1980s despite the fluctuations, satisfactory compliance has increased for policy-based lending projects. When World Bank finds that conditionality is not observed by the recipient country, delay in providing assistance has been witnessed. Adjustment programs on average take twice as long as it was initially devised mainly due to failure in part of the recipient country to implement policies set in conditionality. Those countries that neglected the conditions stem from high

countries, and found that there is a strong evidence foreign aid helped significantly.

[10] Multilateral agencies include UN institutions, World Bank, IMF, regional development banks etc.

political instability. Thus when a new government takes over, the aid agencies view the fulfillment status of the country as renewed and is given another chance to receive aid.

IMF's practice of conditionality stresses the discrepancy in practice from the guidelines adopted in 1979 especially the case for structural conditionality (IMF, 2001). Effectiveness of IMF conditionality is difficult to achieve. Intention of the government to comply with the conditions affects whether fulfillment of a particular condition was due to a compliant behavior (Dreher, et al, 2008). Observing that conditions are met is different from the conditionality actually make a difference.

Bilateral aid assessed through cross-country studies reveal that policy outcome of the recipient country is irrelevant to disbursement of funds. Donors' reaction to noncompliance on conditions by the recipient country varies in regard to geo-strategic interests of donor countries not respecting the actual needs of the recipient.

5. Conclusion

Regardless of the positive or negative impacts of foreign aid, aid effectiveness matters. The effectiveness could be achieved by resolving both internal and external factors. Internal factors are related to the environment of executing aid activities in recipient countries, while the external factors are relevant to donor countries. For internal factors, it is necessary to achieve political stability as the top priority to achieve aid effectiveness in Africa. Governance will be directly related to the capacity of implementing agencies such as central and local government (Collier, 2009). Foreign aid with humanitarian purposes in the developing world, such as poverty reduction and international cooperation to promote economic cooperation are all in a single axis. Monitoring is essential to improve aid effectiveness as it could bring transparent and systematic evaluation system. Evaluation system for review and evaluation purposes only draws the conclusion that the faithful were not reaching.

For external factors, harmonization among donor countries would avoid overlapping aid activities and improve effectiveness. Harmonization means that donors would implement good practice principles in aid. They would streamline and harmonize their policies, procedures, and practices with other donors. Harmonization could intensify cooperation to manage country programs and projects more effectively and offer incentives within their agencies to foster management of aid activities to benefit the recipient countries. Donors could have a similar way of implementing aid policies since OECD DAC members have political demand from the public. For instance, USA could support education sector in a recipient country, and UK and other European countries might have similar programs too. It is also important to increase aid by multilateral agencies.

In order to support development of a more effective and transparent public-private sector and the public sector, NGO's and the cooperative system is needed. Methods to improve development aid may be diverse thus the transparency and effectiveness of aid still remain in question. In addition, monitoring and evaluating the system established to three kinds of division sector should build a cooperative system.

To support the positive view on the much needed foreign aid in Africa, it requires increased aid effectiveness through a more active engagement and cooperation by donors and recipients. It seems that the multilateral aid demands harmonization among donors. The recipient should improve their capacity to execute aid projects and programs with political stability and ownership.

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Issues in Sustainable Development: Energy & Water

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Abstract

Part I examines energy and international relations in terms of market, security and sustainability. Energy transaction reflects both economic and political interests. As global energy demand has increased along with economic growth, the competition over resources became tougher. New energy coalitions emerged among diverse producers and consumers, which often diverged from conventional great power politics. The concept of energy security was also expanded to included sustainability issues such as climate change and renewable energy. The urgency to cope with global warming has been reflected in energy policy and the efforts to build global climate change governance have been galvanized. Renewable energy and green growth have received a special attention to cope with the depletion of fossil fuel and climate change.

Part II reviews an array of critical issues in the field of international development and cooperation with special reference to water. The study sketches global issues on water and development by thoroughly reviewing key readings on an ensemble of topics. Attention is paid to the interconnectedness between water and development. After a brief exploration of the significance of water for development, the paper focuses on engineering and scientific aspects of water. The outcomes from international conferences on water and sustainability since 1992 are highlighted in order to understand salient issues. The study introduces political and socio-economic, international relations, and international law theories for analyzing relevant case studies in water and development.

Keyword*: energy, market, security, climate change, geopolitics, water, development, interconnectedness, sustainability*

I. Energy and International Relation: Market, Security & Sustainability

1. Introduction

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Energy is an essential element of international economic transactions and international security. The quest for secure energy supply, especially oil and gas, has long been a major issue of international conflicts and cooperation. The ups and downs of oil price often brought diverse forms of economic and security alliances. Energy issues involve many complexities and uncertainties encompassing economics, technology and geopolitics. International energy relations, therefore, reflect these multiple agenda. Both economic and political aspects need to be combined in analyzing the causes and impacts of international energy transaction.

This review article provides a brief overview of major concepts of energy security, energy forecasts, key issues of geopolitical agenda and sustainability issues such as climate change and renewable energy. This article also introduces major readings in international energy relations. As a starting point, two handhooks are useful for an introduction to understand general energy and climate change issues: Andreas Goldthau, *The Handbook of Global Energy Policy* (Goldthau 2013); Robert Falkner, *The Handbook of Global Climate and Environment Policy* (Falkner 2013). Two master volumes of Daniel Yergin, *The Prize: The Epic Quest for Oil, Money & Power* (Yergin 1992) and *The Quest: Energy, Security, and the Remaking of the Modern World* (Yergin 2012) are also excellent guidebooks to the history of global energy market and diverse energy agenda in recent years, respectively.

2. Energy Market & Energy Security

Energy transaction is essentially an economic and commercial activity which will be decided by the market. However, energy transactions are not solely explained by economic interests because energy resources are strategic materials and often reflected highly political sensitivities. The concept of energy security was expanded to include sustainability issues as the importance of climate change and renewable energy began to prevail. David von Hippel (2011) well summarizes diverse concepts of energy security ranging from secured access to oil and other fossil fuels to energy sustainability.

Major actors in international energy relations include both market players and state players. Nowadays, national oil companies (NOCs) of producing countries possess over 80% of proved reserve and exert crucial influences in the global oil market. International oil companies (IOCs) are still playing an important role in term of technology, investment and transaction even though their influence has decreased from the "seven sisters"[3] era in the mid-20th century. International energy relations include not just inter-state transactions but diverse alliances and competitions between national, international energy companies. Victor et al (2012), Wolf (2009), Stevens (2008) explored the function of national oil companies versus international oil company. Gas market players reflect a more monopolistic nature vis-

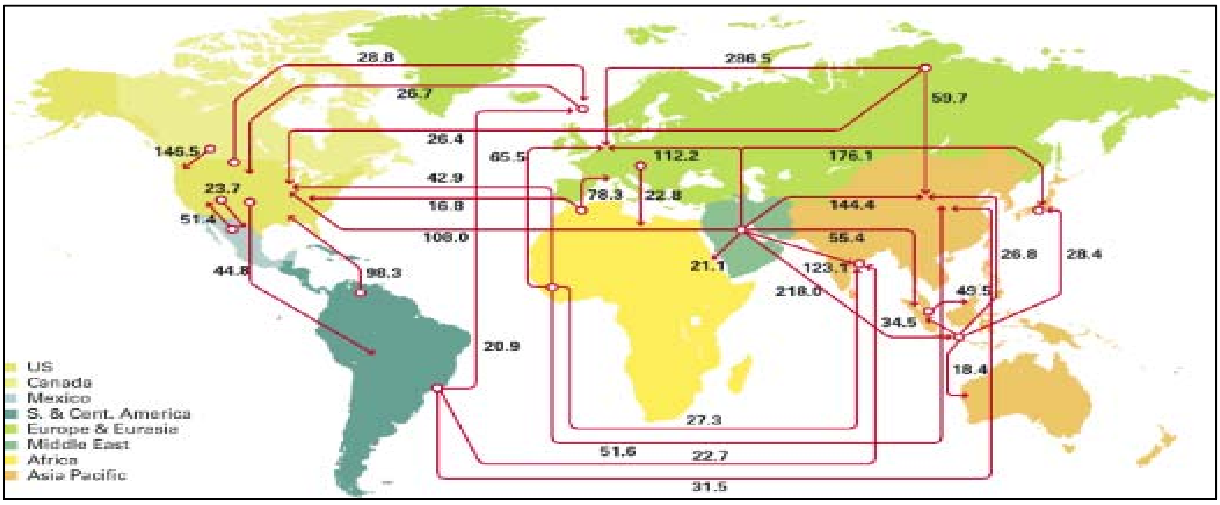
[3] International major oil companies including Anglo-Persian Oil Company (now BP), Gulf Oil, Standard Oil of California (SoCal), Texaco (now Chevron), Royal Dutch Shell, Standard Oil of Jew Jersy (Esso), Standard Oil of New York (Socony)(now Exxon Mobil). These majors controlled more than 80% of world oil reserve prior to the first oil crisis in 1973.

à-vis the oil market as the producers are more limited. Gazprom of Russia would be the most notable case of state monopoly.

Figure 1 and 2 from BP show the flow of international oil and gas trading. Figure 1 shows the central role of Middle East as an exporter in the global oil market and high dependence of East Asian countries to the Middle East. The US oil import is, in fact, quite diversified into various parts of the world. Figure 2 shows the pipeline-based gas transaction between Russia and European countries as well as LNG transaction with a broader geographical scope.

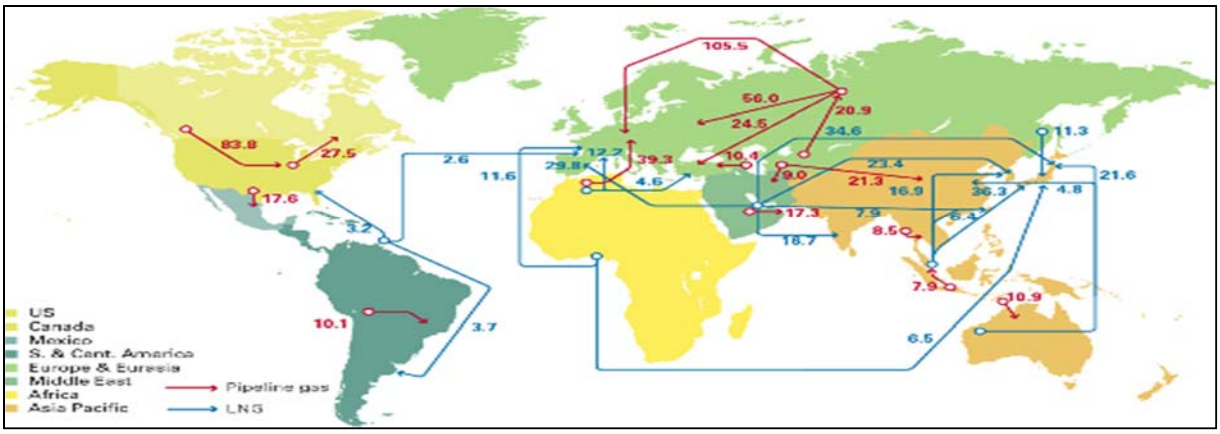
Types of international energy relations include three distinct types: producer-consumer relations, producers' cartel such as OPEC and consumers' relations. Jaffe (2009) and Bressan (2010) discusses the interplay between these actors. International Energy Agency (IEA, www.iea.org), Energy Charter Treaty (ECT, www.encharter.org) are focusing more on the consumers' cooperation as well as consumer-producer relations. Goldthau and Witte (2010), Florini and Sovacool (2011), Victor and Yueh (2010) examine diverse forms of global governance and its challenges.

Figure 1: Major Oil Trade Movements (2012)



Source: BP Statistical Review of World Energy (2013)

Figure 2: Major Gas Trade Movements (2012)



Source: BP Statistical Review of World Energy (2013)

3. Energy Forecast

The depletion of oil has long been a concern for the industry and policy makers. The US geologist Marion King Hubbert predicted the decline of US oil production from the peak point in the 1970s. The "Hubbert's Peak" (http://www.hubbertpeak.com/summary.htm) became a widely quoted concept to forecast oil production. However, the forecasts of oil depletion have been constantly revised and the oil peak has been postponed for decades. The development of drilling technology and discovery of unconventional oil resources has been major factors to delay the oil peak. Recent shale gas boom also changes the oil and gas supply forecast.

Following energy forecasts are commonly used as key references: BP releases Statistical Review of World Energy each year, which is easily accessible. (http://www.bp.com/en/global/corporate/about-bp/energy-economics/statistical-review-of-world-energy-2013.html). IEA publishes World Energy Outlook every year. (https://www.iea.org/publications/freepublications/publication/name,44378,en.html). IEA forecast, together with EIA and BP data, has been used as one of the benchmark guidelines. In addition to World Energy Outlook, IEA Annual Report also includes: Energy Statistics of OECD Countries; Energy Statistics of Non-OECD Countries; Energy Balances of OECD Countries; Energy Balances of Non-OECD Countries; Oil Information; Natural Gas Information; Coal Information; Renewable Information. Energy Information Administration (EIA), Department of Energy of the US, also publishes International Energy Outlook (http://www.eia.gov/forecasts/ieo/). EIA's country report (http://www.eia.gov/countries/) summarizes energy situation of individual countries as well as major regions, which becomes a useful reference.

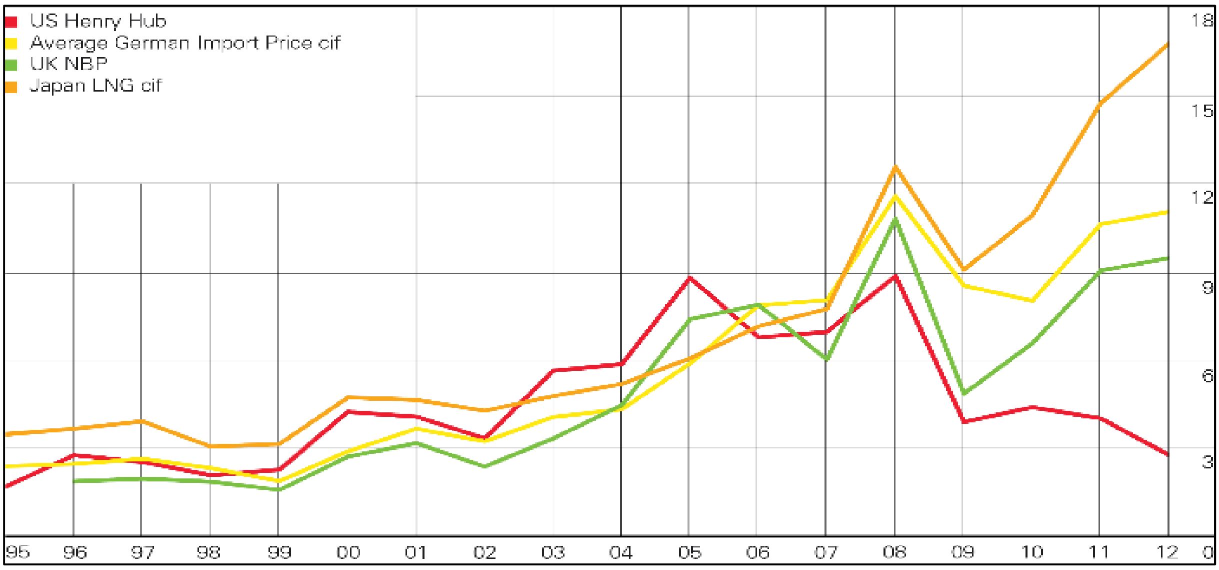
4. Geopolitics of Energy

Energy geopolitics focuses on the conflict, competition and cooperation regarding energy supply. As global energy demand has increased along with economic growth, the competition over resources became tougher. New energy coalitions emerged among diverse producers and consumers, which diverged from conventional great power politics. Michael Klare (2001, 2008) analyzed growing competition and new alliances over energy resources. Kalicki and Goldwyn (2013) and Pascual and Elkind (2010) provides a comprehensive survey on energy and security. Luft and Korin (2009) hosted a series of regional analyses in energy geopolitics. Victor et al (2006) analyzed geopolitics of natural gas. "Golden Age of Gas" (IEA 2011), "Golden Rule for Gas" (IEA 2012) from IEA summarizes the increasing role of natural gas in global energy mix (Deutch 2011). Natural gas emits less greenhouse gases (GHGs) and was regarded as bridging energy resources linking fossil fuels and renewable energies. Thomas Friedman argued that in his "first law of petropolitics" that the price of oil and degree of freedom might move in opposite direction in oil-rich countries (Friedman 2006). In fact, the production of oil and gas did not necessarily brought stable and prosperous governance and often ended in turmoils, which became the "resource curse."

The Middle East and OPEC have traditianlly been at the center of energy geopolitics. The Middle East, especially Saudi Arabia, is the largest oil producer and still exerts most crucial influences in the energy market. The OPEC, the most notable producers' carter, still functions as a key price setter in the global oil market. The role of Saudi Arabia as a swing producer is a crucial factor, too (Gause 2011). However, Middle Eastern oil producers are facing the challenges from the depletion of fossil fuel reserves, political instability, potential regional conflicts in Iraq, Syria and Israel-Palestine as well as nuclear program in Iran (Morse 2011, Mabro et al 2011, Miller 2012).

The US is both a major producer of oil and the biggest importer. Energy supply has been one of the most crucial geopolitical issues for the US. As the Carter doctrine asserted, the US would use military force if necessary to defend its vital national interests in the Persian Gulf (Klare 2009, O'Hanlon 2010). However, the recent shale boom in North America began to change the conventional structure of energy geopolitics (Stevens 2012, Maugeri 2013, Mitchell 2013). As Figure 3 shows, gas price used to be related with oil price and most of major gas price indexes showed similar fluctuations for decades. However, US Henry Hub price began to diverge from other indexes due mainly to the increased production of shale gas since 2009. The volume of Kalicki and Goldwyn (2013) also covers the potential impact of US shale boom in the global energy relations.

Figure 3: Trends of Major Gas Price



Source: BP, Statistical Review of World Energy 2013.

Russia has re-emerged as an energy superpower since the early 2000s with the steep rise of oil and gas price. Under a strong leadership of Vladimir Putin, Russia renationalized most of its energy resources and began to exert strong leverage in the energy market (Lough 2011, Goldthau 2008). Fiona Hill well summarizes the state-centric nature of Russian energy (Hill 2004). However, the shale boom is casting a gloomy forecast to Russia's long-term interests as low gas price will undermine its economic fundamentals which rely heavily on the revenue from energy resources. Caspian Sea countries such as Kazakstan, Azerbaijan, Turkmenistan have received huge attention as alternative oil and gas producers. The competition over the Caspian Sea resources brought the “new great game.” Newly built pipelines bypassing Russia territory also signaled diversified energy geopolitical ties among Central Asia, Russia and Europe. Africa and Latin America also joined in the queue of major oil and gas producing regions in recent years.

Three Northeast Asian countries—China, Japan and South Korea—are major consumers and importers of oil and gas. China’s rapid economic growth brought a dramatic increase of energy consumption and energy import. Japan and South Korea rely heavily on imported oil and gas resources, especially from the Middle East. The need for energy cooperation in Northeast Asia has been raised for more than a decade. Energy production in Russian Eastern Siberia and Far East was expected to be linked with major energy consumers in Northeast Asia. However, both political and economic obstacles have hindered effective cooperation among China, Japan and South Korea in spite of a series of multilateral proposals. The sensitivities in energy security was often combined with neo-mercantilist competition among those countries (Paik et al 2012, Lee, 2010, Lee 2013). However, recent Sino-Russian energy cooperation began to make a visible progress (Paik 2012) and a series of oil and gas pipelines has been built in East Siberia, which increased the expectation on future energy interconnection in Northeast Asia.

5. Climate Change and Sustainability

Climate change and sustainability also became major agenda of international energy relations. The urgency to cope with global warming has been raised especially after 1992 and was reflected in energy policy. The mitigation of carbon emission as well as the development to clean and renewable energy became a major task of energy security. UN Framework Convention on Climate Change (UNFCCC) provides essential background of climate change (http://unfccc.int/essential_background/items/6031.php) and Intergovernmental Panel on Climate Change (IPCC) assesses the scientific, technical and socio-economic information on climate change (www.ipcc.ch). The Stern Review is a widely referred literature to discuss the economics of climate change (Stern 2007). Helm and Hepburn (2009) and Falkner (2013) cover major issues of climate change. In addition, Kurt Cambell and Peter Haldén try to link foreign policy issues with climate change (Cambell 2008, Haldén 2007).

The efforts to build global climate change governance have been galvanized since the creation of UNFCCC (Keohane and Victor 2011, Victor 2011). Kyoto Protocol (1997), Bali Action Plan (2007), Copenhagen Accord (2009) were the steps toward more stable and efficient climate change regime. The ongoing negotiation targets on the formation of post-2020 climate change regime (Chung 2013). The tension between developed countries and developing countries on “common but differentiated principle” still needs a compromise and the financing to support the capacity building of developing countries in dealing with climate change is another key task. As climate change policy involves not only environmental concerns but also economic and political interests, the solution to climate change requires an interdisciplinary approach.

Renewable energy and green growth have received a special attention to cope with both the depletion of fossil fuel and climate change. IEA's *Medium-Term Renewable Energy Market Report* (MTRMR) (IEA 2013) and *Harnessing Variable Renewables: A Guide to the Balancing Challenge* (IEA 2011) briefly summarizes various issues of renewable energy. Global Green Growth Institute (GGGI, http://gggi.org/), The International Renewable Energy Agency (IRENA, https://www.irena.org), Renewable Energy Policy Network for the 21th Century (REN21, http://www.ren21.net/) are useful institutional venue for references.

Nuclear power would probably be the most controversial issue in energy agenda (Moniz 2011, Lovins and Sheikh 2008). Nuclear energy has been used as an efficient alternative energy vis-à-vis fossil fuels. It emits less GHGs and operation cost was relatively modest. However, safety issues and waste management were fundamental challenges in using nuclear energy. In addition, nuclear proliferation has been another threat to international peace and security. International Atomic Energy Agency (IAEA, www.iaea.org) will be the starting point to cover major nuclear energy agenda. The issue of nuclear safety became particularly salient in the aftermath of Fukushima Accident in 2011 (Froggatt et al. 2012) and the management of nuclear energy has also become an increasingly urgent task.

Recommended Readings

- BP, Statistical Review of World Energy (http://www.bp.com/en/global/corporate/about-bp/energy-economics/statistical-review-of-world-energy.html)
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II. Water and Development

1. Interconnectedness between Water and Development

Magnitude of water issues for development

Water is essential for life. This simple but salient notion implies that water has been, and will be one of the most invaluable assets for human survival as well as other living creatures. All major civilizations came into being around large river basins, such as the Tigris-Euphrates, the Nile, and the Yellow River. Human history is full of cooperation and conflict activities on how to secure a sufficient amount of water resources for meeting diverse needs, i.e., drinking, food production, energy generation, and manufacturing (Solomon, 2010). It is imperative to safeguard water for not only human survival but also continuous human development in due course.

However, water has intensely been overexploited and degraded in many parts of the world, particularly since the launch of the Industrial Revolution in the late 18^{th} Century. Climate change is escalating the intensity and frequency of water related disasters, i.e. floods and droughts, which have triggered human casualties and economic losses. These phenomena have occurred owing to the adverse impacts of human development. Human development has been possible at the expense of the environment, including water resources (Pearce, 2006).

Understanding of water resources: hydrology, engineering, and climate change

It is necessary to have a better understanding of scientific and engineering aspects of water resources for exploring policy issues. There are quite a few useful hydrology related textbooks in the field of water science, including Brutsaert (2005)'s *Hydrology: an introduction* and Ward (2000)'s *Principles of Hydrology*. These textbooks introduce the basic principles, important elements and mechanisms of hydrology.

Calder (2005) and Cech (2005) help readers begin to delve into a set of complex issues on water resources management. Water resources management issues, water quality, flood control, urban water issues, and dam related matters are discussed (Cech, 2005; Mays 2007). Those who are interested in water and sanitation issues should look at the works of water quality control, such as Tebutt (1998)'s *Principles of Water Quality Control.*

The Integrated Land and Water Resources Management approach is introduced for linking land and other environmental elements with water issues and calling for an integrated approach to water and sustainability (Calder, 2005). Mays (2007) discusses water security, uncertainties and risks, privatization and community-based rural water management.

Climate change is one of the most challenging matters to human beings and is directly linked to water resources management. Climate change does not alter most of the world's water challenges but makes solutions more pressing. All the potential impacts of climate change related disasters affect water and are affected by water (Morrison et al., 2009). A decrease of water availability, deterioration of water quality, and frequent floods and droughts are direct impacts of climate change on water (Adikari and Yoshitani, 2009). Furthermore, public services for urban living are disrupted, including drinking water intake, energy production (hydropower and cooling water), and inland navigation through rivers (Cech, 2005; Mays 2007; Morrison et al., 2009).

Global efforts for sustainable water management

Since the idea of sustainable development came out in the late 1980s, water has been one of the forefront issues among sustainability and development agendas. The Dublin Principles for Water were produced prior to the Rio Conference in 1992: 1) water as finite resource; 2) the role of women for water; 3) participatory approach; and 4) water as an economic resource (Calder, 2005). The UN Conference on Environment and Development in Rio, 1992 discussed sustainability in every aspect, including water (UN, 1992). Most of the compelling discourses on sustainable water management were explored, including the protection of water resources, water quality, and aquatic ecosystems, the Integrated Water Resources Management (IWRM), water resources assessment, and water and sustainable urban development.

The past two decades since 1992 have been embodied with a long list of international conferences that double-check the commitment of the international community. The Millennium Development Goals (MDGs) were established in 1999. Amongst the eight goals, the goal for water was included within the MDG 7, *Environmental Sustainability*. The water related target was 'access to safe drinking water by 2015' (UN MDG website).

The Rio+10 Johannesburg Plan of Implementation set the target for water, 'to halve the people without access to safe drinking water and basic sanitation by 2015' (UN, 2002).

The UN Conference on Sustainable Development in 2012 (Rio+20) linked the Rio+10's pledge for water with the achievement of poverty eradication and empowerment of women and health (UN, 2012). UN Water, the UN's water portal, has published a thematic report since 2003, *the World Water Development Report*. The report focuses on diverse water issues and provides decision makers with the tools to implement sustainable use of water resources (UN Water, 2003; 2006; 2009; 2012; 2014).

An eye-catching feature of the post-MDG agendas (SDGs) for water is that the water related target would be a stand-alone goal. The final proposal of the Open Working Group for SDGs is due in July 2014 that will display a total of 17 goals that should be achieved by 2030. Goal 6 can be something to do with water. The final version of SDGs is expected to be decided in September 2015.

2. Theoretical Approaches to Water

Political and socio-economic perspectives

The most common myth for water is the notion, 'water should be free,' in many parts of the world. This socially, culturally, and politically constructed belief system is difficult to deconstruct, and decision makers would wish to modify the concept of water and water policy for improving water resources management (Allan, 2002).

As a breakthrough, water managers often advise decision makers to adopt new ideas and frameworks (new knowledge), such as the IWRM and water as economic resource. The alien knowledge and innovation measures are equipped with exogenous (often Western) technologies and culminate in forming 'mutual knowledge' between scientists, engineers, and social scientists. The elite group creates political power on the basis of the dominance of knowledge. Knowledge is exclusively kept among themselves, not shared with other stakeholders, particularly the lay public. Such phenomenon prompts 'information gap' between the elites and the lay public, i.e. the IWRM (Allan, 2002; Giddens, 1984).

'Sanctioned discourse' helps appraise the reason why a discussion of certain issues is not acceptable in some political context (Turton and Ohlsson, 1999). Individuals who dare to challenge the dominant conventional wisdom would lose their privileges and positions. For instance, the topic of 'water shortage' is not commonly discussed in Egypt and other countries in Middle East although everybody is intuitively aware of the situation. This approach can be applicable to many water issues, i.e. irrigation (low water use efficiency and perverse subsidies), water pricing (underpriced), and dam building (opaque costing and construction procedures).

Reisner (1993) superbly delineates the political nature of water policy in the history of American West. His book, *Cadillac Desert*, anatomizes diverse pieces of the changing political economy landscape in the western US centered on how the powerful (megalopolis such as LA and Las Vegas) can monopolize freshwater against the less powerful (farmers in rural areas). Reisner makes a compelling argument, 'water flows uphill to power and money'. This notion unveils the way important decisions are often made in favor of those in money and power, not society as a whole. Similar examples are observed in many countries, such as the Aswan High Dam in Egypt, the Three Gorges Dam, and the South North Water Transfer Project in China.

Political ecology helps assess the extent to which states and other stakeholders, i.e. transnational corporations and NGOs, affect the poor, the marginalized (local communities) and the biophysical environment through relevant policies and practices (Bryant and Bailey, 1997; Robbins, 2012). Discourse analysis is one of the analytical frameworks employed by political ecologists such as Hajer (1997). His analytical tool is effective in evaluating the way how a particular water issue would become a dominant discourse whilst other socio-economic development issues are marginalized.

With regard to economic aspects of water issues, Cech (2005), Green (2003) and Merrett (1997) skillfully portray socio-economic issues and challenges with numerous case studies. Economists' influence on water resources management is not as profound as scientists and engineers. Water economists have made large contribution to putting the principle of 'rationalization' in water management, the decisions for water tariffs and water allocation. But subsidies for the agricultural sector are fundamentally political rather than economic. Relevant cases are seen in many water-stressed countries in the MENA region, Australia, and the western part of US (Allan, 2002; Maddocks, 2013; Reisner, 1993).

'Virtual water' and its complimentary approach, 'water footprint,' pave the way for water managers to seek for solutions against water shortage at the global level, not the local level (Allan, 2002; 2011; Hoekstra and Chapagain, 2007). Virtual water is defined as the water needed to produce a certain amount of agricultural product, i.e. a ton of wheat requiring about 1,000 m^3 of water in a temperate condition (Allan, 1999; 2002). Water footprint has further elaborated virtual water through provision of diverse elements that make agricultural, livestock, and industrial products more easily quantifiable (Hoekstra and Chapagain, 2007).

The virtual water and water footprint approaches help evaluate a true consumption of water and consider plausible solutions based on international cooperation. But the approaches require more time for wide adoption. This is because the political sensitiveness of arguments is embedded in the approaches, i.e. removal of agricultural subsidies, reallocation of water resources towards more efficient water use sectors, and the division of labor between nations for producing water intensive products (Allan 2002; 2011; Chapagain and Hoekstra, 2004; Hoekstra and Chapagain, 2007).

'Grid/group theory' is a powerful tool to appraise the way how various social actors interact to achieve a common goal (Edgar and Sedgwick, 2002; Fardon, 1999; Lee, 2006; Mamadouh, 1999). The theory can be categorized as part of cultural theory which is aimed at evaluating socio-cultural viability that delineates the way how four ways of life go on. The theory can be applicable to evaluation of major factors which influence the political economy landscape in developed and developing countries with reference to Official Development Assistance (ODA) projects (Lee, 2006).

International relations & international law perspectives

It is crucial to consider international dimensions of water resources management.

There are 276 transboundary river basins and 200 transboundary aquifers in the world (UNDP, 2006; UN Water, 2007). Water as a media for cooperation than conflict is noted in numerous research outcomes and UN agencies. But hotspots for water conflict still remain, i.e. the Jordan River Basin, the Tigris-Euphrates, the Nile, and, to some extent, the Mekong River (Lee, 2013; Priscoli and Wolf, 2009).

Classic International Relations (IR) textbooks serve as useful guides to assess the complexity of relations between states craving for water resources such as Jackson and Sorensen (2003). In addition, hydro-hegemony researchers shed light on various activities between hegemonic and non-hegemonic states by analyzing a series of water conflict cases (Zeitoun et al., 2010; Zeitoun and Mirumachi, 2008; Zeitoun and Warner, 2006). The benefit sharing approach pays more attention to non-water activities for cooperation, particularly socio-economic benefits through international trade, infrastructure development, and energy security. Good practices are found in the Senegal River, the Orange-Senqu River (South Africa), and the Columbia River between Canada and US (Hesengerth et al., 2012).

There is no international freshwater law that could be applied to any case in the world although many international lawyers have attempted to tackle various cases (Cullet, 2009; Dombrowsky, 2007; Rieu-Clarke, 2005). The Convention on the Law of the Non-navigational Uses of International Watercourses in 1997 (UN 1997 Water Course Convention) could become effective if there were 2-3 more signatories. Although the effectiveness of the convention remains to be seen, this event could become a major watershed for facilitation of cooperation in transboundary river basins.

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