The Strategic Nature of U.S. Foreign Aid

Jenny Tison

Northwestern 2006

Mathematical Methods in the Social Sciences & Political Science
Abstract

The goal of this thesis is to prove that the United States allocates its foreign aid in a strategic way, seeking to increase its power and enhance its international reputation. This approach stands in contrast to a humanitarian conception, which claims the United States issues aid to the neediest countries in an effort to improve the human condition. In a complex world, it is most sensible for a country to conceive of its self-interest in a purely individual manner. Indeed, while the fates of nations may be linked, it is illogical for any country to put others before itself. As a result, countries make decisions with only their own well-being in mind. Though this argument has become widely accepted as part of realist doctrine, few scholars have attempted to test it empirically. In this thesis, I seek to assess the validity of the strategic claim concerning foreign aid.

In order to operationalize this question, I developed a framework suggesting that the United States should strategically send funding to its allies for two principal reasons. First, foreign aid is used to reassure international partners of the continuing validity of their alliance. Second, countries use funding to strengthen the states that they may one day call upon for help. Based on this rationale, the United States should target funding to its allies.

Statistical analysis used data spanning the Cold War period and its aftermath in order to gain the clearest picture of recent United States policy. The resulting econometric study shows that formal alliances affect U.S. aid allocations significantly and positively, bolstering the realist notion. The results of aid regressions on multilateral alliances and GDP per capita, though not always significant, suggest that the U.S. does act strategically.

By carefully selecting how it uses foreign aid, the United States attempts to strengthen its grasp on power and thereby fortify its national security.
Table of Contents

<table>
<thead>
<tr>
<th>Section Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acknowledgments</td>
<td>4</td>
</tr>
<tr>
<td>Introduction</td>
<td>5</td>
</tr>
<tr>
<td>History of Foreign Aid</td>
<td>6</td>
</tr>
<tr>
<td>Theory on Foreign Aid</td>
<td>9</td>
</tr>
<tr>
<td>Motivation for Testing the Realist Claim</td>
<td>12</td>
</tr>
<tr>
<td>Alliances: A Tool to Test the Strategic Use of Foreign Aid</td>
<td>12</td>
</tr>
<tr>
<td>How do alliances relate to foreign aid?</td>
<td>13</td>
</tr>
<tr>
<td>What do scholars say about the relationship?</td>
<td>14</td>
</tr>
<tr>
<td>What would a strategic conception of funding allies look like?</td>
<td>15</td>
</tr>
<tr>
<td>Methodology</td>
<td>19</td>
</tr>
<tr>
<td>Data Sources</td>
<td>20</td>
</tr>
<tr>
<td>Data</td>
<td>21</td>
</tr>
<tr>
<td>Results</td>
<td>23</td>
</tr>
<tr>
<td>Conclusion</td>
<td>27</td>
</tr>
<tr>
<td>Bibliography</td>
<td>30</td>
</tr>
<tr>
<td>Appendix: List of Countries Included in Statistical Analysis</td>
<td>32</td>
</tr>
</tbody>
</table>
Acknowledgments

I would like to first thank my advisor, Professor Risa Brooks of the Political Science department. Throughout the year, she helped me focus my research question and eventually the thesis paper itself. Her recommendation to read Economic Statecraft by David Baldwin played a large part in refining my interest in how the United States uses foreign aid to influence other nations.

Secondly, I would also like to express my gratitude to Professor Luojia Hu of the Economics department. She graciously answered my questions about how to best exploit the wealth of data I had gained in the early stages of the thesis project and helped refine my conclusions from the econometric regressions.

The teaching assistant for the MMSS seminar, Jon Huntley, was extremely generous with his assistance as I worked to put my data in a usable format. His programming knowledge helped save valuable time and made my statistical analysis possible.

I would be remiss if I did not thank my parents, who contributed their valuable editing skills and supported my efforts from the very beginning.

Finally, I would like to thank the MMSS seminar advisors, Professor Dacey and Professor Ferrie, for their advice throughout the course of the project and their efforts to keep our seminar class on track.
Introduction

Diverse theories attempt to explain the use of foreign aid. While some scholars claim that the United States gives other nations loans and grants solely to increase U.S. power, others believe U.S. actions stem from nobler humanitarian principles or the desire to preserve the international status quo by keeping less-developed countries reliant on U.S. funding. I contend that this first argument is most convincing: the United States wields the tools of economic statecraft in order to achieve wide-ranging strategic goals. The U.S. acts pursuant to a realist outlook, seeking to promote its national interest and choosing the recipients of its foreign aid accordingly.

Foreign aid is a unique implement in any international policy maker’s arsenal, occupying a middle ground between other policy options. Unlike the rhetoric of diplomacy, positive economic inducements suggest the potential for constructive relations between two nations but are also accompanied by a material benefit. Unlike the threat of warfare, foreign aid attempts to attract support rather than demand it. Its use indicates favorable intentions on the part of the donor and a desire for a long-term relationship between two countries. Just as crucially, its acceptance by the recipient signifies an understanding of these factors. Foreign aid, therefore, can be used as an incredibly political tool, significantly revealing the objectives of both donor and recipient and implying a connection between two nations. My aim is to prove that the United States uses this complex tool strategically.

To test this hypothesis, I used alliances as an indicator of the United States’ strategic purposes, arguing that the U.S. is more likely to donate funding to its allies for two key reasons. First, foreign aid is used to signal favorable intentions and an ongoing commitment toward a recipient. In the complex modern world, alliances do not exist in perpetuity. Donors use foreign
aid to reassure allies of the continuing validity of their partnership. Second, funding is used to strengthen a recipient. In times of crisis, a donor nation may call upon its international partners for help. Ideally, these nations will be as strong as possible. Therefore, in times of peace, a country will use foreign aid to strengthen its allies.

In order to realize its political goals and ensure its security, the United States will choose to concentrate its efforts where they will have the highest likelihood of success – U.S. allies. Given this rationale, I expected several patterns to emerge. Powerful allies will appreciate the signal sent by foreign aid, reminding them of the validity of their partnership with the United States. Weak non-allies will see U.S. foreign aid as more than a signal, using it to shore up their capabilities and thereby strengthening the U.S. alliance base. In contrast, the donation of money to non-allies will not reliably serve the nation’s purposes. Powerful non-allies will not be swayed by U.S. money and less powerful non-allies would be of little use to U.S. ends. The United States has little reason to assure or strengthen enemy nations. As such, alliances provide a good test of whether or not the United States uses foreign aid in a strategic way. I posit that this is the case: in the use of foreign aid, we find that the U.S. acts strategically in order to increase its international standing.

**History of Foreign Aid**

In order to understand the United States’ current use of foreign aid, it is helpful to reflect on its role in U.S. policy over the past half-century.

Following World War II, the Marshall Plan sent $17 billion to Western Europe over a four-year period, as the United States hoped to rebuild the region and simultaneously insulate it from the Soviet Union. President Truman included foreign aid as a key policy point in his 1949
inaugural address, emphasizing its future use in promoting development. The following year, the Act for International Development Act was passed in order to alleviate economic difficulty and promote sound monetary policy.¹

As the United States became entrenched in the Cold War, foreign aid quickly began to be viewed more and more strategically. The Mutual Security Act, which permitted aid only when it would enhance U.S. national security, replaced the International Development Act a year later.² Seen as a middle ground between war and inaction, positive economic inducements allowed the U.S. to ingratiate itself with nations caught between the two global poles. The Soviet Union embarked on a similar policy route, leading George Liska to describe the result as “economic warfare.”³

Presidential support remained evident; in 1961, President Kennedy centralized former State Department aid activities in the United States Agency for International Development (USAID).⁴ Often, aid was given as a reward for supporting U.S. policy and cooperating with U.S. aims. For instance, following the 1979 Camp David accords, Israel and Egypt were the top two recipients of Economic Support Funds in the early 1980s.⁵ Military aid, already 52% of aid in 1969, doubled by 1973 and doubled again from 1980 to 1985 under President Reagan.⁶,⁷,⁸ In contrast with economic aid, military aid is used specifically to shore up a country’s defense efforts or provide it with U.S. military equipment or training. Throughout the Cold War, United

---

¹ Spyros Economides and Peter Wilson, The Economic Factor in International Relations (New York: I.B. Tauris, 2001), 126
² Economides and Wilson, The Economic Factor in International Relations, 128
³ George Liska, The New Statecraft: Foreign Aid in American Foreign Policy (Chicago: University of Chicago Press, 1960), 4
⁴ Michael Hudson, Super Imperialism (Sterling, VA: Pluto Press, 2003), 235
⁵ Frances Lappé, Rachel Schurman and Kevin Danaher, Betraying the National Interest (New York: Grove Press, 1987), 17
⁶ Hudson, Super Imperialism, 221
States presidents moved large amounts of foreign aid to shore up American security and fight the Soviet menace.

In the aftermath of the Cold War, foreign aid took on different roles and receded in importance. After 1991, U.S. military and economic aid stagnated and slowly fell off. With military spending seemingly less necessary, President Clinton directed funding away from the world’s poorest areas as he concentrated on domestic policy. The remaining foreign aid was used for a more diffuse set of reasons. In addition to the old strategies of focusing on security, development and humanitarian relief, the U.S. began to channel aid to support former USSR countries and promote democracy. This newer rationale would find increased traction at the turn of the 21st century.

The events of September 11, 2001 buoyed the use of foreign aid as policymakers began to use it as a tool to fight terrorism. From 2001 to 2004, economic and military foreign aid more than doubled. President Bush, seeking to increase the efficacy of aid, introduced the Millennium Challenge Account in 2002 to target responsible governments. Though foreign aid could not win the war on terror alone, policy makers and theorists hoped that its use as part of a comprehensive strategy would usher in a new era of peace. The modern outlook is shaped by these uncertainties about the impact of globalization, failed states and violence. Foreign aid is increasingly becoming a part of wide-ranging U.S. strategies seeking to deal with these fears.

---

8 Lappé, Schurman and Danaher, *Betraying the National Interest*, 11
Theory on Foreign Aid

Three predominant schools of thought have prevailed throughout the expansive foreign aid literature. These three theoretical perspectives are the strategic (realist), humanitarian (liberal) and economic (Marxist).\(^{12}\) They vary in terms of their motivations, their end goals and their beliefs on the separation of economics and politics.

Realist thinkers believe that a country should take selective actions to bolster its national security, seeking power whenever rational. Power, as described by David Baldwin, is the ability to persuade a country to do something they would not do otherwise. By changing a target country’s cost/benefit calculation, the donor can coerce the recipient to act in such a way as to suit the donor’s ends. These ends may not be merely economic; rather, they can span political, diplomatic, military and psychological dimensions. Foreign aid clarifies a donor country’s values and intentions and expresses a commitment to the recipient. Ideal in situations needing more pressure than ordinary diplomacy but less than a military engagement, economic statecraft is a flexible tool for policy makers.\(^ {13}\) By picking and choosing how to use foreign aid, nations can bestow and receive multifaceted gains with the sole intention of retaining and accumulating power.\(^ {14}\) In this case, foreign aid “is neither ‘foreign’ nor ‘aid,’” but rather United States money being used to help the United States.\(^ {15}\) As Richard Nixon bluntly claimed, “The main purpose of American aid is not to help other nations but to help ourselves.”\(^ {16}\)

Liberal thinkers believe that by seeking to improve the general human condition, countries will improve their own positions as well. (In other words, “a rising tide lifts all

---


\(^{14}\) Economides and Wilson, *The Economic Factor in International Relations*, 124

\(^{15}\) Baldwin, *Economic Statecraft*, 291

\(^{16}\) Economides and Wilson, *The Economic Factor in International Relations*, 130
boats.”) By fighting poverty and contributing to economic and democratic development, nations may best ensure their survival by advancing the deepest needs of others.17 Jeffrey Sachs, a renowned economist, drew from the Enlightenment to claim that government should be used to improve the human condition.18 Hans Morgenthau, a prominent international relations theorist, wrote,

The very assumption … that ‘foreign aid is an instrument of foreign policy’ is a subject of controversy. For the opinion is widely held that foreign aid is an end in itself, carrying within itself a justification both transcending, and independent from, foreign policy. In this view, foreign aid is the fulfillment of an obligation which the few rich nations have toward the many poor ones.19

Foreign loan and grant endeavors such as debt forgiveness and food aid are means to support one’s fellow man first and eventually oneself. For example, former Secretary of State Colin Powell urged the United States to tackle the political and social roots of poverty in order to help contain terrorism.20 While U.S. well-being is eventually served, the primary emphasis is on aiding others. As another example, the United Nations Relief and Rehabilitation Administration required aid to be given according to economic need. (Notably, the United States withdrew support from the body because of this requirement.)21 A widely-perceived liberal conception of foreign aid suggests that a significant objective of U.S. aid “is to bring about an improvement in economic, social and political conditions in any foreign country.”22 As such, U.S. funding would spur globalization, benefit less wealthy countries and eliminate the distinction between core and periphery nations.

Marxists believe that developed countries act solely to preserve their economic dominance, subjecting third world countries and former colonies to policies aimed at stalling

17 Colin Powell, “No Country Left Behind,” Foreign Policy, Jan.-Feb. 2005
18 Sachs, The End of Poverty, 348
19 Liska, The New Statecraft: Foreign Aid in American Foreign Policy, vii
20 Powell, “No Country Left Behind”
21 Hudson, Super Imperialism, 228
their development. Foreign aid, therefore, is given (or denied) in order to preserve and widen the gap between rich and poor nations, restricting the recipient countries’ capacity for self-reliance.\textsuperscript{23,24} In justifying its use, policymakers ignore external factors, donating “callously, coldly and with deliberate intent to enlarge U.S. military and political influence.”\textsuperscript{25} In contrast with realists, Marxists conceptualize power as strictly economic. They claim that the pursuit of wealth is zero-sum and, as such, smaller countries are often horribly disadvantaged.\textsuperscript{26} Unfortunately, the powerful almost always win out; U.S. aid policies create dependency and long-term financial burdens for recipients. By aiming to “stem the spread of economic and political disruption,” the United States attempts to rigidly preserve the status quo.\textsuperscript{27}

Though these three schools of thought seem diametrically opposed, some connections do exist. As Jeffrey Sachs wrote, “Countries do occasionally act altruistically, helping other countries to address their basic economic and social challenges… Foreign policy strategists have long recognized that acts of altruism … are also acts of enlightened self-interest.”\textsuperscript{28} In that vein, realists are willing to admit that self-serving actions sometimes serve others. For example, the U.S. may strategically give foreign aid to countries with low GDP per capita in an effort to stave off the contagion resulting from failed states.

With this in mind, I seek to examine the claim that U.S. foreign aid is given pursuant to a strategic rationale, not neglecting the fact that activities that help it gain power and bolster its national security may also help aid recipients.

\textsuperscript{22} Lancaster, \textit{Transforming Foreign Aid}, 9
\textsuperscript{23} Van Belle, Rioux and Potter, \textit{Media, Bureaucracies and Foreign Aid}, 13
\textsuperscript{24} Hudson, \textit{Super Imperialism}, 217
\textsuperscript{25} Hudson, \textit{Super Imperialism}, 219
\textsuperscript{26} Economides and Wilson, \textit{The Economic Factor in International Relations}, 36, 56
\textsuperscript{27} Lappé, Schurman and Danaher, \textit{Betraying the National Interest}, 15
\textsuperscript{28} Sachs, \textit{The End of Poverty}, 331
Motivation for Testing the Realist Claim

In a complex world, the only way countries can afford to act is with precise rationality. By weighing the costs and benefits of their actions, nations can choose the best manner of proceeding. The principal aim of a country is self-preservation; at the end, only the strong survive. Therefore, all tools of statecraft and national actions should be directed toward maintaining and building upon a country’s strengths. Foreign aid, one tool of statecraft, will be used with this reasoning in mind. Though aid may help recipient nations, this assistance is only incidental. Though aid may create dependency problems, this is not the primary goal of U.S. grants. The United States rationally uses foreign aid to bolster its power and the allocation decisions it makes reflect this aim.

Despite the influential nature of this interpretation, as shown in the literature review, few scholars have attempted to test the realist claim empirically. This lack of statistical assessment is a gaping hole in the existing research, one that I seek to remedy in this paper.

Alliances: A Tool to Test the Strategic Use of Foreign Aid

In order to test the realist claim that foreign aid is given strategically, I used alliance theory. I recognized two main reasons that nations acting rationally would send foreign aid to their allies, noting that these partnerships could be used to analyze the realist claim. I next examined this theory’s basis in literature, finding in most cases that Cold War-era arguments about foreign aid and alliances had not been updated for the modern world. In turn, I developed a framework of hypotheses to explain how this relationship would function, providing a further basis to use alliances to test the realist claim empirically.
How do alliances relate to foreign aid?

The first line of reasoning linking foreign aid with alliances stems from the work of Stephen Walt, which claimed that alliances are formed as a result of shared political interests. Countries join coalitions when it is profitable to do so, and remain in the coalitions for only so long as their membership stays profitable. As such, leading states must constantly reassure members of the alliance’s usefulness and issue them frequent incentives for continued membership. Foreign aid, therefore, is an extremely useful tool for states seeking to act strategically.

The second line of reasoning comes from considering alliances as an investment of a nation’s reputation and resources in both the short-term and long-term. Think of an alliance between countries A and B. In the present stage, country A publicly proclaims country B as an ally, thus linking their actions and international standing. Any hostile action by country B will reflect upon country A and mandate a response. In the long-term, country B may call upon country A to uphold the terms of their alliance. If one of these terms was collective security, for instance, country A might need to send troops and equipment to aid its ally, even if it had no original desire to be involved in the altercation. Correspondingly, country B would prefer country A to be a powerful nation, capable of providing the resources and support it needed. Therefore, in times of peace, country B’s quest for self-preservation would be served by actively working to strengthen country A. Foreign aid is one means of strengthening an international partner.

---

30 Liska, *The New Statecraft: Foreign Aid in American Foreign Policy*, 74-80
What do scholars say about the relationship?

After surveying the existing literature, I found an abundance of Cold War-era arguments but few that applied to the modern political climate. While Cold War theorists contested that automatically funding allies made for a simplistic philosophy, the diffused, multipolar nature of today’s world may result in a less complex strategic policy. Formerly, scholars believed that if the United States only directed foreign aid to its allies, neutral countries would be driven to the Soviet Union and the U.S. alliance base would erode.\(^{31}\) In the modern era, the lack of a singular international opponent means that U.S. policy makers do not need to be as wary that foreign aid (or lack thereof) will drastically change the nation’s alliance base. Therefore, rather than considering whether foreign aid creates the U.S. alliance base, we can now contemplate the converse: whether alliances strategically prompt foreign aid donations. This distinction is readily seen in the Cold War-era writings of Stephen Walt, which claimed that alliances are formed as a result of shared political interests rather than positive economic inducements.

Though foreign aid could be used to tighten alliances, it rarely created them, and was influential in important cases only when the recipient was weak or vulnerable.\(^ {32}\) This is a demonstrative example of a Cold War-era argument, in that it examines causality from foreign aid to alliances. To reiterate, modern political situations mandate the reversal of this causality. In order to test the strategic use of foreign aid, I use this argument: countries are more likely to give foreign aid to their allies.

Some scholars claim that the funding of international partners is not a positive strategic action. Allies become harder to coerce over time because they expect preferential treatment; as

\(^{31}\) Liska, *The New Statecraft: Foreign Aid in American Foreign Policy*, 72

\(^{32}\) Walt, *The Origins of Alliances*, 238
they become stronger with increased aid, they have less need of the donor’s support.33,34

However, I contend that aid serves primarily as a signal of good intentions for powerful recipients and works to shore up capabilities in weaker nations. It would not be strategic to give a recipient so much funding that they became a rival power. Even the most well-meaning countries award aid with this in mind. While aid is obviously used in ways beneficial to the recipient, it would never be enough to cause the recipient to become more powerful than the donor. As such, funding allies is a strategic action.

What would a strategic conception of funding allies look like?

In order to use alliances to test the validity of the strategic use of foreign aid, one must be sure that the funding of allies is truly a strategic decision. When presented with options, how should strategic countries spend money designated for foreign aid? If this question can be answered by alliances, alliances can then be used in an empiric assessment of the realist claim. As shown, much of the literature concerning this topic focused on Cold War-type arguments examining whether foreign aid created or destroyed alliances. In order to update this theoretical model for looking at foreign aid allocation decisions, I constructed the following framework to explain the decision to fund allies. The following are my hypotheses:

<table>
<thead>
<tr>
<th></th>
<th>Ally</th>
<th>Non-Ally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Nation</td>
<td>Give foreign aid as a signal of commitment / reminder of alliance validity</td>
<td>Deny foreign aid to avoid enemy spending on aims contrary to U.S. goals</td>
</tr>
<tr>
<td>Weak Nation</td>
<td>Give foreign aid to shore up capabilities</td>
<td>Deny foreign aid to countries unable to help U.S. goals</td>
</tr>
</tbody>
</table>

33 Liska, *The New Statecraft: Foreign Aid in American Foreign Policy*, 82
The categories, while simplistic, are all-encompassing. Nations are either allies or not. Neutral states and political opponents are grouped in the non-ally category. The distinction of strength and weakness, while not strictly defined, is quite relevant to the realist view. Realists conceive of the national interest as a never-ending quest for power, especially in the military and economic sectors. Joseph Nye describes military and economic power as types of “hard power,” which can be used coercively when strong countries negotiate. As defined earlier, to a realist, power is the ability to persuade a country to do something it would not do otherwise. Strong countries have this ability while weak countries do not.

With the framework in place, I examined each of the four possible recipient alternatives in turn. How would a strategic country direct its foreign aid?

1. Strong Ally

Though free funding is always welcome, a strong ally will not be in as much need as a less-powerful nation. Foreign aid will serve primarily as a signal of good intentions and ongoing commitment, incidentally helping the recipient to improve capabilities that might be required later. In this way, aid is self-serving: by helping a friendly nation, the donor is attempting to ensure future cooperation of the highest possible caliber. The cost of the donation adds credibility to the linkage between the countries in a way that diplomacy can not. Therefore, foreign aid is given to strong allies primarily for the first line of reasoning mentioned: to remind the ally of the partnership’s validity.

Yet, why would a country choose to give money to a nation it had already won over? To answer, the world is not static. Global political conditions are constantly shifting and friendly

---

34 Walt, *The Origins of Alliances*, 238
36 Baldwin, *Economic Statecraft*, 20
37 Baldwin, *Economic Statecraft*, 107
relations between nations in one stage do not necessarily mean they will exist in the next stage. Countries are constantly battling for control, and as such, a nation must issue friendly nations constant reminders of their alliance’s validity. As a modern example, President Hugo Chávez of Venezuela currently spends billions of dollars on foreign aid in order to serve as a funding alternative to the United States. By helping Argentina clear its debt to the International Monetary Fund and offering Cuba low-priced oil, Venezuela is competing with the United States for international support.\(^{38}\) In order to maintain power, the U.S. must answer in kind, assuring its allies that it can do more to serve their interests than Venezuela.

2. Strong Non-Ally

It makes little sense to spend money on one’s direct competition. The two main reasons have no traction in this scenario; donors do not need to assure their enemies of anything and certainly do not want to improve their already existing resources. A third reason is similarly inadequate. Begin by assuming that strong nations that are not U.S. allies differ from it on key policy points. If they did not consider these matters to be of extreme importance, they would rationally switch them to be in line with U.S. positions. It would therefore serve United States interests if these countries shifted their views on these crucial issues. Yet, strong nations will not be bribed into compliance easily, especially on such significant matters. For instance, it is hard to conceive of a loan or grant large enough to convince Iran to halt its nuclear program. Funding enemies would be, quite simply, a waste of money. Countries are self-interested; enemies would use any money granted them to achieve contrary aims.

It is worth noting that a small number of counterexamples exist. For instance, the United States gives foreign funding to Venezuela. However, rather than being directed to help President Chávez, this money is used to “promote democracy” (clearly a euphemism for undermining

\(^{38}\) Juan Forero, *New York Times*, “Chávez Uses Aid To Win Support In the Americas,” 4 April 2006
President Chávez’s regime).\textsuperscript{39} In this case, foreign aid is used strategically as an offensive tactical weapon.

3. Weak Ally

Presumably, the United States uses its alliances as a means to aggregate powerful friends and thus increase its own power. Yet, power does not necessarily have to take the military and economic form. In contrast to hard power, Joseph Nye describes “soft power” as resting in a country’s culture, principles and foreign policy when they are deemed attractive and legitimate by the international community. Soft power can work as an unspoken influence upon other nations, persuading them to follow the internationally acclaimed policy set forth.\textsuperscript{40} An alliance with soft power countries can be just as useful to the United States as one with hard power countries, though it serves different purposes.

As with a strong ally, the United States wants to convince a friendly weak nation that it is in its best interest to continue to maintain cordial relations with the United States. Foreign aid, due to the cost involved, can help convince the target nation of U.S. sincerity. Unlike the strong nation case, aid serves as more than a signal; it can legitimately improve the conditions of the recipient, making the beneficiary better able to protect U.S. interests in the long-term. Therefore, while both main reasons are applicable, in this case the United States is most interested in strengthening the weaker nations of its alliance base.

4. Weak Non-Ally

The United States should have little interest in countries lacking hard and soft power as these nations have no means to help U.S. aims. Though a humanitarian thinker would argue that a weak country is probably most in need of monetary help, a realist would only recommend that


\textsuperscript{40} Nye, \textit{Bound to Lead: The Changing Nature of American Power}, 32-33
the U.S. give aid when doing so would serve its ends. This contrast melts away in the case of Sub-Saharan Africa. The proposed linkage between failed states and terrorism prompts the United States to shore up acutely poor nations. Though not U.S. allies, these countries can still serve U.S. ends by remaining stable. In the direst of circumstances, such stability cannot be taken for granted. As a result, the United States directs funding to this select group of impoverished countries. However, this example is the exception and not the rule.

Conclusion: In the majority of settings, I hypothesize that it makes strategic sense for the United States to choose to fund its allies. Alliances can thus be used instrumentally to test the validity of the strategic claim of foreign aid allocations.

Methodology

The key issue I attempted to examine with my statistical analysis was the effect of alliances on U.S. foreign aid donations. The dependent variable was United States loans and grants over the four-decade period from 1960 to 2000. The independent variables included GDP, GDP per capita and dummy variables indicating alliances between countries and the United States. Specifically, these included North Atlantic Treaty Organization (NATO) and Organization of American States (OAS) membership and the existence of other formal alliances. I regressed varying combinations of these independent variables on U.S. economic aid, military aid, food aid and total loans and grants.

My data took the form of a balanced panel dataset encompassing 188 countries over a 41-year time period. The “xtreg” function of STATA allowed me to exploit the richness of the cross-sectional time series. A Hausman test was used to decide between fixed effects and
random effects. In every case, the null hypothesis, that no correlation between individual effects and explanatory variables existed, was not rejected. As a result, I used random effects due its consistency and efficiency. As a check, results were still compared against fixed effects due to the more robust nature of the fixed regression. (Fixed effects allows the unobserved variables to be correlated with the explanatory variables, and remains consistent regardless of the outcome of the Hausman test.)

**Data Sources**

The countries were selected according to USAID’s online overseas loan and grant information. This dataset included countries that had both received U.S. economic or military assistance since 1945 and were considered an independent nation by the U.S. Department of State. Country names and years of existence were cross-referenced against the state membership dataset provided by the Correlates of War project. Requirements for inclusion in this dataset were that countries either be members of the United Nations or League of Nations or have populations above 500,000 and receive diplomatic missions from two major powers. All regressions were subject to the constraint that only states in existence be included.

Foreign aid data was reported in 2003 constant U.S. dollars and broken into economic loans and grants, food aid, military aid and combinations thereof.

Alliance data spanned bilateral and multilateral agreements. Data came from the Correlates of War project, which classified an agreement as an alliance so long as a formal, written treaty existed. A dummy variable was included in regressions to indicate the existence of a formal alliance with the United States. This information was further refined by using the Issue Correlates of War dataset on Multilateral Treaties of Pacific Settlement (MTOPS). The MTOPS
dataset aided in the creation of dummy variables for UN, NATO and OAS membership of individual countries by year. The Correlates of War data was refined to exclude these three alliances.

GDP and GDP per capita data were obtained from the World Bank Development Indicators dataset. GDP was measured in current U.S. dollars. GDP per capita was measured in constant 2000 U.S. dollars. This discrepancy only meant that coefficients could not be interpreted as literal indications of the impact of the independent variables.

The time period examined was 1960 to 2000, selected partly due to the availability of data but explicitly to include the Cold War and its aftermath.

Data

In order to compare countries across multiple datasets, I constructed a dummy variable titled exist to represent whether or not certain countries were in existence at that time. This proved particularly helpful in the case of West, East and modern Germany, for instance. All regressions were subject to the requirement that exist be equal to one.

The independent variables, recorded for each country by year, included:

cowalliance  A dummy variable representing a formal alliance between the United States and another nation. It does not include UN, NATO or OAS membership.

oas  A dummy variable representing a country’s membership in OAS.

nato  A dummy variable representing a country’s membership in NATO.

gdp  Gross domestic product of a country, given in current U.S. dollars.

gdppc  Gross domestic product per capita of a country, given in 2000 U.S. dollars.
Independent variable summary statistics:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Observations</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>cowalliance</td>
<td>6142</td>
<td>0.0677304</td>
<td>0.2513031</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>oas</td>
<td>6142</td>
<td>0.1763269</td>
<td>0.3811291</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>nato</td>
<td>6142</td>
<td>0.0900358</td>
<td>0.2862564</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>gdp (in mil)</td>
<td>5234</td>
<td>63700</td>
<td>269000</td>
<td>28</td>
<td>5280000</td>
</tr>
<tr>
<td>gdppc</td>
<td>5064</td>
<td>4609.657</td>
<td>7160.575</td>
<td>44.64</td>
<td>61506</td>
</tr>
</tbody>
</table>

Dependent variables, recorded for each country by year, included:

**military** The amount of U.S. military loans and grants a country received.

**economic** The amount of U.S. economic loans and grants a country received.

**food** The amount of U.S. food aid a country received. Included in *elgs*.

**total** The total amount of U.S. economic and military loans and grants a country received.

**mratio** The ratio of U.S. military loans and grants to total aid a country received.

**eratio** The ratio of U.S. economic loans and grants to total aid a country received.

Dependent variable summary statistics:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Observations</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>military (in mil)</td>
<td>6142</td>
<td>65.70</td>
<td>451.00</td>
<td>0</td>
<td>11400</td>
</tr>
<tr>
<td>economic (in mil)</td>
<td>6142</td>
<td>73.50</td>
<td>263.00</td>
<td>0</td>
<td>4170</td>
</tr>
<tr>
<td>food (in mil)</td>
<td>6142</td>
<td>23.00</td>
<td>98.70</td>
<td>0</td>
<td>2620</td>
</tr>
<tr>
<td>total (in mil)</td>
<td>6142</td>
<td>139.00</td>
<td>639.00</td>
<td>0</td>
<td>13100</td>
</tr>
<tr>
<td>mratio</td>
<td>4519</td>
<td>0.21</td>
<td>0.33</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>eratio</td>
<td>4519</td>
<td>0.79</td>
<td>0.33</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>
Results

To begin, I regressed formal alliances, NATO membership and GDP per capita on military, economic and total aid. If the strategic claim was correct, these first two factors would be positive and significant. GDP per capita was included as a concession to the humanitarian claim. If the liberal viewpoint was correct, aid would only be given to impoverished nations and thus, GDP per capita would be negatively correlated with aid.

xtreg total cowalliance nato gdppc if exist == 1

Random effects u_i ~ Gaussian Wald chi2(3) = 10.38
corr(u_i, X) = 0 (assumed) Prob > chi2 = 0.0156

total Coef. Std. Err. z P>|z| [95% Conf. Interval]
cowalliance 8.82e+07 2.92e+07 3.02 0.002 3.11e+07 1.45E+08
nato 1.04e+07 6.66e+07 0.16 0.876 -1.20e+08 1.41E+08
gdppc -1707.548 1611.487 -1.06 0.289 -4866.005 1450.909
cons 9.97e+07 2.47e+07 4.04 0.000 5.13e+07 1.48E+08

xtreg military cowalliance nato gdppc if exist == 1

Random effects u_i ~ Gaussian Wald chi2(3) = 4.89
corr(u_i, X) = 0 (assumed) Prob > chi2 = 0.1798

military Coef. Std. Err. z P>|z| [95% Conf. Interval]
cowalliance 3.34e+07 1.89e+07 1.76 0.078 -3727643 7.05E+07
nato 4.91e+07 4.10e+07 1.20 0.230 -3.12e+07 1.29E+08
gdppc -923.2976 1035.88 -0.89 0.373 -2953.585 1106.99
cons 3.51e+07 1.46e+07 2.41 0.016 6521679 6.37E+07
xtreg economic cowalliance nato gdppc if exist == 1

<table>
<thead>
<tr>
<th>Random effects</th>
<th>Wald chi2(3) = 14.13</th>
</tr>
</thead>
<tbody>
<tr>
<td>corr(u_i, X)</td>
<td>0 (assumed)</td>
</tr>
<tr>
<td>Prob &gt; chi2</td>
<td>0.0027</td>
</tr>
</tbody>
</table>

| economic      | Coef. | Std. Err. | z    | P>|z|  | [95% Conf. Interval] |
|---------------|-------|-----------|------|------|---------------------|
| cowalliance   | 5.70e+07 | 1.68e+07 | 3.40 | 0.001 | 2.41e+07 8.98E+07   |
| nato          | -3.62e+07 | 3.53e+07 | -1.03 | 0.304 | -1.05e+08 3.29E+07 |
| gdppc         | -810.4242 | 912.0847 | -0.89 | 0.374 | -2598.077 977.229  |
| cons          | 6.48e+07 | 1.23e+07 | 5.26 | 0.000 | 4.06e+07 8.90E+07   |

Excitingly, the results were right in keeping with these predictions. The coefficient on \textit{cowalliance} (again, formal alliances excluding UN, NATO and OAS membership) was positive and extremely significant (at a 1% level) for economic and total loans and grants. For military aid, the coefficient was positive and significant at a 10% p-value. If a country was in a formal alliance with the United States, there was a significant chance it would receive more foreign aid! Due to differing financial scales, the coefficients cannot be taken as exact indications of how much an alliance will stimulate foreign funding. However, in all cases, the magnitude of the coefficient was at least eight digits, indicating a sizable effect. When comparing these coefficients to the average amount of each particular type of aid, it becomes clear that alliances are quite consequential.

<table>
<thead>
<tr>
<th>Type of aid</th>
<th>\textit{cowalliance} coefficient</th>
<th>Summary statistic</th>
<th>Ratio of coefficient to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>total</td>
<td>8.82E+07</td>
<td>1.39E+08</td>
<td>0.63</td>
</tr>
<tr>
<td>military</td>
<td>3.34E+07</td>
<td>6.57E+07</td>
<td>0.51</td>
</tr>
<tr>
<td>economic</td>
<td>5.70E+07</td>
<td>7.35E+07</td>
<td>0.78</td>
</tr>
</tbody>
</table>
A formal alliance indicates that a country will get at least 50% of the aid the United States gives on average. This is a large amount; political decisions like foreign aid funding are invariably complex, so it is surprising that one variable can have this kind of effect. Alliances do matter significantly in foreign aid decisions, clearly supporting the strategic claim.

NATO membership was not significant in these regressions, but its coefficient had a positive sign for military and total aid and a negative sign for economic aid. The ramifications are compelling, suggesting that the United States rationally enters into military alliances with nations who are stable enough to not need economic aid. These military allies, capable of foregoing more development-oriented aid, are given military aid. In this manner, the U.S. shores up the capabilities of the countries that might need to defend it or provide joint military assistance one day.

To examine this point further, I created the \texttt{mratio} variable to represent the ratio of military aid a country received versus its total U.S. aid package.

\begin{verbatim}
xtreg mratio cowalliance nato oas gdppc if exist == 1
Random effects u_i ~ Gaussian Wald chi2(4) =       169.08
       corr(u_i, X) = 0 (assumed) Prob > chi2 =         0

mratio   Coef.   Std. Err.     z    P>|z|     [95% Conf. Interval]
cowalliance   .0798054   .0270152  2.95   0.003     .0268565 0.1327543
    nato     .1678717   .0533156  3.15   0.002     .063375 0.2723683
    oas     .0989262   .0331602  2.98   0.003     .0339334 0.1639191
    gdppc   .0000267   2.52e-06 10.60   0.000     .0000218 0.0000316
    cons    .1413676   .0222264  6.36   0.000     .0978047 0.1849304
\end{verbatim}
This ratio was significantly and positively correlated with formal alliances and OAS and NATO membership. United States allies are likely to receive a higher proportion of military aid than non-allies. If a country is a NATO member, its aid package should contain 16.8% more military aid than a non-NATO member. Other formal allies and OAS members should receive aid that contains 8.0% and 9.9% more military aid, respectively. The United States would rather entrust military aid to countries that are formally obligated to defend its interests and support its aims.

In all other regressions, the oas variable never approached significance, though its sign was positive as predicted.

GDP per capita was not significant in any of the three main regressions, though it did have a negative sign. If a country’s citizens had less money, the country was more likely to receive U.S. foreign aid. This is in keeping with liberal philosophy: the United States would rather direct economic loans and grants to countries with a lower quality of life. Economic aid could be used to spur development and improve the lives of ordinary citizens.

Intriguingly, GDP per capita had a significantly positive sign for the mratio regression. Wealthier countries were slightly more likely to receive military aid than other types of funding. Presumably, a country’s riches are spent judiciously, resulting in a stable nation capable of doing without development-related aid. The United States would rather give military aid in these situations, hoping that its military donations will cause recipients to become favorably disposed to helping it in times of need.
I also regressed the set of independent variables on U.S. food aid.

```
xtrreg food cowalliance nato gdppc if exist == 1
```

Random effects $u_i$ ~ Gaussian

```
Wald chi2(3) = 30.92
```

corr($u_i$, $X$) = 0 (assumed)

```
Prob > chi2 = 0
```

| Coef.     | Std. Err. | z     | P>|z|  | 95% Conf. Interval |
|-----------|-----------|-------|------|-------------------|
| food      | 2.66e+07  | 7079194 | 3.76 | 0.000             | 1.27e+07 4.05E+07 |
| cowalliance | -5841377  | 1.38e+07 | -0.42 | 0.672       | -3.29e+07 2.12E+07 |
| nato      | -1459.823 | 378.9912 | -3.85 | 0.000       | -2202.632 -717.014 |
| gdppc     | 2.51e+07  | 4636907 | 5.42  | 0.000             | 1.60e+07 3.42E+07 |
| cons      |           |        |      |              |                      |

Both `cowalliance` and `gdppc` were significant and had signs that fit earlier predictions. If a country was in a formal alliance with the United States it was significantly more likely to receive food aid. Poorer nations were also more likely to receive food aid. Thus, both the humanitarian and strategic perspectives were supported in the food aid regression.

**Conclusion**

The goal of this thesis was to prove that United States foreign aid is given pursuant to a realist worldview. That is, U.S. funds are allocated in order to increase U.S. power and promote U.S. ends. Without a clear way to measure bureaucratic motives, I used alliances to operationalize the question. In general, countries acting rationally would be more likely to give funding to their allies. This action would express an ongoing commitment to international partners and also increase the power of the allied nation. If the data bore out this hypothesis, the strategic conception of foreign aid allocation would be validated.
In general, the strategic claim was supported by the data. Formal alliances, as expressed by the *cowalliance* variable, were significantly more likely to result in increased foreign aid donations. Multilateral alliances, given by *oas* and *nato*, though not significant, were positively correlated with aid donations for military and total aid and negatively correlated for economic and food aid. This discrepancy is explainable: OAS and NATO members agree to terms of collective security, indicating that they are capable of mobilizing an army and equipment when required. This capacity suggests that they have less need of development-related aid. Correspondingly, countries in these alliances were significantly more likely to receive military aid than other forms of U.S. funding. Alliances did have a notable effect on U.S. foreign aid donations, lending credence to the strategic hypothesis.

Humanitarian funding was represented by the *gdppc* variable. Though its sign was negative in the aid regressions, it was never significant. As such, the liberal claim did not have a tremendous basis in the data. Perhaps the most insight can be gleaned from the *mratio* regression, in which the coefficient was small but significantly positive. That is, the only case in which *gdppc* was significant actually supported the realist hypothesis. Wealthier countries are better-suited for military aid, and the United States strategically acts on this fact.

Though the results were not overwhelming, they did bolster the strategic claim, which could have been disproved empirically. United States aid is given to help the United States, even though this funding may help others as well. Indeed, it is strategically sensible to give aid to allies who have less. A rational country would seek to increase the average power of its alliance base, giving more money to poorer allies than wealthier partners. A policy of always giving to those that have more money would be illogical. These countries only require enough money to signal United States commitment. In contrast, the U.S. will send weaker allies more funding
than a mere signal; it will send enough to shore up their future capabilities. To reiterate, though it makes sense for a nation to fund its allies, it also makes sense that these allies will be funded in a manner inversely proportional to wealth. As such, the realist claim could have been invalidated if alliances had no significant effect on aid or if their coefficients were negative. On the other hand, it would have been illogical to have expected the humanitarian hypothesis to be completely disproved. There is no rational explanation for GDP per capita to be positively correlated with aid. If this had occurred, it would have refuted the strategic claim as well. For these reasons, it is exciting that the strategic claim was bolstered by the data.

I purposefully examined a time-frame that encompassed the Cold War and its aftermath, hoping to gain a better perspective on foreign aid usage. Many theorists had discussed foreign aid from the vantage point of a bipolar world and few had used empiric evidence. By updating these arguments and adding the alliance component and statistical analysis, I hope I have made a small impact in the study of U.S. foreign aid. In the aftermath of September 11, 2001, the allocation patterns of foreign aid will continue to be a fascinating issue to follow, serving as a lens to view the United States’ conception of its position in modern international relations.
Works Cited


## Appendix: List of Countries Included in Statistical Analysis

<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>Djibouti</td>
<td>Kyrgyzstan</td>
</tr>
<tr>
<td>Albania</td>
<td>Dominica</td>
<td>Laos</td>
</tr>
<tr>
<td>Algeria</td>
<td>Dominican Republic</td>
<td>Latvia</td>
</tr>
<tr>
<td>Angola</td>
<td>Ecuador</td>
<td>Lebanon</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>Egypt</td>
<td>Lesotho</td>
</tr>
<tr>
<td>Argentina</td>
<td>El Salvador</td>
<td>Liberia</td>
</tr>
<tr>
<td>Armenia</td>
<td>Equatorial Guinea</td>
<td>Libya</td>
</tr>
<tr>
<td>Australia</td>
<td>Eritrea</td>
<td>Lithuania</td>
</tr>
<tr>
<td>Austria</td>
<td>Estonia</td>
<td>Macedonia</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Ethiopia</td>
<td>Madagascar</td>
</tr>
<tr>
<td>Bahamas</td>
<td>Fiji</td>
<td>Malawi</td>
</tr>
<tr>
<td>Bahrain</td>
<td>Finland</td>
<td>Malaysia</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>France</td>
<td>Maldives</td>
</tr>
<tr>
<td>Barbados</td>
<td>Gabon</td>
<td>Mali</td>
</tr>
<tr>
<td>Belarus</td>
<td>Georgia</td>
<td>Malta</td>
</tr>
<tr>
<td>Belgium</td>
<td>German Democratic Republic</td>
<td>Marshall Islands</td>
</tr>
<tr>
<td>Benin</td>
<td>German Federal Republic</td>
<td>Mauritania</td>
</tr>
<tr>
<td>Bhutan</td>
<td>Germany</td>
<td>Mauritius</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Ghana</td>
<td>Mexico</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>Georgia</td>
<td>Micronesia</td>
</tr>
<tr>
<td>Botswana</td>
<td>Grenada</td>
<td>Moldova</td>
</tr>
<tr>
<td>Brazil</td>
<td>Guatemala</td>
<td>Mongolia</td>
</tr>
<tr>
<td>Brunei</td>
<td>Guinea</td>
<td>Morocco</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Guinea-Bissau</td>
<td>Mozambique</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Guyana</td>
<td>Namibia</td>
</tr>
<tr>
<td>Burma</td>
<td>Haiti</td>
<td>Nepal</td>
</tr>
<tr>
<td>Burundi</td>
<td>Honduras</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Hungary</td>
<td>New Zealand</td>
</tr>
<tr>
<td>Cameroon</td>
<td>Iceland</td>
<td>Nicaragua</td>
</tr>
<tr>
<td>Canada</td>
<td>India</td>
<td>Niger</td>
</tr>
<tr>
<td>Cape Verde</td>
<td>Indonesia</td>
<td>Nigeria</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>Iran</td>
<td>North Korea</td>
</tr>
<tr>
<td>Chad</td>
<td>Iraq</td>
<td>Norway</td>
</tr>
<tr>
<td>Chile</td>
<td>Ireland</td>
<td>Oman</td>
</tr>
<tr>
<td>China</td>
<td>Israel</td>
<td>Pakistan</td>
</tr>
<tr>
<td>Colombia</td>
<td>Italy</td>
<td>Palau</td>
</tr>
<tr>
<td>Comoros</td>
<td>Ivory Coast</td>
<td>Panama</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>Jamaica</td>
<td>Papua New Guinea</td>
</tr>
<tr>
<td>Croatia</td>
<td>Japan</td>
<td>Paraguay</td>
</tr>
<tr>
<td>Cuba</td>
<td>Jordan</td>
<td>Peru</td>
</tr>
<tr>
<td>Cyprus</td>
<td>Kazakhstan</td>
<td>Philippines</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Kenya</td>
<td>Poland</td>
</tr>
<tr>
<td>Democratic Republic of Congo</td>
<td>Kiribati</td>
<td>Portugal</td>
</tr>
<tr>
<td>Denmark</td>
<td>Kuwait</td>
<td>Qatar</td>
</tr>
</tbody>
</table>

Republic of Congo
Romania
Russia
Rwanda
St. Kitts and Nevis
St. Lucia
St. Vincent and Grenadines
Samoa
Sao Tome and Principe
Saudi Arabia
Senegal
Seychelles
Sierra Leone
Singapore
Slovakia
Slovenia
Solomon Islands
Somalia
South Africa
South Korea
South Vietnam
Spain
Sri Lanka
Sudan
Suriname
Swaziland
Sweden
Switzerland
Syria
Taiwan
Tajikistan
Tanzania
Thailand
Togo
Tonga
Trinidad and Tobago
Tunisia
Turkey
Turkmenistan
Uganda
Ukraine
United Arab Emirates
United Kingdom
Uruguay
Uzbekistan
Vanuatu

Venezuela
Vietnam
Yemen
Yemen Arab Republic
Yemen People's Republic
Yugoslavia
Zambia
Zimbabwe