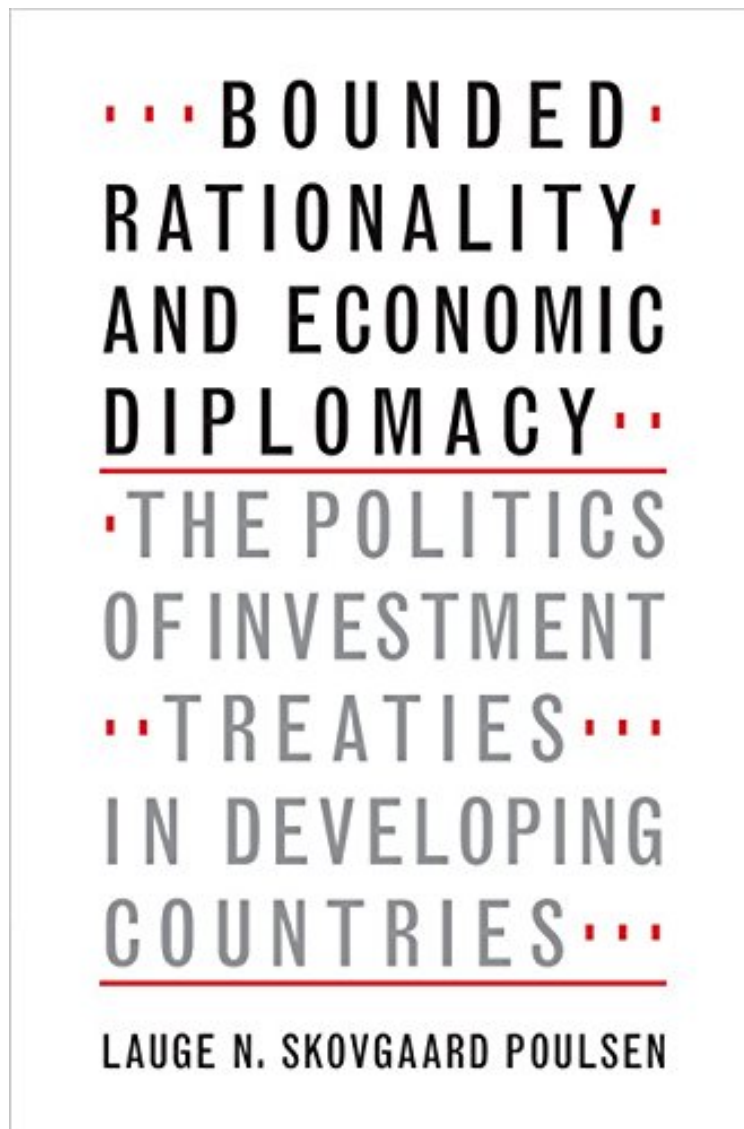


# **Bounded Rationality and Economic Diplomacy: The Politics of Investment Treaties in Developing Countries**

*Lauge N. Skovgaard Poulsen*

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**Lauge N. Skovgaard Poulsen : Bounded Rationality and Economic Diplomacy: The Politics of Investment Treaties in Developing Countries** before purchasing it in order to gauge whether or not it would be worth my time, and all praised Bounded Rationality and Economic Diplomacy: The Politics of Investment Treaties in Developing Countries:

Modern investment treaties give private arbitrators power to determine whether governments should pay compensation to foreign investors for a wide range of sovereign acts. In recent years, particularly developing countries have incurred significant liabilities from investment treaty arbitration, which begs the question why they signed the treaties in the first place. Through a comprehensive and timely analysis, this book shows that governments in developing countries typically overestimated the economic benefits of investment treaties and practically ignored their risks. Rooted in insights on bounded rationality from behavioural psychology and economics, the analysis highlights how policy-makers often relied on inferential shortcuts when assessing the implications of the treaties, which resulted in systematic deviations from fully rational behaviour. This not only sheds new light on one of the most controversial legal regimes underwriting economic globalization but also provides a novel theoretical account of the often irrational, yet predictable, nature of economic diplomacy.

"Well before the current hype in Europe over investor-state dispute settlement, Poulsen pioneered the view that many countries signed up to investment protection treaties in less than rational ways. This book provides careful, country-specific evidence in support, with eye-opening stories from across the world, ranging from Pakistan and Ghana to the Czech Republic, Costa Rica and South Africa. Countries simply assumed the economic benefits of investment treaties and underestimated the possibility and costs of legal claims. World Bank and UN officials promoted the treaties and so did Western lawyers and advisors. Debunking the rational premise of much of the academic scholarship, this book should be compulsory reading for a new generation of policymakers and scholars alike, if only to avoid the mistakes of the past and find better ways to address today's increasingly complex challenges of economic diplomacy." Joost Pauwelyn, Graduate Institute, Geneva "BITs don't have to be boring!nbsp;Lauge Poulsen has developed a simple yet elegant framework based on bounded rationality to explain why many less developed countries have made rationally foolish choices when signing bilateral investment treaties. By slightly relaxing the strong assumptions of rationality, and combining it with careful in-depth case analysis, he provides a compelling account of the bilateral investment treaty regime and its sometimes perverse consequences." Duncan Snidal, Nuffield College, Oxford "In explaining why developing countries signed on to investment treaties that were arguably not in their interests, Poulsen adds greatly to Graham Allison's ground-breaking analysis of the Cuban Missile Crisis so that we can better understand how government decision-making - in rich as well as poor countries - works in practice." Louis T. Wells, Herbert F. Johnson Professor of International Management, Emeritus, Harvard Business School "Lauge Poulsen makes a truly innovative contribution to political economy by using a rich set of insights from cognitive psychology and behavioral economics to explain the spread and impact of bilateral investment treaties. His thorough statistical and qualitative research convincingly demonstrates the superiority of this bounded-rationality theory over conventional rationalist accounts." Kurt Weyland, Mike Hogg Professor in Liberal Arts, Department of Government, University of Texas, Austin About the Author Lauge N. Skovgaard Poulsen is a Lecturer in International Political Economy at University College London.