

**Development and the Changing Periphery:**  
**Relations between Industrialized and Developing Countries in a Globalizing World**  
**Introductory Chapter: A Role for Development**

**This is the draft introductory chapter for a book manuscript. It is background reading for my talk, which will include results from the empirical chapters.\***

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“More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas.” –US President Harry Truman, 1949

“It is not only a moral obligation that the better-off countries have to tackle poverty in our world when we still have over a billion people living on less than a dollar a day, but it’s also in our interests that we build a more prosperous world. If we don’t, the problems of conflict, the problems of mass migration, the problems of uncontrollable climate change are problems that will come and visit us at home.” –UK Prime Minister David Cameron, 2012

The two quotes opening this study span more than sixty years. One is from 1949 as the world recovered from World War II and the West took up the fight to contain communism, the beginning of what became the cold war. The other was declared in 2012, well after the cold war was over, the war on terror underway and the world recovering from a global recession. Both were spoken by world leaders, defining a global strategy to counter problems of the moment. For both leaders the idea that democratic values and shared prosperity make the world a safer place for all, including those already living in prosperous democracies, was a regular talking point. The first quote is from the inaugural address of United States President Harry Truman, the second from United Kingdom Prime Minister David Cameron in remarks at the United Nations. Their juxtaposition could easily lead to the conclusion that not much has changed in the philosophy of rich country governments toward the poorer areas of the world.

It is the argument of this book that such a conclusion is incorrect. The changing international political landscape has ushered in a new chapter in

relations between industrialized and developing states. Foreign policies are no longer defined by the zero-sum nature of a bipolar power structure. Wealthy states are increasingly unable to insulate themselves from the effects of events in developing countries. While rhetoric may not have shifted much, reality is catching up to the rhetoric: the key to prosperity and peace in wealthy states increasingly depends on conditions in poorer areas. Policies in industrialized democracies are shifting to reflect this reality.

### **Development as Self-Interest**

The failed attempt at isolationism on the part of the United States after World War I showed the implausibility of insulating one's country from major events occurring on the international stage. Learning from the mistakes of the interwar period and the calamity of World War II, the world's powers altered course in the mid-1940s, crafting institutions to embrace and - hopefully - tame the forces connecting them. Yet in spite of Truman's eloquent plea on behalf of the poor in 1949, development and poverty alleviation were not to play a leading role in the foreign policy of industrialized states in the decades that followed.

President Truman's speech announced the beginning of the first modern, organized foreign aid program to developing countries, which came to be known as Point 4.<sup>1</sup> While wrapped with the trappings of development promotion, Point 4 was announced against the backdrop of the start of the cold war. Writing in the

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<sup>1</sup>The name derives from the fact that it was the fourth - and by most, unexpected - point in Truman's speech.

1950s, Milton Friedman claimed that “foreign economic aid is widely recognized as a weapon in the ideological war in which the United States is now engaged. Its assigned role is to help win over to our side those uncommitted nations that are also underdeveloped and poor.”<sup>2</sup> Around the same time Carl McGuire argued that “conceivably Point Four might also be considered successful if it did not stimulate the growth of the retarded economies appreciably, provided that the attempt to give economic impetus to the backward areas created a more favorable attitude on the part of their governments and their peoples toward the United States than otherwise would have prevailed.”<sup>3</sup> This was true for assistance beyond the United States; former British Development Minister Hilary Benn acknowledged as much in 2006, stating that “during the cold war, aid was provided to dictators just because they were on ‘our side.’”<sup>4</sup> During this time, developing countries formed a periphery; the importance of a country was primarily determined by its role - or lack thereof - in the bipolar power struggle between the West and the Soviet Union. Even tools ostensibly designed for development, such as foreign aid, would be subordinated to the overriding

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<sup>2</sup>Friedman, Milton. 1958. Foreign Economic Aid: Means and Objectives. *The Yale Review* 47(4): 500-516.

<sup>3</sup>McGuire, Carl. 1952. Point Four and the National Power of the United States. *The American Journal of Economics and Sociology* 11(3): 343-356.

<sup>4</sup>“Is Foreign Aid Working? Prospect Magazine, Issue 128: November 2006, at [http://www.prospect-magazine.co.uk/article details.php?id=7914](http://www.prospect-magazine.co.uk/article%20details.php?id=7914).

foreign policy objectives of the cold war.

With this history, it is easy to dismiss Cameron's words above, and similar sentiments expressed by other world leaders today, as more of the same. As development goals, however laudable, were superseded by the desire to fight and contain communism during the cold war, so too may they be superseded by the security concerns of today. Yet in the last few decades globalization has made it difficult for states to insulate themselves from events that occur even in relatively poor, small countries with which they are interconnected. The effects of many problems associated with and enhanced by underdevelopment - increased migration, political instability, violence, trafficking in persons or illicit substances, spread of disease, lawlessness and its ability to provide havens for terrorists and criminals, pollution, and others - are not confined within national borders. Underdevelopment creates negative externalities that increasingly have an impact on wealthier areas.

Underdevelopment is perceived by many policymakers today - rightly or wrongly - as intertwined with pressing security concerns, including terrorism. Instead of detracting from a focus on development, the attacks of September 11, 2001 and related incidents in other countries focused attention on the vulnerability of industrialized states to discontent emanating from less-developed areas. While president of the World Bank, James Wolfensohn asserted that it was essential to deal with the "breeding grounds of discontent" caused by poverty as a "necessary step two" in the fight against terrorism.<sup>5</sup> Desha Girod, Stephen

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<sup>5</sup>See, for instance, Wolfensohn interview with Charlie Rose, available online at

Krasner and Kathryn Stoner-Weiss argue that “[w]hat had been a peripheral concern for the [George W. Bush] administration when it first came to office, governance and development in poorer countries, assumed much greater prominence after the attacks on the World Trade Center and the Pentagon.”<sup>6</sup>

While the rhetoric of underdevelopment as a security concern has existed for decades, its prominence has increased with growing interconnections between rich and poor states and the increased threat of transnational terrorism. Just as they did following World War II, governments in industrialized states will alter foreign policy to confront the changing reality.

The nebulous sense that development has become more important lacks a structure for understanding when, where, and how self-interested development promotion in other states will occur. Governments have multiple priorities and limited resources. Under what conditions is development promotion abroad pursued? In what countries? Through which policy instruments? Have there been changes over time? This book provides a framework for answering these

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<http://www.charlierose.com/view/interview/2912>; also Mallaby, Sebastian. 2004. *The Worlds Banker*. New York: Penguin Press.

<sup>6</sup>Girod, Desha M., Stephen D. Krasner and Kathryn Stoner-Weiss. 2009. Governance and Foreign Assistance: The Imperfect Translation of Ideas into Outcomes. In Amichai Magen, Thomas Risse and Michael McFaul, eds., *Promoting Democracy and the Rule of Law: American and European Strategies*. New York: Palgrave Macmillan.

questions and tests this in the areas of foreign aid, trade agreements, financing related to climate change, and global health initiatives.

## **Targeting and the New Periphery**

As I write these words, thousands of unaccompanied minors cross the United States' southern border from Central America each day motivated - at least in part - by a desire to escape potential famine and gang violence fueled by poverty. NATO members are preparing to defend Eastern Europe against a resurgent Russian threat. Drug dealers in South America channel billions of dollars of cocaine through West Africa on its way to the European market each year, taking advantage of the poverty and weak institutions that make these countries easy transit routes. Policymakers in the United States and Europe consider how to respond to the rapidly escalating menace of Islamic State in Iraq and Syria, while France has announced sizeable increases in its security apparatus in the wake of the attacks on the satirical magazine, Charlie Hebdo. The worst outbreak of Ebola in history continues in West Africa. World leaders are working to lay the groundwork for a new climate change agreement in hopes that the 2015 Paris talks will prove more successful than their predecessors. In oil-rich Nigeria the government continues its fight against Boko Haram, a terrorist insurgency group whose tactics have caused thousands to flee Nigeria for Cameroon, Chad, and Niger, increasing concerns for regional stability. European countries are struggling to find policies to deal with growing migration pressures while worrying about a possible Greek debt default and the future of the euro. And

these are only a few of the foreign policy issues on the agenda for governments in industrialized states.

The point is that governments, even in wealthy states, operate under resource constraints. Funding and attention are finite, and development concerns must compete with a host of other important issues for limited resources. Coupling a desire to decrease negative externalities with the reality of scarce resources leads to targeted development promotion. Development is no longer simply a cloak in which to clothe geopolitical strategy toward developing states. Yet it is also not altruistic - leaders in industrialized states are not pursuing development simply for the sake of “doing good” in poorer areas. Instead, pursuing development abroad in their own national interest, governments in wealthy states will target their policies and resources to decrease the negative effects of underdevelopment on themselves. There is no reason to expect this to correspond with areas in greatest need. On the contrary, the empirical findings presented in the next several chapters suggest that a targeted development strategy will favor developing states with existing ties to industrialized countries. This will result in a growing gap between those left behind - the new periphery - and the rest.

Figure 1 provides a visual representation of development targeting. The old “core” of industrialized countries is depicted in the center. During the cold war the “periphery” consisted of both the areas labeled “targeted developing countries” and “new periphery” - it was everyone outside of the core. With increased interconnections, the core experiences more negative externalities and security threats from underdevelopment. Industrialized states adopt policies to

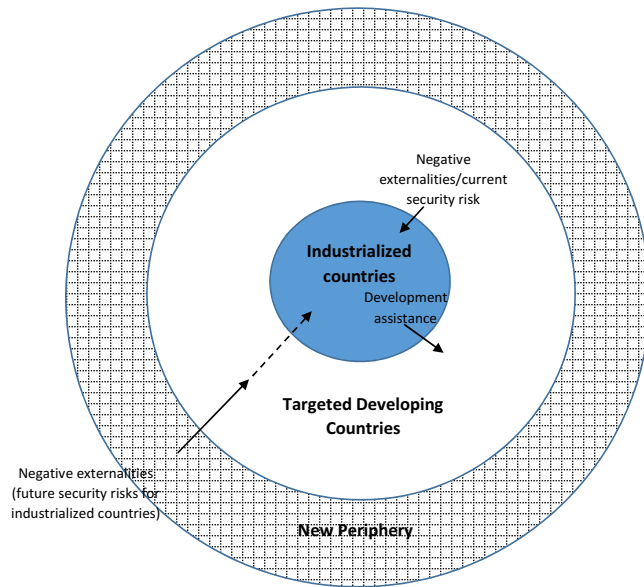


promote development, focusing disproportionately on countries from which they experience the greatest negative side effects from underdevelopment; these are the targeted developing countries. Over time, if the development strategies are successful, the number of industrialized states will grow, admitting new members from the targeted area to the “core” and shrinking the periphery.

Targeted development appears to be a reasonable short- or medium-term approach to decreasing externalities associated with underdevelopment within the constraint of scarce resources. Yet the shrinking periphery is problematic over the long-term. States targeted for assistance today will be those with enough connections to industrialized states to create these externalities. This suggests that developing states currently on the fringe will be left even further behind. The result is a smaller periphery of countries who perceive a growing gap between themselves and the rest of the world. Negative spillovers will come from this group into the targeted developing states in the near-term, but could easily reach the current “core” in the future. A far-sighted approach to security would suggest focusing development initiatives more broadly to avoid creating tomorrow’s problems through today’s policies. The empirical findings in this book suggest the focus is predominantly on the near-term.

### **The International Organization Anomaly**

Reducing externalities caused by underdevelopment has many characteristics of a public good. Imagine a group of 5 countries, including one whose



**Figure 1:** Development and the New Periphery

underdevelopment is causing negative externalities for the other four. If one of the four adopts policies that help the underdeveloped state, each of them may experience a reduction in the unwanted externalities. This suggests incentives for free-riding and associated under provision: the four effected states may each wait for the others to act with the result that none of them intervenes with the necessary policies to reduce underdevelopment. In the international arena, international organizations provide a way to potentially lock in cooperation and overcome this incentive for free-riding. We might expect that a heightened focus on development-related externalities would lead to increased coordination among industrialized states on development-related policies in international institutions.

We observe the opposite trend at many important bodies. In spite of a history of successfully completed trade rounds, the current Doha Round of negotiations at the World Trade Organization (WTO) shows many signs of potential collapse. There are even more indications of complete failure to deliver on development-related issues that were to be the primary goal of what was nicknamed the “Doha Development Round” of negotiations. Foreign aid has risen to unprecedented levels in the last decade, but there is no indication for most donors that they are channeling a greater proportion of this through international institutions such as the World Bank; the ratio of bilateral to multilateral aid has remained relatively constant. When industrialized countries committed to provide significant funds to address climate change mitigation and adaptation in developing states, many also expressed strong resistance to handing over large portions of that money to a newly created Green Climate Fund,

preferring to keep bilateral control over their donations.

This lack of enthusiasm for international coordination of development efforts appears more in line with a “business as usual” strategy than with a significantly enhanced focus on underdevelopment. One explanation is that industrialized states keep control of their development-related policy tools in order to use them to buy geopolitical favors from developing states. Ceding this power to international institutions would limit the ability of individual wealthy country governments to use policy tools ostensibly earmarked for development to further their own strategic agendas.

This explanation is appealing. Yet the lack of enthusiasm for international institutions may also be consistent with a targeted development strategy. Industrialized countries serious about stemming the impact of development-related externalities on themselves may prefer to retain control of their development policies in order to further improve development where it will matter most for themselves. For example, if a state wished to grant particularly deep access to its market but only to a select group of countries, the WTO would not be the preferred venue. Suppose an industrialized state is interested in fostering strong development promotion through trade in a group of five developing states from which it experiences negative spillovers (e.g. trafficking in illegal substances, pollution, unwanted migrants, border violence, disease potential, etc.). To do this through WTO trade round negotiations, the industrialized member would need to grant equal access to all developing states. This access may be costly to domestic industries and come at considerable

political cost to leaders, making it difficult to grant concessions significant enough to truly have an impact on development. To bring about deeper change, it might be better for the wealthy state to lock-in concessions through a geographically-limited free-trade agreement. This increases the chance of meaningful development outcomes where it matters most while avoiding the unnecessary pain for domestic stakeholders that would be brought about by granting universal concessions through the WTO. The explosion of trade agreements between industrialized and developing states is the subject of Chapter 4. Similar explanations might be offered to explain stagnancy in World Bank funding and lack of enthusiasm for allocations to a Green Climate Fund. Gridlock and stagnancy at international institutions are consistent with a desire to pursue more in-depth development than previously, but targeted at particular states.

### **Foreign Policy in Pursuit of Targeted Development**

The theory that industrialized states increasingly pursue targeted development strategies abroad provides a plausible framework for understanding evolving relations between industrialized and developing countries in a globalizing world. However, it is not the only plausible theory. One alternative is that wealthy states are pursuing business as usual - development rhetoric continues to mask non-development, political goals pursued through developing states. Another potential alternative theory suggests a level of altruism at work that increases as wealthy country incomes increase. If development policies represent the desire

of citizens in wealthy states to feel good about themselves by helping others, and if this feeling can be depicted as a normal good, then spending on development would rise as incomes rise.

The remainder of this book examines whether policies pursued by industrialized states toward their developing counterparts are consistent with a strategy of prioritizing targeted development. To this end, the empirical chapters shed light on the extent of evidence regarding the following criteria:

- Breadth: if development is an important priority it should influence decision-making in multiple policy areas.
- Targeting: development-friendly policies should be disproportionately offered to states from which negative spillovers are likely to affect the policy making state.
- Nuance: the menu of development tools offered to a particular state should account for the needs and capacity of that state, to increase the likelihood that programs will produce beneficial development outcomes.
- Change: development policies should look different today than they did during the cold war.

Four policy areas are examined to test the extent to which these criteria influence relations between industrialized and developing states: foreign aid, trade, funding related to climate change (and global health initiatives).<sup>7</sup> If

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<sup>7</sup>Adding a chapter of global health is currently being explored.

industrialized states prioritize development then there should be sufficient breadth to this strategy: we should observe evidence that a desire to promote development influences policy across the issue areas.

If development promotion is meant to decrease negative spillovers, then within each issue area we should observe targeting related to the potential magnitude of these spillovers for the policymaking state. To proxy this potential, across issue areas I consider the impact of proximity, historical ties, level of development, previous migrant flows, and population size. A relatively poor, large, nearby state that has sent many migrants to the policymaking country and lays claim to historical ties has a greater likelihood of transmitting negative effects than a distant, small, somewhat less poor country with which the policymaking state has few other connections.

Negative externalities can originate in states at very different stages of development and with significantly different needs and capabilities, even within the pool of developing countries. Prioritizing development outcomes requires nuance - choosing the policies that will best promote development within the targeted states. This can operate both within and across issue areas. For instance, within the area of foreign aid, the type of aid offered to a country may depend on the capacity of the country's institutions to utilize that aid; similar arguments can be made with regard to financing for climate change related activities. Across issue areas, nuance requires that correct instruments are chosen given the specifics of the targeted country. The poorest countries may be less likely to benefit from a trade agreement; they may require significant investment (perhaps

including foreign aid) before they can successfully integrate with global markets to a degree that could capitalize on the potential of a free trade agreement. Middle income countries, on the other hand, may be well situated to turn increased trade possibilities into development outcomes. In some of these same countries even generous foreign aid packages would represent only a small fraction of income and would, therefore, be somewhat less useful. If industrialized states seek development outcomes we should observe evidence that they vary the tools used across states based on their development need and capacity.

Finally, there is a general understanding that the desire to increase development was not a primary goal guiding industrialized country policies toward developing states during the cold war. We should observe changes over time if development has become a more important priority for wealthy states. In particular, we should see a decreased importance for non-development, geopolitical factors in guiding development policy instruments. Given the relatively long history of foreign aid policy, I test for changes over time in the determinants of aid allocation.

## **Previewing the Findings**

The empirical chapters are organized by issue area. Taken together, they present significant evidence that development promotion has become an increasingly important, yet targeted, priority guiding the policy of industrialized states toward their developing counterparts. Evidence of a development agenda emerges in each issue area. Targeting is readily apparent. The criteria used to target states



has changed over time. Both within and across issue areas, policies are differentiated based on the level of development and quality of governance in targeted states.

Foreign aid is examined in chapter 3. Evidence of targeted development strategies emerges when examining aid allocation both across and within recipient countries. In the period since 2001, donors favor large, poor, geographically proximate states, former colonies, and countries from which they have received larger numbers of migrants. In addition to being in line with expectations for development targeting, these results are interesting in how they differ from the patterns observed during the cold war. In the earlier period, countries that were smaller and farther away received more money than those that were larger and closer - opposite to the pattern currently observed. Additionally, the impact of military importance - proxied by United States military aid received by a country - on level of aid commitments to that state was more than three times as high in the cold war than it is in the post-2001 period, and a significant determinant of aid flows for fewer donors in the latter period. Within targeted countries, the basket of aid offered varies based on the quality of governance in the aid recipient, suggesting attention to capacity and need when crafting aid programs. Evidence of this nuanced differentiation in aid packages is not found during the cold war.

Chapter 4 focuses on the proliferation of bilateral and regional free trade agreements between industrialized and developing states. Prior to 1990 free trade agreements between wealthy and developing states were almost non-existent; the

explosive growth of such agreements, coupled with the lack of agreement on a development agenda through the WTO, is itself suggestive. Examining the post-1990 period shows evidence of both targeting and nuance on the part of industrialized states when signing these agreements. Industrialized states are more likely to sign free-trade agreements with former colonies and developing countries that are relatively close, which is in keeping with the theory but not particularly surprising. Developing countries signing these free trade agreements with industrialized states are disproportionately those in the “middle of the pack” with regard to income: both the poorest and the wealthiest developing states are less likely to sign these agreements. This is consistent with industrialized states targeting developing countries which can benefit most from these deals: those at the bottom of the income distribution are probably not in a position to readily turn market access into development; those at the top of the distribution have developed sufficiently to need less outside assistance to prevent development-related externalities.

The evidence suggests that industrialized states use aid and trade policy as both complements and substitutes. States are more likely to be targeted for a trade agreement by an industrialized state if they also receive a higher share of the industrialized state’s aid budget. However high overall aid dependence - total aid as a percent of GDP in the recipient - decreases the chances that a developing state will sign an agreement. This suggests that targeted states may receive assistance in multiple areas. It also reinforces the idea that states most in need of aid may be poor candidates for benefiting from trade deals, and provides further

evidence of nuance and differentiation across developing countries.

The relatively new area of developed country financing for climate change adaptation and mitigation in developing states is the subject of Chapter 5. Aid for adaptation is meant to help recipients adjust to difficulties caused by climate change; these difficulties, like any others, may be liable to create externalities emanating beyond the recipient's borders. Examining shocks to both temperature and precipitation shows that the amount of aid offered by an industrialized state to a developing country in the wake of a climatic shock decreases with distance. Once again this provides evidence that wealthy states respond to needs in developing states, but in a targeted manner. Funding for climate change mitigation is meant to decrease emissions of greenhouse gasses; these reductions constitute public goods that would benefit all countries. Yet evidence shows that funding for mitigation appears to follow a similar pattern to that observed for general aid flows. This suggests that donors are targeting states based on the relative development importance to the donor, rather than potential for overall climate change mitigation.

## **Discussion**

The concept of targeted development is important for making sense of the policies industrialized states pursue toward their developing counterparts. This broad framework enhances our understanding of decisions across issue areas in a way that does not emerge when they are examined separately. Scholars and practitioners interested in the motivations behind state behavior will need to

account for the increasing role of targeted development.

This shift in the motivation behind policies of industrialized states has practical implications for how we evaluate the outcomes. As intentions change, the policy results may also change. This suggests that future development outcomes may be larger than we would expect given a naive view of past results in these issue areas. In order to understand the success of a policy, it is first necessary to understand its true goal. In the case of aid, for instance, the rhetoric regarding goals is unchanged, while the reality behind the desired results has shifted significantly. Of course, the desire to increase development does not ensure that it will happen. It is possible that industrialized states are simply not very efficient at fostering development abroad, regardless of their motivations. But, it does suggest that when evaluating the impact of policies we should keep in mind that in different periods they may be used to pursue different goals.

For those interested in the plight of the world's poor, the shift toward targeted development is a double edged sword. If governments in wealthy countries effectively carry out this policy, the well-being of many people in targeted developing states could improve significantly. However, this may come at an increased cost to those in states that are left behind. The implications of following this strategy are a world of increased development for many, with increased misery for some.