**FEDERAL STATE AUTONOMOUS EDUCATIONAL INSTITUTION OF HIGHER EDUCATION**

**NATIONAL RESEARCH UNIVERSITY**

**"HIGHER SCHOOL OF ECONOMICS"**

**Faculty St. Petersburg School of Social Sciences and Area Studies**

**Political Science and World Politics Department**

**PROJECT PROPOSAL**

**THE IMPACT OF FOREIGN CAPITAL ON QUALITY OF GOVERNANCE IN STATES WITH COFFEE RESOURCE DEPENDANCE (2000-2017)**

Svyatoslav Zborovsky, group 151

Advisor:

Dr. Alexey V. Gilev

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This paper is devoted to economic instruments of the foreign policy and their impact on the domestic politics of recipient-states. The purpose of this work is to identify the way how the inflow of foreign capital affects the quality of governance in countries with coffee resource dependence. The paper applies a strategy of mixed methods with the use of statistical methods of analysis and case study. The sample consists of all coffee exporting countries. This study is based on the institutional approach of D. Acemoglu and J. Robinson. The work consists of two parts: the theoretical one, which provides identification of variables, and the empirical part.

Kew words: Foreign capital, resource curse, quality of governance.

**Introduction**

**Background**

In 1994, the Tutsi people became subject of genocide in Rwanda, which, according to various sources, killed up to one million people. This event occurred during the authoritarian rule of Juvenal Habyarimana, a dictator who was focused on strengthening relations with Western countries. His regime was based on bribing loyalty from local elites at the expense of exporting coffee and foreign aid. It should be noted that the money from coffee exports contributed to the economic growth of Rwanda, and foreign aid promoted the dictator to stabilize the budget and stay in power even after the outbreak of the civil war in 1990 (Verwimp, 2003, p. 161-181). However, due to the fall in coffee prices in the late 1980s, Habiarimana needed to invent a new way of bribing loyalty from elites who were composed of representatives of the Hutu people, which resulted in genocide of the people who were in hostile relations with Hutu. The case of the genocide in Rwanda and its political and economic component shows the practical significance of studying foreign capital as a tool of achieving political goals, as well as studying coffee as a natural resource capable of influencing the political system of the state (Verwimp, 2003, p. 161-181).

**Problem statement**

This paper examines the impact of foreign capital on the quality of governance in countries with coffee resource dependence.

So, the purpose of the research is to study the impact of foreign capital inflow on the quality of governance in coffee-dependent countries.

The research question of the research is as follows: How does the inflow of foreign capital affect the quality of governance in countries with coffee resource dependence?

The subject of the research is the quality of governance in the selected countries.

The problem of the research is the impact of foreign capital on the quality of governance in countries with coffee resource dependence.

Thus, the research sets the following tasks:

1. To identify variables for statistical analysis based on academic literature and theories on this issue.

2. To conduct a descriptive study of the case of Rwanda;

3. To identify the indicators by which Rwanda was able to achieve improvement in the quality of public administration;

4. To conduct a statistical analysis based on the selected variables.

**Professional significance**

Within the area of the ongoing discussions in the literature, the question of the impact of foreign capital on the quality of governance in countries with resource dependence remains open. In view of the established tradition to focus research on oil resource dependence, it is interesting to look at this problem in the context of coffee resource dependence. It seems to be interesting because it allows understanding how crops work, while coffee is an appropriate case because it is grown in a large number of countries. This problem is relevant to the example of Rwanda, which was an authoritarian country with a low standard of living and survived the genocide, and which has now achieved administrative success and has high economic growth based on coffee exports and foreign capital inflows (Mut, 2009, p. 210-219; Tobias and Boudreaux, 2011, p. 217-242).

**Delimitations of the study**

The paper considers all countries producing coffee in the period from 2000 to 2017, since it is during this period that there was the smallest gap in statistical data.

**Literature review**

In political science, a large amount of research has been written on the impact of foreign aid and foreign direct investment on the internal politics of the host countries. Moreover, the authors of the works have not arrived at a consensus.

So, according to B. Savun and D. Tirone, foreign assistance leads to the democratization of the recipient country (Savun and Tirone, 2011, p. 243), whereas C. Morrison, S. Djankov, J. Montalvo and other authors argue about the harm of foreign aid for the establishment of democracy (Morrison, 2009, p.110.; Djankov, Montalvo, Reynal-Querol, 2008, p. 169-194; Ahmed, 2012, p. 146-165.; De Mesquita, 2007, p. 251-284). Discussions are also ongoing regarding politicization and the reasons for the provision of foreign aid (Dunning, 2004, p. 409-423.; Alesina, Dollar, 2000, p. 33-63).

The authors share three main positions regarding the impact of foreign direct investment on the domestic politics of the host countries: some write about the beneficial effects of investment on economic growth and political stability of the recipient country(Jensen, 2003, p. 587-616), while others state that foreign investment is a way to capture a country's resource economy with weak institutions (Cardoso, 1979, p. 150), and still others allocate foreign direct investment as a way to consolidate and stabilize the existing authoritarian regime in the host country (Shiffman, 2011).

It should be noted, that much of the research on the influence of foreign capital on the domestic politics of the recipient country or its political regime as a whole applies the indicator of the quality of governance. This indicator measures the quality of institutions in democracies and illustrates the design of an authoritarian regime, in other words, how does the public administration system help an authoritarian leader to retain his power?
A large number of works focus on the influence of foreign capital on the quality of governance in countries with resource dependence. According to S. Djankov and co-authors, in such countries “two curses collide” and it is unknown how the status quo will change after their collision, i.e. how the institutions will change, the relationship of power with interest groups and, most importantly, how the life of the entire population will change (Djankov, Montalvo, Reynal-Querol, 2008, p. 169-194). Studying this problem in countries with a resource curse, the authors continue the tradition of M. Ross and conduct studies about countries that are rich in hydrocarbon resources (Ross, 2001, p. 325-361). There is also a small layer of literature that addresses this issue in the context of resource dependence on diamonds, focusing on the example of Botswana (Good, 2008).

In the works devoted to hydrocarbon and diamond resource dependence, the authors consider various mechanisms of the curse action. One of the main factors in this problem is the variable of technologies. States with a resource curse often have poor equipment to extract such natural resources as oil and diamonds, and therefore they have to attract foreign technology. Bringing their equipment and working personnel, foreign actors, for example, investors, begin to fully control the process of mining, as described in the work on the "rentier effect" (Mahdavi, 1970). Thus, it is interesting to study the impact of foreign capital on the quality of public administration in countries with coffee resource dependence, since the extraction of coffee does not imply high technologies and knowledge, and also has labor extraction complexity that differs from other natural resources.

**Theoretical framework**

In the social and economic sciences there are many theories on the issues of foreign aid, resource dependence and governance. Some of them help to understand foreign aid and foreign direct investment as economic instruments of foreign policy, others help to describe and measure the quality of governance in various types of political regime and, moreover, there are many theories to explain the political aspects of resource dependence. This paper lists the basic theories of key authors on the topic being studied, which will allow hypotheses to be put forward for research.

One of the main ones is the institutional theory of D. Acemoglu and J. Robinson (Acemoglu, Robinson, 2012). According to the authors, there are two types of political institutions: inclusive and exclusive. Inclusive institutions include the wider population in the political and economic process and contribute to economic growth, democratization and political stability. By contrast, exclusive institutions restrict access to politics and economic well-being (Acemoglu, Robinson, 2012). Such institutions contribute to the fact that all the economic wealth of the country is concentrated in the hands of the elite narrow stratum, which also holds political power. The study states that the resource curse is the result of the actions of extractive institutions, and the status quo, the change of which will not allow the elite, even if it leads to economic growth and improve the quality of governance. The fact is that with such a change, the economic well-being and political power of the elite will begin to decrease, which is what it seeks to prevent. Thus, this theory perfectly describes the case of Rwanda during the rule of J. Habyarimana, when the money from coffee exports and foreign aid was distributed within the political and economic elite. Thus, within the framework of this paradigm, the influence of foreign capital on the quality of governance will be positive in conditions of inclusive institutions (in democracies) and negative in conditions of extractive institutions (in non-democratic regimes).

The following theory, based on incentives, was advanced by American political economist W. Easterly. His research is interesting in the context of the problem of public administration. So, citing many examples from African countries, the author writes that foreign capital positively affects the quality of governance only when the government is given the right incentives (Easterly, 2002). According to him, poor and politically unstable countries see no point in improving the economy and the political situation. However, with the improvement of public health and education, with guarantees of basic rights, freedoms and private property, in other words, with an increase in human capital, a mechanism begins to work, in which it becomes clear why the state is accountable, and the state sees what it needs to strive for and how they can be helped by foreign capital in attaining goals.

The third main theory is the state-rentier theory put forward by H. Mahdavi. According to this theory, in authoritarian countries rich in natural resources, the stability of the current political regime is ensured by rent from foreign companies that have access to national natural resources (Mahdavi, 1970). The local elite and authoritarian leader are consolidating with foreigners, and all revenues remain in their hands. In such countries, the accountability system is violated, and citizens' loyalty is bribed by high social benefits (Mahdavi, 1970).

However, the research is not limited to the above theories. They are described as they are conventional for this topic and help to formulate preliminary results of the study.

**Methods**

The study uses mixed methods: case studies and statistics, which means that the empirical chapter will be divided into two logical parts. First, I will conduct a descriptive case-study of the Rwanda to understand its transit from an authoritarian dictatorial regime to administrative success with high economic growth. By studying this case study, it is possible to find significant variables that have led to the economic and administrative success of Rwanda. The second part of the empirical chapter is a statistical analysis with variables derived from the theoretical chapter and the first part of the empirical chapter. The choice of statistical analysis is justified by two reasons. First, most authors on this issue use quantitative methods to answer this type of research questions. Secondly, the logic of applying quantitative methods is most suitable for finding influence, in other words, finding the dependence of a dependent variable (quality of governance) on an independent variable (inflow of foreign capital). The time frame of the study is from 2000 to 2017, since there is the smallest data gap. The list of countries for sampling is all countries producing coffee in order to avoid external validity.

In the research secondary data sources are used. To indicate indicators of economic variables, I will use the World Bank database, and for political indicators I will use the database of the World State Indicators project.

The research provides a descriptive data analysis and preparation of variables for the statistical analysis. Based on the distribution and type of variables, a suitable method will be chosen to solve the regression problem. The study may use regression models, since the dependent variable has a distribution close to normal (Appendix 1).

**Results Anticipated**

Based on the academic literature and theoretical framework, the research suggests the following results: firstly, the inflow of foreign capital has a positive effect on the quality of governance in countries with coffee-related resource dependence with inclusive institutions. Secondly, with an increase in the level of human capital, foreign capital has a positive effect on the quality of governance in countries with coffee resource dependence. And, ultimately, the inflow of foreign capital has a negative effect on the quality of governance in countries with coffee resource dependence with extractive institutions.

**Conclusion**

To sum up, this work is devoted to the problem of the influence of foreign capital on the quality of governance in countries with coffee resource dependence. The scientific relevance of this work is conditioned by the academic discussion on this issue, and the practical one by the genocide case in Rwanda and the political and economic instability in poor countries with resource dependence. The expected results fit and complement the literature on this issue, and studying this problem in the context of coffee dependence will allow to better understand the specifics of democratic and non-democratic management styles in the context of two “curses”: “curses of foreign support” and “resource curses” (Djankov, Montalvo, Reynal-Querol, 2008).

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**Appendix**

The distribution of dependent variable

