

When Do Allies Receive More American Foreign Aid?

Hegemonic Foreign Policy in a World of Regions

Sung Eun Kim Johannes Urpelainen
Columbia University

November 9, 2012

- ▶ **Research Question**

When should allies receive more/less American aid than other countries?

- ▶ **Argument**

Hegemon's incentive to favor allies depends on the *regional balance of power*.

- ▶ **Evidence**

US foreign aid after Cold War, 1990-2009

Hegemony, Foreign Aid, and Regions

- ▶ Foreign Aid: Support or Policy Influence?
 - ▶ Support their allies (Stone 2004, Alesina and Dollar 2000)
 - ▶ Extract concessions from recipients (Bueno de Mesquita and Smith 2009, Dunning 2004).
- ▶ Regional Concentration of Power
 - ▶ Power Dynamics
 - ▶ Concentration of capabilities (Mansfield 1993)
 - ▶ Regional Power Shifts
 - ▶ Descriptive studies of emerging countries (Christensen 2006, Schirm 2010, Young 2010)
 - ▶ Offensive realism, hegemon's offshore balancing (Mearsheimer 2001)

Theory: Assumptions

- ▶ Types of countries: hegemon's allies and others
- ▶ The hegemon's choice of foreign aid
 - ▶ To support allies
 - ▶ To extract policy concessions from non-allies
- ▶ Regional concentration of capabilities: a determinant for the hegemon's incentive to support an ally
- ▶ Region's leading power *not* a partner country

- ▶ Proposition 1: *For high values of the regional concentration of capabilities, allies receive more foreign aid than non-allies*
- ▶ Proposition 2: *As the regional concentration of capabilities C decreases, allies receive less foreign aid. For the lowest levels of concentration, allies may even receive less foreign aid than do non-allies.*

- ▶ US foreign aid, 1991-2008
- ▶ DV: annual change in US aid (logarithmized)
- ▶ IV:
 - ▶ US military alliance (ATOP)
 - ▶ Power distribution in 22 sub-regions: Herfindahl Index

$$H_j = \frac{\sum_{i=1}^n gdp_i^2}{(\sum_{i=1}^n gdp_i)^2},$$

- ▶ Controls:
 - ▶ Regime type, per capita GDP, log(population), log(foreign aid from other donors)
 - ▶ Country fixed effects, a time trend, its squared term, and its cubed term

Table: Empirical Analysis of U.S. Foreign Aid 1991 - 2008

	(1) Main	(2) Controls	(3) Year>2000	(4) Non-Asia	(5) Non-America	(6) Cook's D <4/N	(7) Lag	(8) Placebo
Herfindahl Index (t-1)	-1.327 (1.575)	-3.079** (1.296)	-4.731*** (1.811)	-3.817** (1.836)	-3.243** (1.416)	-2.631*** (0.812)	-3.135** (1.361)	0.556 (1.292)
U.S. Ally (t-1)	-2.150** (1.042)	-2.458** (1.032)	-4.191*** (1.258)	-2.049* (1.121)	-2.864** (1.168)	-1.536** (0.603)	-2.576** (1.089)	
Interaction (t-1)	3.683* (2.062)	5.854*** (2.132)	10.899*** (2.801)	4.937** (2.401)	7.042*** (2.493)	3.704** (1.694)	6.155*** (2.270)	
Log(U.S. Foreign Aid) (t-1)	-0.363*** (0.056)	-0.453*** (0.059)	-0.483*** (0.115)	-0.432*** (0.058)	-0.460*** (0.064)	-0.312*** (0.032)	-0.562*** (0.074)	
Log(U.S. Foreign Aid) (t-2)							0.130* (0.067)	
Danish Ally (t-1)								-0.157 (0.138)
Interaction: Denmark (t-1)								0.118 (0.468)
Log (Danish Foreign Aid) (t-1)								-0.986*** (0.068)
Democracy Control	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Other Controls	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-Squared	0.210	0.267	0.326	0.262	0.266	0.258	0.293	0.504
Countries	136	131	126	113	102	129	131	136
Observations	2322	2171	984	1867	1650	2025	2171	2202

AR(1) Correction. Panel-corrected standard errors using pairwise inclusion

Main Results

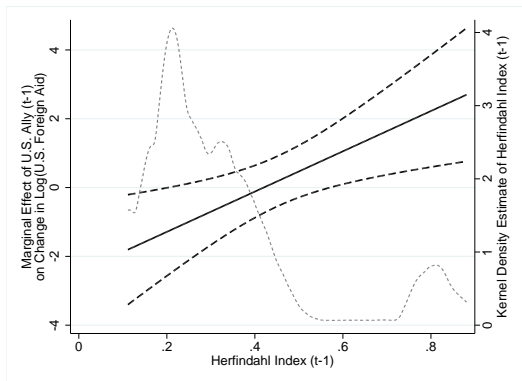


Figure: Marginal effect of being an American ally on change in the U.S. foreign aid given the level of Herfindahl Index. Estimates based on Model (2).

Robustness and Additional Placebo Tests

- ▶ Placebo tests
 - ▶ Replacing foreign aid with military aid
 - ▶ Focusing on the Cold War period
- ▶ Exogeneity of US ally status
 - ▶ Replacing our current alliance measure with its 20-year lag
- ▶ More controls
 - ▶ Trade volume between the US and each recipient country
 - ▶ Life expectancy at birth
- ▶ Other
 - ▶ Including Israel as an ally
 - ▶ Excluding the US allies one by one

- ▶ Global hegemon supports allies with foreign aid when regional power is concentrated
- ▶ Foreign aid: flexible strategic instrument, use conditional on circumstances