

YOUNG-HAN KIM

Sungkyunkwan University, South Korea

DAYE KWON

Sungkyunkwan University, South Korea

WELFARE EFFECTS OF FOREIGN AIDS POLICY COORDINATION AMONG ASYMMETRIC DONOR COUNTRIES

Abstract:

This paper investigates the optimal policy for foreign economic aids and welfare effects foreign aids policy coordination between asymmetric donor countries in terms of income level. When donor countries are altruistic with higher welfare from the increased income of the poor in the recipient country, it has been argued for aids policy coordination to reduce a common good problem.

Based on a simple model considering asymmetric donors making endogenous decision on the amount of aids and recipient country making decision on the income transfer for the poor people, we demonstrate that aids policy coordination does not always welfare dominates the non-cooperative aids policies. The results imply that when the asymmetry of donor countries' income level is higher than the critical level, aids policy sovereignty can be welfare dominant to uniform aids policy coordination.

Keywords:

Foreign aids, Asymmetric donors, Foreign aids policy coordination

JEL Classification: F55, O19, F59