



# STRATEGIES OF ASSISTANCE

## GEOPOLITICAL ALIGNMENT AND AMERICAN AID POLICY IN THE COLD WAR

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# GEOPOLITICS AND ECONOMIC DEVELOPMENT

- Distinction between geopolitical and developmental motives in aid policy
  - “If aid responds only to strategic and political considerations, there is indeed no reason for aid to be effective in promoting growth or reducing poverty.” – Berthélemy and Tichit (2004)
  - “Bilateral donors’ desire to purchase concessions from the recipient...need not necessarily also purchase development.” – Headey (2007)

# GEOPOLITICS AND ECONOMIC DEVELOPMENT

- Prominent examples where economic development and strategic interests aligned
  - Marshall Plan, U.S. aid to Japan, South Korea, Taiwan, etc.
- Focus on U.S. aid policy
  - When does “geopolitics” mean using aid to purchase political support?
  - When does “geopolitics” mean using aid to support economic development?

# GEOPOLITICAL ALIGNMENT

- Aid supports development when the donor is attempting to defend its sphere of influence
  - Allies and security partners
- Aid does not support development when the donor is attempting to expand its sphere of influence
  - Non-aligned countries

# HYPOTHESES

- H1: The greater the political distance between the donor and the recipient, the weaker the donor's support for development
  - "Support for development" operationalized as soft lending (general budget support instead of a statutory program)
- H1a: The greater the political distance between the donor and the recipient, the greater the degree of soft lending

# SOFT LENDING

- Title I of PL 480
- Proceeds from sale of agricultural surplus loaned back to aid recipient under various categories
  - Common defense, economic development, loans to private industry, loans to governments
- “Loans to governments” was general budget support without any designation for how funds would be used

## LOANS TO GOVERNMENT AS SOFT LENDING

“...foreign governments are also being **encouraged** to reloan some of the funds available under section 104 (g) [loans to governments] for projects involving private enterprise and investment...**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

## SOFT LENDING AS POLITICAL LEVER

- “P.L. 480 loans were evidently attractive to many political leaders in developing countries and to their finance ministers as well because they provided a prompt increase in government revenues.” – W.W. Rostow
- “On May 27, we concluded a **PL-480 supplemental agreement with the U.A.R.** [Egypt] covering additional shipments of 200,000 tons of wheat and flour...Ambassador Reinhardt, before his departure, and more recently our Chargé d’Affaires, have made clear to President Nasser and his senior advisors that **there is a relationship between continued U.S. aid and U.A.R. attitudes and policies towards the U.S.**” – State Department memorandum, 1961



## SOFT LENDING (1946-1965)

- Allies and security partners: 1.5% of aid to Taiwan, 0% of aid to South Korea and South Vietnam
- Non-aligned countries: 53.8% of aid to Egypt, 25.6% of aid to India

## DATA AND ANALYSIS

- Measure U.S. perceptions of political distance between aid recipient and U.S. using State Department records
  - 1 – ally
  - 2 – not allied with U.S., but on U.S. side (e.g., Austria, Ghana)
  - 3 – not allied with U.S. and subject to Soviet influence
- Data available from 1955-1970
- OLS with standard errors clustered at the country level
- Control for growth in per capita GDP, population, trade openness, presidential administration, year fixed effects, region fixed effects

	<b>Gov. Loans (proportion)</b>	<b>Gov. Loans (absolute)</b>
	<b>(1)</b>	<b>(2)</b>
<i>Political Distance</i>	0.079	16.385
	(6.27)***	(2.45)**
<i>GDP p.c. (log)</i>	-0.004	-5.175
	(0.34)	(1.31)
<i>Population (log)</i>	-0.008	6.474*
	(0.59)	(1.73)
<i>GDP p.c. growth</i>	-0.116	-42.644
	(1.47)	(1.05)
<i>Trade Openness</i>	-0.000	0.060
	(1.03)	(0.66)
<i>Constant</i>	-0.024	-49.171
	(0.17)	(1.58)
<i>Year Fixed Effects</i>	Yes	Yes
<i>Region Fixed Effects</i>	Yes	Yes
<i>Administration</i>	Yes	Yes
R <sup>2</sup>	0.21	0.28
N	872	897

## CONCLUSION

- Prevalent distinction between geopolitical and developmental motives in aid policy
  - Conception of strategically motivated aid as attempt to purchase political support
  - Donors often support development for strategic reasons
- Geopolitical alignment – support development to defend a sphere of influence (allies), purchase political support to expand a sphere of influence (non-aligned countries)

NESA

India

(U.S. Fiscal Years - Millions of Dollars)

PROGRAM	U.S. OVERSEAS LOANS AND GRANTS - NET OBLIGATIONS AND LOAN AUTHORIZATIONS												TOTAL 1946- 1965	REPAY- MENTS AND INTEREST 1946- 1965	TOTAL LESS REPAY- MENTS AND INTEREST
	POST-WAR RELIEF PERIOD	MARSHALL PLAN PERIOD	MUTUAL SECURITY ACT PERIOD					FOREIGN ASSISTANCE ACT PERIOD							
	1946-1948	1949-1952	1953-1957	1958	1959	1960	1961	1962	1963	1964	1965				
<b>A.I.D. AND PREDECESSOR AGENCIES - TOTAL</b> .....	-	57.3	342.5	89.8	137.0	194.6	200.8	465.5	397.2	336.5	264.6	2,485.6	180.4	2,305.2	
Loans <sup>a/</sup> .....	-	-	130.0	75.0 <sup>b/</sup>	120.0	171.3	180.1	445.9	392.3	330.6	255.8	2,101.0	180.4	1,920.6	
Grants.....	-	57.3	212.5	14.8	17.0	23.3	20.7	19.6	4.9	5.9	8.8	384.7	-	384.7	
<b>SOCIAL PROGRESS TRUST FUND</b> .....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>FOOD FOR PEACE - TOTAL</b> .....	-	0.6	327.8	53.2	229.7	525.3	316.1	275.2	276.1	296.2	412.2	2,753.4	70.1	2,683.3	
Title I - (Total Sales Agreements).....	(-)	(-)	(349.8)	(50.0)	(237.9)	(592.6)	(332.8)	(278.3)	(293.3)	(292.9)	(426.7)	(2,854.3)	(-)	(2,854.3)	
Less: (Planned for U.S. Uses).....	(-)	(-)	(78.3)	(7.7)	(27.6)	(79.4)	(35.4)	(29.2)	(30.7)	(30.7)	(42.7)	(357.9)	(-)	(357.9)	
<b>TITLE I - PLANNED FOR LOANS AND GRANTS</b> .....	-	-	275.4	42.3	210.3	513.2	297.4	249.0	262.5	262.1	384.0	2,406.4	70.1	2,336.3	
104c - Grants for Common Defense.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
104c - Grants for Economic Development.....	-	-	54.1	-	37.5	253.8	140.4	100.8	100.8	100.8	-	788.2	-	788.2	
104c - Loans to Private Industry.....	-	-	-	12.5	39.5	29.6	16.6	12.4	14.7	14.7	42.7	202.6	10.4	192.2	
104g - Loans to Governments.....	-	-	221.4	29.8	133.4	229.8	140.4	135.8	117.0	146.6	341.4	1,505.6	59.7	1,445.9	
TITLE II - ASSIST FROM OTHER COUNTRY SALES AGREEMENTS.....	-	-	-	4.0	-	2.1	-	-	-	-	-	6.1	-	6.1	
TITLE II - EMERGENCY RELIEF & ECONOMIC DEVELOPMENT.....	-	-	4.9	-	-	-	0.3	3.4	-	9.6	3.8	21.9	-	21.9	
TITLE III - VOLUNTARY RELIEF AGENCIES.....	-	0.6	77.5	17.6	19.4	10.0	18.4	22.8	13.6	24.5	24.4	229.0	-	229.0	
TITLE IV - DOLLAR CREDIT SALES.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>EXPORT-IMPORT BANK LONG-TERM LOANS</b> .....	-	<sup>b/</sup>	-	151.8	-	13.6	79.5	25.7	40.3	57.2	38.2	406.4	71.0	335.4	
<b>OTHER U.S. ECONOMIC PROGRAMS</b> .....	39.9 <sup>b/</sup>	190.8	-	-	-	-	-	0.4	1.0	1.7	3.2	237.0	66.5	170.5	
<b>TOTAL ECONOMIC</b> .....	39.9	248.7	700.3	305.5	366.7	733.5	596.4	766.8	714.6	691.6	718.2	5,882.4	388.0	5,494.4	
Loans.....	39.9	190.2	351.4	269.1	292.9	444.3	416.6	619.8	594.3	549.1	678.0	4,445.7	388.0	4,057.7	
Grants.....	-	58.5	349.0	36.4	73.9	289.2	179.8	147.0	120.3	142.5	40.2	1,436.8	-	1,436.8	
<b>MILITARY ASSISTANCE PROGRAM - (Chg. to App.)</b> .....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Credit Assistance.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Grants.....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
(Additional Grants From Excess Stocks).....	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	-	-	-	-	-	-	
<b>OTHER MILITARY ASSISTANCE</b> .....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>TOTAL MILITARY</b> .....	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>TOTAL ECONOMIC AND MILITARY</b> .....	39.9	248.7	700.3	305.5	366.7	733.5	596.4	766.8	714.6	691.6	718.2	5,882.4	388.0	5,494.4	
Loans.....	39.9	190.2	351.4	269.1	292.9	444.3	416.6	619.8	594.3	549.1	678.0	4,445.7	388.0	4,057.7	
Grants.....	-	58.5	349.0	36.4	73.9	289.2	179.8	147.0	120.3	142.5	40.2	1,436.8	-	1,436.8	

a/ Excludes \$20.0 million loan in FY 1958 financed by Asian Economic Development Fund. This loan is included in NESA Regional data.  
 b/ Includes the utilization during FY 1946 of \$29.2 million of lend-lease silver credits. During FY 1940-1946, a total of \$160.7 million of such credits were extended to British India. After partition, Pakistan agreed to repay \$38.0 million, but it is not possible to distribute the FY 1946 portion between the two countries.  
 c/ Included with Near East and South Asia Regional.