



ECONOMIC AID AND THE STRATEGY OF CONTAINMENT

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GEOPOLITICS AND ECONOMIC DEVELOPMENT

- Distinction between strategic and developmental motives in aid policy
 - Especially in studies of the Cold War
- Prominent examples where economic development and strategic interests aligned
 - Marshall Plan, U.S. aid to Japan, South Korea, Taiwan, etc.
 - Creating bulwarks against Communism required the U.S. to support economic development

GEOPOLITICAL ALIGNMENT

- Bipolar competition
- Aid supports development when the donor is attempting to defend its sphere of influence
 - Allies and security partners
- Aid is cash payment for political support when the donor is attempting to expand its sphere of influence
 - Neutral and non-aligned countries

MEASURING CONDITIONALITY

- PL 480 (U.S. food aid program) generated revenue that could be allocated across different loan programs
 - Private industry
 - Economic development
 - Defense
 - General Budget Support
- General Budget Support had the lowest conditionality

MEASURING POLITICAL DISTANCE

- Index of political distance from the U.S.
 - 1: ally or security partner of the U.S.
 - 2: Subject to U.S. influence but not Communist influence
 - 3: Subject to both U.S. and Communist influence
- I assigned a value of 1 if the recipient had an alliance treaty with the U.S.; for other countries, I assigned the value based on U.S diplomatic papers

MEASURING U.S. THREAT PERCEPTIONS

- Scale of threat severity against U.S. allies based on U.S. diplomatic papers
 - 0 – no threat
 - 1 – threat is weak; U.S. intervention certainly not needed
 - 2 – threat is moderate; U.S. intervention probably not needed
 - 3 – threat is severe; U.S. intervention probably needed
 - 4 – state of emergency; U.S. intervention certainly needed

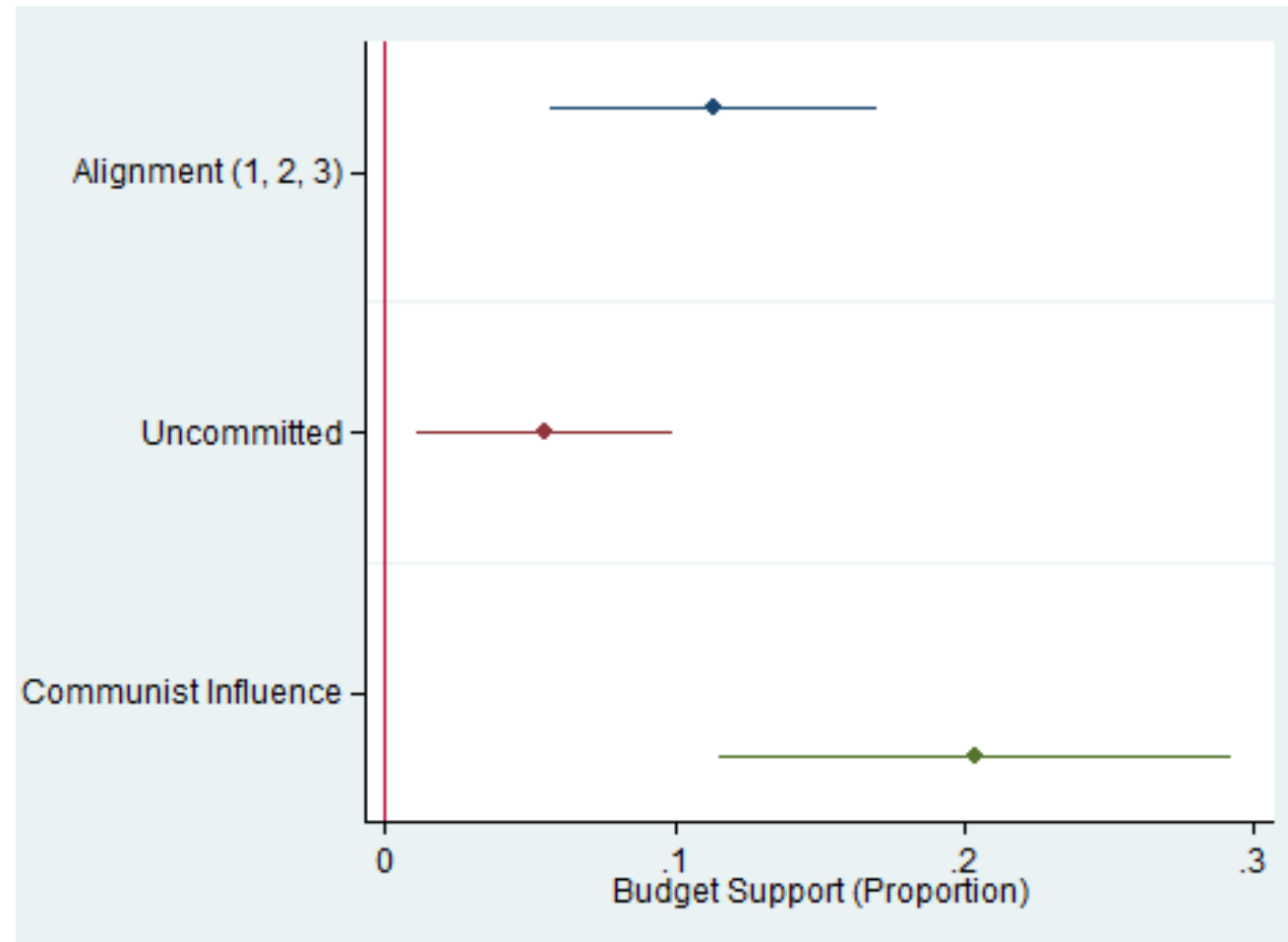
SAMPLE

- U.S. aid recipients, 1955-1970
 - Excluding clients of the Soviet Union, European colonies, and countries in a state of anarchy
- Measure of alignment is complete for all aid recipients in all regions
- Measure of threat perception is complete for U.S. allies/security partners in Western Europe and East Asia

H1: TYPE OF AID

- DV: Budget support as a proportion of total economic aid
- IV: Political distance
- Model: OLS (also works with fractional logit)
- Control variables: population (logged), GDP per capita (logged), GDP per capita growth, democracy, trade openness, U.S. presidential administration, region, country/year fixed effects
- Similar results with UNGA ideal point estimates as measure of alignment

POLITICAL DISTANCE AND BUDGET SUPPORT



H2: LEVEL OF AID

- “Let me emphasize, as I said to you, that ...today the great bulk of our aid goes to Korea, Taiwan and Indochina — where it helps us both. These countries are in the front lines and are directly faced with the Communist military threat.” – U.S. Secretary of State to the President of the Philippines (1956)

H2: LEVEL OF AID

- DV: Total Economic Aid (logged)
- IV: U.S. Threat perception
- Model: OLS
- Control variables: population (logged), GDP per capita (logged), GDP per capita growth, democracy, trade openness, U.S. presidential administration, region, country/year fixed effects

THREAT PERCEPTIONS AND THE LEVEL OF AID (ALLIES IN WESTERN EUROPE AND EAST ASIA)

Democracy	0.101 (0.0812)	0.891 (1.816)
Population (logged)	-7.420* (3.769)	-122.1 (74.61)
GDP p.c. (logged)	-3.742** (1.729)	-38.68 (40.63)
GDP p.c. growth	4.346 (3.099)	-76.33 (82.27)
Trade Openness	-0.0300** (0.0137)	-0.946** (0.386)
Year Fixed Effects	Yes	Yes
Region Fixed Effects	Yes	Yes
Country Fixed Effects	Yes	Yes
Administration Fixed Effects	Yes	Yes
Observations	127	127
R-squared	0.647	0.527

FINDINGS

- “Geopolitics” is not always about purchasing political support
- Under bipolarity, strategic aid is developmental when the recipient is an ally
 - More conditions in aid to allies than in aid to non-allies
- The donor’s threat perceptions explain variation in the level of aid to its allies

CONCLUSION

- Prevalent distinction between geopolitical and developmental motives in aid policy
- The geopolitical alignment of the aid recipient influences the tradeoff between supporting development and purchasing political support
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UNGA VOTING AS MEASURE OF ALIGNMENT

Ideal point Distance from U.S.	-0.0199 (0.0157)	0.0231* (0.0125)
Democracy	0.000613 (0.00183)	0.00285** (0.00126)
Population (logged)	0.362*** (0.120)	-0.00125 (0.0145)
GDP p.c. (logged)	-0.0306 (0.0623)	-0.0181 (0.0145)
GDP p.c. growth	-0.102 (0.0972)	-0.148 (0.0940)
Trade Openness	0.00128 (0.00104)	-0.000475 (0.000377)
Administration Fixed Effects	Yes	Yes
Region Fixed Effects	Yes	Yes
Year Fixed Effects	Yes	Yes
Country Fixed Effects	Yes	No
Standard Errors Clustered at Country	No	Yes
Observations	848	848
R-squared	0.373	0.153

MOBUTU/ZAIRE

- Mobutu was “a major voice among the non-aligned states” (U.S. Embassy in Zaire, 1973)
- “Mobutu may have decided that since the US no longer seemed to share Zaire’s interests, exposing a US ‘plot’ would be worth the risk to our considerable bilateral relations if it served to justify moving closer to socialist powers and, perhaps, would jog the US into paying more attention to his needs.” – Assistant Secretary of State for African Affairs (1975)

EGYPT

- “
...steps to be
taken involve negotiation of loan agreement and subsequent mutual
agreement re use of funds for economic development in Egyptian Region
under .” – State Department to the U.S. Embassy in
Egypt, 1959

GENERAL BUDGET SUPPORT UNDER PL 480

- “Foreign governments are also being _____ to reloan some of the funds available to them under section 104 (g) [loans to governments] for projects involving private enterprise and investment. But express agreements to reserve specific portions of 104 (g) loan funds for this purpose are no longer being sought in connection with current sales negotiations.” - State Department Bulletin (1958)