

Foreign Aid and Economic Diplomacy, Recent Trends of International Economic Alliances and Politics

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Abstract: This assessment examines how foreign aid is utilized as a tool of diplomatic economic policy by international actors or states to achieve their foreign policy objectives. Many independent nations and non-state actors rely on foreign aid from powerful supranational, national, and non-state donors for policy implementation. Consequently, the policies of aid-receiving agencies are influenced by these donors, who seek to shape recipients' policies to align with their own interests. Donor actors leverage foreign aid to influence recipients and govern the international economy through coercive diplomacy. Thus, national actors, nation-states, and non-state actors morph into de facto players in international economic diplomacy and politics. This study aims to assess how foreign aid limits the autonomy of these actors by employing it as a coercive instrument to shape international policies.

Keywords: Foreign aid, economic diplomacy, economic alliance, non-state actor, donor agency, international politics.

Introduction

The ultimate goal of diplomacy and international politics is to achieve mutual economic gain. Domestic policy aimed at economic development often extends outward, becoming foreign policy. Foreign policy is a complex, dynamic political course designed to pursue national interests by maintaining relations with other states (Rosenau, 1980, p. 67). It involves continuous interaction among states (Northedge, 1968, p. 18). A recent trend in foreign policy for economic development is Economic Regionalism, which enhances international and intra-national trade and commerce (Kabir, BISS, 2015, p. 15).

While the concept of international and intra-national trade and commerce is rooted in liberal and open market principles, recent trends of group-based regionalism and trading blocs are creating significant new barriers to the open market economy. These blocs impose new tariff barriers on nations outside their trading partners, thus squeezing the concept of a free open market economy rather than promoting liberalism.

This trend is not entirely new. In the first half of the last century, two world wars caused devastating economic damage. Recovery efforts, such as the Marshall Plan, led to rivalries and competition among influential international actors (Marshall Plan, p. 2). Third-world countries became targets for superpowers seeking to expand their influence (Imtiaz, 2004, p. 143). Superpowers, led by

political ideologies, formed alliances and provided aid to uphold their ideologies among supporters (Shamsul & Abrar, 1999, p. 1).

The world was divided into capitalist and socialist blocs. The United States aimed to deter Communist expansion, a policy of containment, while the USSR confronted the US, treating it as a potential enemy (Millar, 1999, p. 193). This bipolar system saw superpowers providing aid—known as 'Foreign Aid'—to their allies to defend regimes, support military expansion or deterrence, and finance post-war reconstruction (Marshall Plan, 1948, p. 7). The US launched the Marshall Plan and formed NATO (April 1949), while the USSR established the Warsaw Pact (Williamson, 2008, p. 100). In this rivalry, foreign aid became an inevitable instrument in international politics, serving humanitarian, economic, and security purposes. It took the form of loans, grants, and project loans, and was supplied as food grains, commodities, and raw materials (Huq & Abrar, 1999, p. 7).

Today, the nature of foreign aid has evolved due to present political realities. Both capitalist and socialist blocs initially intended to deter each other through spheres of influence, leading to the current trend of trading blocs and commercial regionalism.

Methodology of the Study

This study is based on a comprehensive literature review. Historical materials, journals, newspapers, and various research activities have been examined to gain insights from relevant document analysis. Given the nature of the study, which investigates historical incidents and contemporary international political and economic situations, existing documents provide valuable information about the uniqueness and changeability of political societies.

To identify and analyze the political characteristics of the political economy, this inquiry adopts a qualitative approach. The researcher's in-depth understanding and subjective interpretation are crucial for drawing conclusions about economic diplomacy in the world order. The study reviews several research works, as well as the political history and literary works on world politics. A socio-political analysis is conducted to identify the structure of socio-political and economic organizations, systems of values, and the morality of the socio-political organizations under study.

The main limitation of this study is the global scope of information sources, which may sometimes obscure the accurate depiction of world economic diplomacy and geopolitics.

Objectives of the Study

Economic gain is the core aim of diplomacy. Economic policy is considered the 'Rule of Conduct' of a nation (Sutton, *Economic Journal*, Vol. XLVII, 1937, p. 44). Under the European Recovery Program (ERP), European countries received substantial aid from the USA, which provided liquid funds, commodities, and raw materials to counter communist expansion. This aid helped the USA establish unitary supremacy and halt communist advances in Europe.

Despite the perceived end of the Cold War in the late 20th century, the current Ukraine-centric conflict suggests that geopolitical tensions persist, echoing Heraclitus of Ephesus's adage, "Everything flows, everything changes" (Imtiaz, BISS, VOL. 32, NO. 3, JULY 2011, p. 207-218). Today's political scenario resembles the post-World War II period when capitalist and communist economies emerged as rival orders, intensifying the Cold War.

To maintain the balance of power in favor of the capitalist economy, the USA introduced the Marshall Plan, officially known as the European Recovery Program (ERP), with three primary objectives (The Marshall Plan: Design, Accomplishments, and Significance, p.2):

1. To prevent the economic deterioration of post-war Europe.
2. To prevent the expansion of communism.
3. To prevent the stagnation of world trade.

Named after then-Secretary of State George Marshall, who outlined the foreign aid program in a speech at Harvard University on June 5, 1947, the Marshall Plan was developed by the Truman Administration and US Congress to provide political, military, and economic assistance to war-torn European democratic countries. President Harry S. Truman approved this aid package on December 17, 1947, which included food, fuel, military support, and financial assistance for post-war rehabilitation, infrastructure construction, and development, known as the 'Truman Doctrine' and the 'Policy of Containment.'

The Marshall Plan marked a new phase in US foreign policy, characterized by 'Economic Diplomacy' (Imtiaz, BISS VOL. 32, NO. 3 2011, p. 207-218) in the post-World War II era. This program intensified the Cold War between the US and the USSR, creating a bipolar economic system and dividing the world into capitalist and communist blocs. Over time, the nature of foreign aid evolved, particularly after World War II, with most aid being disbursed to allied members.

This study aims to:

1. Trace the historical role of foreign aid among allied members.
2. Examine how foreign aid functions as economic diplomacy in world politics

Foreign Aid and its Genesis

The Second World War marked a decisive turning point in world politics, establishing a bipolar world order. The genesis of foreign aid is a relatively recent development, originating in the mid-20th century. Foreign aid, an external economic assistance, is crucial for the economic development of underdeveloped (UD) and least developed countries (LDCs). Historically, the UK received aid from the Netherlands in the 17th and 18th centuries, and the USSR received foreign aid in its early stages (Shamsul & Abrar, 1999, p. 5). Even the USA, a leading donor, once received aid from the UK.

The 'Marshall Plan,' officially known as the 'European Recovery Program' (ERP) during 1948-1951 (Marshall Plan, p. 2), is considered the genesis of routine foreign aid programs. The Marshall Plan played a significant role for US policymakers, symbolizing boldness, success, and new directions in US foreign aid. This program addressed the breakdown of the prewar economic order by reconstructing economic relations between Europe, North America, and the Third World. It contributed to the new international order by providing capital and raw materials for Western European industries (Leffler & David, 2005, p. 240). However, Soviet leader Stalin opposed the Marshall Plan, viewing it as a US strategy to separate Eastern Europe from Soviet influence and build a powerful Germany (Leffler & David, 2005, p. 240). Since then, foreign aid has become a regular aspect of international economic order, diversifying in format over time.

Economic Diplomacy Intensified Malevolent International Politics

Mutual dependency between economic diplomacy and foreign policy is inevitable (Uddin, 2016, p. 203). It is crucial to determine which issues, levels, and countries will be development partners to maintain trade-centric economic diplomacy. Economic diplomacy uses economic tools to achieve national interests and influences exports, imports, investments, lending, aid, and free trade agreements within regional trade blocs and economic alliances.

The collapse of Germany on May 8, 1945, marked the defeat of the Axis powers and the emergence of a new economic world order. The period from 1945-1948 was the beginning of the Cold War in Europe (Williamson, 2008, p. 5). On July 1, 1944, delegates from 44 nations met at the Mount Washington Hotel in Bretton Woods, New Hampshire, to agree on a new economic order and international cooperation. This led to the establishment of the 'International Bank for Reconstruction and Development' (IBRD), known as the 'World Bank,' and the 'International Monetary Fund' (IMF). The victory of the Allied forces and the Bretton Woods agreements positioned America to play a leading role in international politics, with geographical isolation protecting it from war destruction.

The ideological confrontation between America and the USSR shaped their different security frameworks. The United States assumed the burden of world economic recovery leadership, with the Bretton Woods conference setting up institutions to reduce tariff barriers and promote free trade and capital transfer (Sibony, 2014, p. 65).

In January 1947, Britain faced a severe economic crisis due to postwar impacts and political unrest in India and Palestine. Britain struggled to maintain a major role in the Mediterranean, and countries like Greece, Italy, and Turkey needed financial and military aid. An unwelcome civil war broke out in Greece in September 1946, prompting Soviet leader Stalin to ask Yugoslavs to assist Greek Communists against the British-backed Greek government. President Truman feared similar uprisings elsewhere and acted quickly to strengthen non-

Communist forces, persuading Congress to approve necessary funds. On March 12, 1947, Truman announced the 'Truman Doctrine,' emphasizing the seriousness of the international political situation in Europe and the US commitment to assist free peoples against totalitarian regimes, known as the 'Policy of Containment' (Williamson, 2008, p. 51).

To enhance US economic diplomacy, the Marshall Plan was announced on June 5, 1947 (Williamson, 2008, p. 46-48). In response, the USSR pressured Eastern European states to boycott the US and its Grand Alliance. The Eastern European Communist parties declared their intent to model their economies and social systems on the Soviet system (Williamson, 2008, p. 50-51), leading to a bipolar world order.

The USA and its European allies were determined to deter Communist expansion. Greece, Italy, and Turkey appealed for support to stabilize non-Communist regimes (Allan, 2003, p. 27). The Marshall Plan, Truman Doctrine, and Policy of Containment aimed to:

1. Prevent the economic deterioration of postwar Europe.
2. Prevent the expansion of communism.
3. Prevent the stagnation of world trade.

In response, the Soviet Union became actively involved in Eastern Europe. Churchill famously described this division as an 'iron curtain' descending across Europe (Williamson, 2008, p. 50-51). This polarized world order led to the formation of military alliances and economic coalitions, intensifying the Cold War. NATO, SEATO, CENTO, Sino-Soviet Friendship Treaty, ANZUS, and CSTO were formed in opposition. Today, while alliances like QUAD, BRICS, and AUKUS continue to exist, trading blocs and regional commerce have become more significant than Cold War-era military alliances. Collective trading blocs are now more prominent than collective military organizations.

Trading Bloc/Economic Alliance/Economic Cooperation

A trading bloc, economic alliance, or economic cooperation refers to a group of nations with special agreements and arrangements regarding economic relations among member states. These agreements typically emphasize the relaxation or reduction of tariff barriers, customs duties, quotas, and excise taxes on imports and exports. During the Cold War, new concepts emerged in international politics, such as North-South Dialogue, the Non-Aligned Movement (NAM), anti-imperialist struggles, and the designation of Least Developed Countries (LDCs) (Edward & John, 2018, p. 33). However, due to international political pressures, no nation could maintain a truly neutral stance. The Soviet Union provided aid to India while the United States supported India's main rival, Pakistan. Similarly, the US-backed Pakistani dictatorship contrasted with Soviet-supported Indonesian Muslim dictatorship. The world was divided politically, religiously, and

economically. Leaders like India's Jawaharlal Nehru and Indonesia's Sukarno pursued neutrality, but both received substantial Soviet aid, compromising their nonaligned positions (Edward & John, 2018, p. 64-65).

After World War II, the US played a significant role in liberalizing international trade by eliminating artificial trade barriers. Inspired by the US, the General Agreement on Tariffs and Trade (GATT) was signed by 23 nations to promote a liberal trade environment. The trend of forming trading blocs intensified in the 1960s and 1970s during the Cold War. In 1995, GATT was transformed into the World Trade Organization (WTO) during the Uruguay Round conference, making the WTO the official successor of GATT. The WTO now oversees global trade rules among nations.

Presently, dominant trading regional blocs include:

- ASEAN (Association of Southeast Asian Nations)
- APEC (Asia-Pacific Economic Cooperation)
- BRICS (Brazil, Russia, India, China, and South Africa)
- EU (European Union)
- NAFTA (North American Free Trade Agreement)
- CIS (Commonwealth of Independent States)
- COMESA (Common Market for Eastern and Southern Africa)
- CAFTA (Central American Free Trade Agreement)
- Mercosur (Mercado Común del Sur)
- SADC (Southern African Development Community)
- SAFTA (South Asian Free Trade Agreement)
- OPEC (Organization of the Petroleum Exporting Countries)
- AU (African Union)
- SAARC (South Asian Association for Regional Cooperation)
- BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation)
- AFTA (Asia-Pacific Trade Agreement)

Economic diplomacy faces challenges from various political and economic issues among countries, including lack of political will, capacity constraints, domestic political obstacles, and mistrust among member states. These issues hinder smooth international trade and commerce (Rashid, 2023).

Recent Trends in International Economic Cooperation and Politics

Economic diplomacy, international politics, and state-to-state relations have become increasingly diversified. Countries now vary their external economic diplomacy, relations, and international diplomatic economic negotiations (Uddin, 2015). Promoting mutual global understanding and cooperation is more crucial than ever. However, the ideals of liberalism, free markets, open market economies, multilateralism, and competitive markets often clash with the realities of new regional trading blocs. Geopolitical problems pose significant challenges to global economic diplomacy.

Geopolitical significance varies with changing international politics, leading to the emergence of new regional trading blocs. Some countries gain geopolitical importance while others lose it. Geopolitical issues should be resolved through political negotiations rather than technical solutions (Dimitri, 2022, p. 44). Additionally, technology introduces new security concerns, impacting international politics.

Recently, unidentified flying objects (UFOs) such as mystery balloon aircraft have created tensions. For instance, the US shot down a balloon over Alaska in February 2023, which was suspected to be a Chinese spying device. Such incidents heighten mistrust and conflict in international relations. Technology-based cyber threats also introduce new challenges, leading to a climate of suspicion and preparation for defense (Schneider, 2022, p. 22).

The post-9/11 era saw a shift in Western concerns towards terrorism, often wrongly attributed exclusively to Islamic phenomena (Mishra, 2016, p. 25). This has led to a global environment of mistrust and perceived threats. Some countries, like Iran, are nearing nuclear weapon capability, intensifying arms races and mistrust. This context may shape a new world order, potentially escalating rivalry and malicious relations (Schneider, 2022, p. 22).

The ongoing Ukraine-Russian war further underscores potential changes in the economic world order, involving significant global powers through military aid. The legacy of the Cold War is revived through such conflicts. The Cold War, which began post-World War II with the Marshall Plan and Truman Doctrine, ended with Mikhail Gorbachev's policies of 'Glasnost' (openness) and 'Perestroika' (restructuring), leading to the disintegration of the Soviet Union (Levering, 2016, p. 214). Putin's Russia, however, seeks to reassert its influence, exemplified by actions in Georgia, Crimea, and Ukraine, as well as intervention in Syria. Putin's recent actions in Ukraine are perceived as steps toward reconstructing the former Soviet Empire and challenging US hegemony (Liana & Kimmage, 2023, p. 8).

The support of Western allies for Ukraine, led by the US, contrasts with the backing of Russia by China, India, and North Korea. China's increasing assertiveness and its alliance with Russia against the West further complicate

international politics (Cha, 2023, p. 89). The Ukraine-Russia war is seen as part of a broader effort by Russia to regain its former Soviet territories and influence. The potential NATO membership of Ukraine is a significant point of contention, with Russia firmly opposing it. Putin's approach challenges the current world order, demanding a sphere of influence over neighboring states, termed the 'Putin Doctrine' (Angela, 2022, p. 156).

These developments indicate emerging polarization and the potential for a new world order, influencing trends in foreign aid, trading blocs, and regional cooperation.

New Polarization in World Politics and Economic Zones

Key Actors and Their Roles

In the contemporary global political landscape, a new polarization is emerging, driven by the interplay of economic, military, and geopolitical factors. Key actors such as the United States, Russia, and China are exerting significant influence through strategic alliances, economic policies, and military capabilities.

Economic and Military Power

- **United States:** The US continues to play a dominant role in international politics and economics, leveraging its economic strength, military power, and strategic alliances.
- **Russia:** Under Vladimir Putin, Russia has reasserted itself as a major global player, engaging in military conflicts (e.g., Ukraine) and forming alliances such as BRICS to counter US influence.
- **China:** With its rapidly growing economy and military capabilities, China is expanding its influence, particularly through initiatives like the Belt and Road Initiative (BRI) and its role in regional organizations like the Shanghai Cooperation Organization (SCO).

Economic Alliances and Trading Blocs

Economic alliances and trading blocs are pivotal in shaping the new world order, influencing international labor migration, trade policies, and geopolitical dynamics.

1. BRICS (Brazil, Russia, India, China, South Africa)

- Formed as an economic alliance to challenge Western economic dominance, BRICS countries possess significant territory, resources, and economic power.
- This bloc is increasingly seen as a counterbalance to Western influence, particularly the US and its allies.

2. Regional Economic Blocs

- **European Union (EU):** A major economic entity with significant political influence, the EU plays a crucial role in global trade and economic policy.

- North American Free Trade Agreement (NAFTA)/United States-Mexico-Canada Agreement (USMCA): These agreements facilitate trade and economic integration in North America.
- ASEAN (Association of Southeast Asian Nations): A key player in Asia-Pacific economic integration.

3. Trade Policies and Labor Migration

- Trade policies, including tariffs, Most Favored Nation (MFN) status, and trade quotas, significantly impact international labor migration.
- Friendly borders (e.g., US-Canada) facilitate labor migration, while unfriendly borders (e.g., US-Mexico, India's borders with its neighbors) hinder it, affecting bilateral and regional relations.

Geopolitical Tensions and Strategic Alliances

1. Russia's Strategic Moves

- Russia is actively involved in various regional economic and political organizations (e.g., CISFTA, EEU, BRICS) to extend its influence and counter Western dominance.
- The Ukraine conflict and support for allied states through cheap fuel and arms are part of Russia's strategy to restore its former Soviet-era influence.

2. China's Expanding Influence

- China's role in brokering deals in the Middle East (e.g., Saudi Arabia-Iran reconciliation) and its membership in the SCO highlight its growing geopolitical clout.
- The BRI aims to enhance connectivity and cooperation across multiple regions, reinforcing China's economic and strategic goals.

3. US Strategic Responses

- The US is countering China's influence through initiatives like providing nuclear submarines to Australia and strengthening alliances in the Indo-Pacific region.
- The US's focus on maintaining its economic and military superiority involves ensuring the security of trade routes and supporting allies.

Emerging Trends and Future Implications

1. Shift in Global Economic Dynamics

- The move by China and Russia to reduce dependency on the US dollar in international trade (e.g., payments in local currencies) indicates a potential shift in the global economic order.

- Regional trading blocs and economic alliances are becoming more prominent, reshaping global trade and economic policies.

2. Geopolitical Realignments

- New alliances and strategic partnerships are forming, reflecting the changing geopolitical landscape.
- Countries like India and Pakistan are aligning more closely with Russia and China, impacting regional and global power dynamics.

3. Technological and Security Challenges

- Cybersecurity threats and technological advancements are creating new domains of international conflict and cooperation.
- Issues like espionage (e.g., spy balloons) and technological superiority are becoming central to international relations.

Findings

Revival of Geopolitical Rivalries

1. The end of the Cold War was expected to mark the cessation of major global rivalries, but recent developments indicate a resurgence of geopolitical tensions reminiscent of the Cold War era.
2. Russia's annexation of Crimea in 2014, China's aggressive territorial claims, and assertive strategies from Japan and other nations signal the return of competitive diplomacy and international power politics.

Key Global Players and Alliances

3. The US, EU, Russia, and China are central to the current geopolitical dynamics, with NATO expanding its membership and Russia and China strengthening their ties.
4. The Quadrilateral Security Dialogue (QUAD) involving the US, Australia, Japan, and India represents a significant alliance countering China's influence in the Indo-Pacific region.
5. The formation of the AUKUS pact (Australia, UK, US) to provide Australia with nuclear-powered submarines underscores the intensifying military competition in the region.

Economic and Strategic Interests

6. Economic policies, trade blocs, and strategic military alliances are shaping the new world order, with BRICS emerging as a counterbalance to Western dominance.
7. Initiatives like China's Belt and Road Initiative (BRI) and the growing influence of regional trading blocs highlight the shifting economic landscape.

Discussion

Strategic Position and Dependencies

1. Bangladesh, a developing country with significant geopolitical importance, must navigate its relationships with neighboring India and Myanmar and major powers like China, Russia, and the US.
2. India is a critical trade partner and shares historical and cultural ties with Bangladesh, while China is a major development partner providing substantial aid, investment, and military support.

Balancing Relations

3. Bangladesh faces a strategic dilemma due to the strained India-China relations. While China's investment and military support are crucial, Bangladesh also needs to maintain strong ties with India for economic and geopolitical stability.
4. Russia's historical support during Bangladesh's independence war and its ongoing assistance in projects like the nuclear electricity plant at Rooppur add another layer of strategic partnership.

Global Alliances and Pressure

5. The US and its allies are pressuring Bangladesh to join alliances like QUAD, which aims to counter China's influence in the Indo-Pacific. However, China has warned Bangladesh of the potential consequences of joining such alliances.
6. Bangladesh's substantial trade with the US and the West, especially in the garment sector, and the presence of a large Bangladeshi diaspora in the US complicate its position.

Neutrality and Development

7. Bangladesh's foreign policy of "friendship to all; malice to none" is crucial for maintaining neutrality amidst the escalating global tensions.
8. Ensuring continued development and avoiding the pitfalls of international and intra-national rivalries requires a careful and balanced diplomatic approach.

Conclusion

The resurgence of geopolitical rivalries, reminiscent of the Cold War era, is reshaping the global political and economic landscape. Major powers like the US, Russia, and China are engaging in strategic alliances and economic policies that influence global dynamics. For Bangladesh, navigating these complexities involves balancing its relationships with neighboring countries and major global powers while maintaining its policy of neutrality.

Bangladesh's strategic position and dependencies on key players like India, China, Russia, and the US necessitate a nuanced approach to foreign policy. By preserving neutral relations and focusing on economic and developmental goals,

Bangladesh can avoid becoming entangled in the intensifying geopolitical rivalries. The country's commitment to its motto of "friendship to all; malice to none" remains vital in ensuring its continued development and stability in an increasingly polarized world.

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