

Commercial Imperialism? Political Influence and Trade During the Cold War

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Do Power and Influence Matter for International Trade?

- The idea that changes in influence of one country's government over another may affect international trade is not new.
- Long history ranging from:
 - Eli Heckscher (1935)
 - Albert Hirschman (1945)
 - Dependency theorists
 - Pol Antras and Gerrard Padro-i-Miquel (2009)
- However, systematic empirical evidence on this remains scarce.
- The difficulty is in quantifying power and influence.

Our Study

- We use CIA interventions that successfully install or prop up foreign leaders as an indicator of US influence over a country.
- Key assumption: the US had more influence over leaders that the CIA installed or propped up.

CIA Intervention Variables

- We use recently declassified documents to identify CIA interventions aimed at installing or propping leaders in other countries during the Cold War, 1947–1989.
- Baseline intervention variable: US influence_{t,c}
 - Equals one in the years that the CIA either installed or supported the leader of a foreign country.

Initial of Findings

- Between 1947 and 1989, intervened countries experienced an increase in imports from the US, but experienced no increase in their exports to the US.
 - Greatest increase in imports of goods in which the US had low comparative advantage.
- The increase in foreign-country imports from the US arose through trade diversion: there is no evidence of trade creation.
- The increase in imports from the US is only observed among autocratic regimes.
 - We expect influence to have been greater in autocracies, where leaders are less accountable to their citizens, and can more freely affect policies.

Potential Selection of Interventions

- Interventions may have been more likely to occur when there was a 'dip' in foreign-country imports of US products.
- This would result in an upward bias for the estimated effect of US interventions on imports from the US.
- We undertake a number of strategies to account for this form of selection, including controls for:
 - Pre-trends of the dependent variable.
 - Pre-intervention fixed effects.
 - Pre-onset fixed effects.

Testing Alternative Explanations

We are able to rule out the following alternative explanations for these relationships:

1. Trade costs explanation:

- Interventions may have reduced bilateral trade costs between the intervened country and the US.

2. Political ideology explanation:

- The new regimes following an intervention may have been more politically aligned with the “West”, and therefore, imported more from Western countries, including the US.

3. US Loans and grants explanation:

- The US may have supplied more loans and grants (e.g., foreign aid) to intervened countries.

Channels and Mechanisms

- We provide evidence that the increase in imports from the US likely arose through direct government purchases of American products.
- We find no evidence that the increase in US imports arose from an increase in US FDI or from changing tariffs.

A Famous CIA Intervention: Chile

isocode	year	<i>US influence</i>	Key Historical Events
...	
CHL	1963	0	
CHL	1964	1	Election; CIA propoganda, funding, etc; Frei wins
CHL	1965	1	Continued support for right wing groups, etc.
CHL	1966	1	...
CHL	1967	1	...
CHL	1968	1	...
CHL	1969	1	...
CHL	1970	1	Salvador Allende wins election
CHL	1971	0	
CHL	1972	0	
CHL	1973	1	CIA planned coup; head of military, Pinochet takes power
CHL	1974	1	...
CHL	1975	1	...
CHL	1976	1	...
CHL	1977	1	...
CHL	1978	1	...
CHL	1979	1	...
CHL	1980	1	...
CHL	1981	1	...
CHL	1982	1	...
CHL	1983	1	...
CHL	1984	1	...
CHL	1985	1	...
CHL	1986	1	...
CHL	1987	1	...
CHL	1988	1	Plebiscite, democratic elections; Pinochet steps down
CHL	1989	0	
...	

Interventions: Some Summary Statistics

- 50 countries experienced some form of successful intervention.
- In a typical year in our sample, *US influence* = 1 for 24 countries.
- The average intervention episode lasted for 21 years.

Trade Share Estimates

	In share of imports from the US: ln (Imports from US / Imports from world)			In share of exports to the US: ln (Exports to US / Exports to world)		
	Full sample	Autocracies	Democracies	Full sample	Autocracies	Democracies
	(1)	(2)	(3)	(4)	(5)	(6)
<i>US influence</i>	0.105*** (0.029)	0.178*** (0.050)	0.021 (0.026)	0.026 (0.046)	0.011 (0.080)	0.018 (0.041)
Lagged dependent variable (<i>t</i> -1)	0.539*** (0.074)	0.524*** (0.082)	0.555*** (0.071)	0.598*** (0.052)	0.588*** (0.059)	0.539*** (0.073)
Lagged dependent variable (<i>t</i> -2)	0.228*** (0.087)	0.229** (0.099)	0.176** (0.062)	0.119** (0.048)	0.122** (0.054)	0.111 (0.068)
Soviet intervention control	Y	Y	Y	Y	Y	Y
ln per capita income, ln total income	Y	Y	Y	Y	Y	Y
ln total income	Y	Y	Y	Y	Y	Y
Leader turnover, leader tenure	Y	Y	Y	Y	Y	Y
GATT and NY convention controls	Y	Y	Y	Y	Y	Y
Polity fixed effects	Y	Y	Y	Y	Y	Y
Country fixed effects	Y	Y	Y	Y	Y	Y
Year fixed effects	Y	Y	Y	Y	Y	Y
R-squared	0.88	0.86	0.95	0.87	0.85	0.94
Observations	3,864	2,327	1,439	3,601	2,106	1,401

Notes : The unit of observation is a country *c* in year *t*, where *t* ranges from 1947 to 1989. All regressions include year fixed effects, country fixed effects, a Soviet intervention control, two lags of the dependent variable, ln per capita income, ln total income, an indicator for leader turnover, current leader tenure, an indicator variable for GATT membership, an indicator variable for signing the NY convention, and Polity fixed effects. Coefficients are reported with robust standard errors in brackets. ***, **, and * indicate significance at the 1, 5 and 10% levels.

Trade Flow Estimates

	In imports from the US		In imports from the world		In exports to the US		In exports to the world	
	Full sample	Autocracies	Full sample	Autocracies	Full sample	Autocracies	Full sample	Autocracies
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>US influence</i>	0.129*** (0.032)	0.186*** (0.054)	0.025 (0.021)	-0.007 (0.037)	0.065 (0.048)	0.051 (0.089)	0.018 (0.020)	-0.018 (0.035)
Lagged dependent variable (<i>t</i> -1)	0.619*** (0.072)	0.590*** (0.081)	0.795*** (0.071)	0.751*** (0.088)	0.616*** (0.050)	0.597*** (0.056)	0.794*** (0.047)	0.736*** (0.050)
Lagged dependent variable (<i>t</i> -2)	0.152* (0.078)	0.168* (0.089)	-0.113** (0.048)	-0.132** (0.059)	0.139*** (0.047)	0.142*** (0.053)	-0.026 (0.028)	-0.015 (0.034)
Soviet intervention control	Y	Y	Y	Y	Y	Y	Y	Y
ln per capita income, ln total income	Y	Y	Y	Y	Y	Y	Y	Y
Leader turnover, leader tenure	Y	Y	Y	Y	Y	Y	Y	Y
GATT and NY convention controls	Y	Y	Y	Y	Y	Y	Y	Y
Polity fixed effects	Y	Y	Y	Y	Y	Y	Y	Y
Country fixed effects	Y	Y	Y	Y	Y	Y	Y	Y
Year fixed effects	Y	Y	Y	Y	Y	Y	Y	Y
R-squared	0.97	0.94	0.98	0.97	0.95	0.93	0.99	0.98
Observations	3,864	2,327	4,083	2,542	3,601	2,106	4,079	2,537

Notes: The unit of observation is a country c in year t , where t ranges from 1947 to 1989. All regressions include year fixed effects, country fixed effects, a Soviet intervention control, two lags of the dependent variable, ln per capita income, ln total income, an indicator for leader turnover, current leader tenure, an indicator variable for GATT membership, an indicator variable for signing the NY convention, and Polity fixed effects. Coefficients are reported with robust standard errors in brackets. ***, **, and * indicate significance at the 1, 5 and 10% levels.

Robustness and Sensitivity Analysis

- Fixed effects (FEs) vs. lagged dependent variables (LDV) specifications.
- Dealing with zero trade flows.
- The use of alternative intervention measures.
- Estimates examining bilateral trade between all country-pairs.

Revealed Comparative Advantage

	Full sample						Autocracies only					
	SITC 2-digit industries		SITC 3-digit industries		SITC 4-digit industries		SITC 2-digit industries		SITC 3-digit industries		SITC 4-digit industries	
	ln share of		ln share of		ln share of		ln share of		ln share of		ln share of	
	ln imports from the US	imports from the US	ln imports from the US	imports from the US	ln imports from the US	imports from the US	ln imports from the US	imports from the US	ln imports from the US	imports from the US	ln imports from the US	imports from the US
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
<i>US influence</i>	0.067** (0.034)	0.059** (0.024)	0.100*** (0.031)	0.066*** (0.017)	0.103*** (0.031)	0.058*** (0.015)	0.168*** (0.059)	0.107*** (0.039)	0.210*** (0.058)	0.094*** (0.029)	0.222*** (0.061)	0.081*** (0.025)
<i>US influence</i> × <i>US RCA</i>	-0.114* (0.064)	-0.219*** (0.056)	-0.232*** (0.069)	-0.301*** (0.059)	-0.134** (0.067)	-0.242*** (0.056)	-0.379*** (0.088)	-0.410*** (0.079)	-0.571*** (0.105)	-0.419*** (0.092)	-0.460*** (0.106)	-0.262*** (0.090)
<i>US RCA</i>	0.919*** (0.099)	0.913*** (0.081)	1.791*** (0.096)	1.387*** (0.074)	1.452*** (0.078)	1.333*** (0.060)	1.040*** (0.165)	1.139*** (0.147)	1.759*** (0.167)	1.285*** (0.133)	1.590*** (0.168)	1.260*** (0.122)
<i>US influence</i> × <i>Importer RCA</i>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
<i>Importer RCA</i>	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Four lags of dependent variable	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Soviet intervention control	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Importer RCA and interaction	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
ln income per capita, ln total income	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Leader turnover, leader tenure	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
GATT and NY convention controls	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Polity fixed effects	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Country fixed effects	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year fixed effects	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Industry fixed effects	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
R-squared	0.91	0.81	0.88	0.80	0.88	0.81	0.88	0.76	0.84	0.74	0.84	0.74
Clusters (country-year pairs)	2,517	2,517	2,442	2,442	2,367	2,367	1,556	1,556	1,496	1,496	1,442	1,442
Observations	95,178	95,178	226,822	226,822	341,056	341,056	47,543	47,543	96,294	96,294	120,800	120,800

Notes: The unit of observation is a country c in year t in an SITC industry i , where t ranges from 1962 to 1989. All regressions include year fixed effects, country fixed effects, industry fixed effects, a Soviet intervention control, four lags of the dependent variable, importer RCA, importer RCA interacted with *US influence*, ln per capita income, ln total income, an indicator for leader turnover, current leader tenure, an indicator variable for GATT membership, an indicator variable for signing the NY convention, and Polity fixed effects. Coefficients are reported with standard errors clustered at the country-year level in brackets. ***, **, and * indicate significance at the 1, 5 and 10% levels.

Government Purchases

	ln share of imports from the US				ln imports from the US			
	Full sample		Autocracies		Full sample		Autocracies	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>US influence</i>	0.128*** (0.031)	-0.067 (0.059)	0.219*** (0.057)	-0.112 (0.096)	0.111*** (0.035)	-0.084 (0.067)	0.194*** (0.062)	-0.106 (0.106)
<i>US influence</i> × <i>Gov't expenditure share</i>		0.971*** (0.313)		1.515*** (0.471)		0.976*** (0.355)		1.387*** (0.502)
Government expenditure share	N	Y	N	Y	N	Y	N	Y
Two lags of dependent variable	Y	Y	Y	Y	Y	Y	Y	Y
Soviet intervention control	Y	Y	Y	Y	Y	Y	Y	Y
ln per capita income, ln total income	Y	Y	Y	Y	Y	Y	Y	Y
Leader turnover, leader tenure	Y	Y	Y	Y	Y	Y	Y	Y
GATT and NY convention controls	Y	Y	Y	Y	Y	Y	Y	Y
Polity fixed effects	Y	Y	Y	Y	Y	Y	Y	Y
Country fixed effects	Y	Y	Y	Y	Y	Y	Y	Y
Year fixed effects	Y	Y	Y	Y	Y	Y	Y	Y
R-squared	0.91	0.91	0.89	0.89	0.97	0.98	0.96	0.96
Observations	3,339	3,339	1,919	1,919	3,339	3,339	1,919	1,919

Notes: The unit of observation is a country c in year t , where t ranges from 1947 to 1989. All regressions include year fixed effects, country fixed effects, a Soviet intervention control, two lags of the dependent variable, ln per capita income, ln total income, government expenditure share, an indicator for leader turnover, current leader tenure, an indicator variable for GATT membership, an indicator variable for signing the NY convention, and Polity fixed effects. Coefficients are reported with robust standard errors in brackets. ***, **, and * indicate significance at the 1, 5 and 10% levels.

Timing and the Effects of Interventions

	In share of imports from the US				In imports from the US			
	Full sample		Autocracies		Full sample		Autocracies	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>US influence (onset year)</i>	0.191** (0.075)		0.330*** (0.121)		0.174** (0.088)		0.330** (0.143)	
<i>US influence (intermediate year)</i>	0.097*** (0.029)		0.167*** (0.050)		0.125*** (0.033)		0.176*** (0.055)	
<i>US influence (offset year)</i>	0.177*** (0.053)		0.247** (0.101)		0.175** (0.069)		0.256** (0.130)	
<i>US influence</i>		0.140*** (0.042)		0.176*** (0.060)		0.154*** (0.046)		0.206*** (0.066)
<i>US influence × intervention year</i>		-0.006 (0.005)		-0.001 (0.007)		-0.005 (0.005)		-0.005 (0.008)
<i>US influence × intervention year²</i>		0.000 (0.001)		0.000 (0.001)		0.000 (0.001)		0.000 (0.001)
Lagged dependent variables	Y	Y	Y	Y	Y	Y	Y	Y
Soviet intervention control	Y	Y	Y	Y	Y	Y	Y	Y
ln per capita income, ln total income	Y	Y	Y	Y	Y	Y	Y	Y
Leader turnover, leader tenure	Y	Y	Y	Y	Y	Y	Y	Y
GATT and NY convention controls	Y	Y	Y	Y	Y	Y	Y	Y
Polity fixed effects	Y	Y	Y	Y	Y	Y	Y	Y
Country fixed effects	Y	Y	Y	Y	Y	Y	Y	Y
Year fixed effects	Y	Y	Y	Y	Y	Y	Y	Y
R-squared	0.88	0.88	0.86	0.86	0.97	0.97	0.94	0.94
Observations	3,864	3,864	2,327	2,327	3,864	3,864	2,327	2,327

Notes: The unit of observation is a country c in year t , where t ranges from 1947 to 1989. All regressions include year fixed effects, country fixed effects, a Soviet intervention control, two lags of the dependent variable, ln per capita income, ln total income, an indicator for leader turnover, current leader tenure, an indicator variable for GATT membership, an indicator for signing the NY convention, and Polity fixed effects. The odd numbered columns control for an indicator variable that equals one if period t is within 5 years before the onset of an intervention episode. The even numbered columns include indicator variables that equals one if country c is at war with the US in period t , and if the US has placed a sanction against US exports to country c in year t . Coefficients are reported with robust standard errors in brackets. ***, **, and * indicate significance at the 1, 5 and 10% levels.

Summary of Findings

- Intervened countries experienced an increase in the imports from the US, but experienced no increase in exports going to the US.
- We are able to rule out decreased trade costs, changes in political ideology, and an increased supply of US loans and grants as explanations for this.
- Most notable among the findings is the fact that the increase in imports from the US was greatest in industries in which the US did not have a comparative advantage (as measured by its global market share of exports).
- Turning to channels, we find evidence for foreign government purchases of American products as the primary mechanism.