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RSCAS 2019/54
Robert Schuman Centre for Advanced Studies
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Ideological Conditionality of Foreign Aid during the
Cold War: Did Western Allies Follow the US?

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EUI Working Paper **RSCAS** 2019/54

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ISSN 1028-3625

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Printed in Italy, September 2019

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Badia Fiesolana

I – 50014 San Domenico di Fiesole (FI)

Italy

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Abstract

This paper investigates whether the aid allocation behavior of US Western allies during the Cold War reflected ideological motives. While there is extensive evidence on the ideological motivations underlying the US aid program during the Cold War, little is known about the behavior of western allies who often faced a trade-off between supporting the ideological struggle against the Eastern Bloc and penalizing authoritarian and corrupt regimes through their foreign aid policy. To this end, I extend the analysis of Berger et al (2013) by examining the impact of US and Soviet political influence in recipient countries on the aid allocation behavior of important Western donors over the period 1966-1989. The results suggest a great deal of variation in the extent to which aid allocation reflects ideological motives across Western allies: while Great Britain followed the US and fully embraced the ideological conditionality of foreign aid dictated by the logic of the Cold War, several other Western donors did not support developing countries on ideological grounds.

Keywords

Ideological Conditionality, Foreign Aid, Cold War

JEL: F35, F54, O1

Introduction

There is a consensus in the aid allocation literature that geopolitical and strategic motivations play an important role in bilateral donors' choice of locations (e.g. Alesina and Dollar, 2000). The salience of geopolitical factors has been particularly strong during the Cold War (Fleck and Kilby, 2010, Bermeo, 2017). Prior to 1990, the United States and the Soviet Union utilized bilateral foreign assistance primarily to buy and maintain influence in developing countries and to gain strategic advantages over the opposing side, regardless of populations' actual needs and regimes' human rights records. For instance, CIA-backed anti-communist dictators - such as Augusto Pinochet in Chile, Suharto in Indonesia and François “*Papa Doc*” Duvalier in Haiti - received substantial amounts of aid from the US despite repression of political rights and civil liberties, endemic corruption and human rights violations.

In this context, US western allies often faced a trade-off between supporting the ideological struggle against the Eastern bloc and penalizing anti-democratic and corrupted governments through their foreign aid policy. This trade-off poses a particularly problematic dilemma for the group of “*like-minded*” countries that traditionally have been more altruistic, paying more attention to the respect of human rights and regarding poverty alleviation as the main goal of their aid allocation policy (Neumayer 2003a).¹ Yet, while there are numerous empirical studies that support the ideological conditionality of the U.S. aid program during the Cold War (e.g. Fleck and Kilby 2010, Berger et al. 2013), there is little evidence on how direct US (or Soviet) political influence in recipient countries affected bilateral aid allocation behavior of US western allies.

Empirical studies that disaggregate across groups of donors and specifically focus on the Cold War period (e.g. Maizels and Nissanke, 1984, Boschini and Olofsgård, 2007), showed that some of the major NATO allies – particularly the “*like-minded*” group of donors - have generally been using bilateral aid less openly as an instrument of foreign policy than the US. A common feature of all these contributions is the use of donor's military support as a proxy to capture the recipient country's strategic and security importance. The presence and intensity of US military aid, however, are more subject to factors such as conflict situations and support to US troops and personnel, than to the ideological orientation of recipient governments. For example, while Pinochet's authoritarian regime in Chile (1973-1990) was certainly anti-communist and under US influence, it formally received no military aid from the United States over the period 1976-1988.²

This paper is the first contribution that separately analyzes for each major donor whether the ideological conditionality of foreign assistance played a significant role in the aid allocation behavior during the Cold War. Using data from Berger et al. (2013) on CIA and KGB interventions in developing countries, I explore empirically whether the aid allocation pattern of the five big donors – US, Great Britain, Germany, France, and Japan – and like-minded donors was affected by US or Soviet political influence in recipient countries. The results show that several western allies – namely Sweden, France, Norway, and the Netherlands - did not support developing countries on ideological grounds: they did not reward countries under US political influence nor did they penalize recipients close to the Eastern bloc. Interestingly, for some of these donors (including Canada), increased US political influence arising through CIA interventions during the Cold War was associated with lower aid commitments.

¹ With *like-minded donors* Boschini and Olofsgård (2007) and Neumayer (2003b) refer to the group that includes Canada, Denmark, Netherlands, Norway and Sweden.

² Data are from USAID and Berger et al. (2013). The list of recipient countries under US political influence that received no US Military Aid is reported in Table A1 in the Appendix.

Econometric Specification and Data

The econometric analysis builds upon the gravity model specification proposed by Berger et al. (2013). The estimating equation is given by:

$$ODA_{r,t}^d = \alpha_r + \alpha_t + \beta_1 USinfluence_{r,t} + \beta_2 RUSinfluence_{r,t} + \delta_3 \mathbf{X}_{r,t} + \delta_4 Imp_{r,t}^d + \varepsilon_{r,t}^d$$

The dependent variable is the bilateral volume of foreign aid commitments from a donor d to a recipient country r in a given year t . These data are obtained from the 2019 OECD-DAC dataset. The specification includes year α_t and recipient α_r fixed effects to isolate and better identify the effect of political influence. This parsimonious specification completely absorbs the effects of former colonial and cultural ties (e.g. language proximity) that were included in past studies. The equation also encompasses a set of time-varying recipient-specific controls $\mathbf{X}_{r,t}$ that are plausibly related to ODA allocation during the cold war period. These comprise the log of GDP per capita, an indicator for leader turnover, current leader tenure, a democracy indicator that proxies for the human rights record of recipient countries as well as bilateral imports, $Imp_{r,t}^d$, which are a proxy for the economic influence of donor countries (Berger et al. 2013). The variables of interest are $USinfluence_{r,t}$ and $RUSinfluence_{r,t}$. These are equal to one if the recipient country r experienced CIA or KGB activities that were successful at either installing a new leader or in maintaining the power of an existing regime in year t , respectively.³ The model is separately estimated for each donor country for the period 1966-1989 using EK Tobit, which, according to Head and Mayer's (2015) Monte-Carlo simulations, provides consistent estimates in the presence of a substantial share of zeros. Given the great deal of heterogeneity across donors both in terms of sample size and number of aid recipients, I restrict the empirical analysis to the groups of *like-minded* and *big* donors following the classification proposed by Neumayer (2003b).⁴

Results

Baseline results are reported in Table 1. In line with Berger et al. (2013), I find that ODA volumes from the US increased following CIA interventions and declined when the recipient was under Soviet influence. This finding confirms the ideological conditionality of US aid program during the Cold War that has been found in previous studies and suggests that US used foreign aid as a mean to maintain political and strategic alliances and to punish states that were seen to be too close to the other bloc. However, these geopolitical and ideological motivations related to the logic of the Cold War do not seem to affect the aid allocation pattern of most of the US western allies.

As shown in Table 1, only two western donors other than the US increased foreign assistance following CIA interventions, and among these, only Great Britain fully embraced the ideological conditionality by penalizing recipients regarded to be too close to the Eastern bloc (Columns 1 and 2). On the contrary, four western allies - namely Sweden, France, the Netherlands, and Norway - did not support developing countries on ideological grounds in that they did not reward countries where the CIA installed and/or helped to maintain the power of incumbent anti-communist regimes. They also did not reduce ODA flows to recipient countries in which the KGB "successfully" intervened. Insofar as strategic interests played a role, these were mostly confined to bilateral commercial and economic ties, such as bilateral trade (Column 3).⁵

³ The definition of CIA interventions as well as the information on data sources are included in Berger et al. (2013).

⁴ With respect to Neumayer (2003b) I exclude Italy from the group of big donors.

⁵ As noted above, the impacts of historical relationships such as former colonial and cultural ties are completely absorbed by the set of fixed effects.

For *like-minded* donors and France, altruistic motivations, proxied by the recipient's per capita income, generally prevailed over the geopolitical motives behind the Cold War (Column 4). Interestingly, within this group of donors, Canada penalized developing countries under both Soviet and US political influence. These misalignments of Canadian and French aid policies with the US are not fully surprising as starting in the late 1960s both countries pursued an independent path in foreign policy and international relations. Conversely, Japan and West Germany, despite a close alliance with the United States during the entire cold war era, did not reward recipient countries under US influence.

Table 1: Political Influence and Aid Allocation During the Cold War

Donor	USA <i>Influence</i>	Soviet <i>Influence</i>	Imports	Income	Obs.	Recipients	Zeros
<i>Big Donors</i>							
UNITED STATES	0.704** (2.89)	-2.657*** (-6.60)	0.192*** (5.97)	-1.440*** (-5.38)	2208	98	353 (16%)
JAPAN	0.188 (0.92)	-2.072*** (-5.01)	0.128*** (4.89)	-0.605** (-2.70)	2368	105	609 (25.7%)
GREAT BRITAIN	0.598*** (3.68)	-0.519* (-2.18)	0.0309 (0.95)	-0.121 (-0.64)	2324	103	377 (16.2%)
FRANCE	-0.940*** (-3.45)	-0.384 (-0.84)	0.324*** (4.68)	-0.616* (-2.18)	2368	105	897 (37.9%)
GERMANY	0.0843 (0.92)	-0.629*** (-3.99)	0.0785*** (5.04)	-0.361* (-2.40)	2392	106	161 (6.7%)
<i>Like-Minded Donors</i>							
SWEDEN	-1.360*** (-4.07)	-0.743 (-1.50)	0.112*** (3.62)	-1.325** (-3.05)	2036	90	1270 (62.3%)
NORWAY	-0.540 (-1.48)	-0.878 (-1.80)	0.0939** (2.94)	-1.271** (-2.72)	2067	91	1240 (0.60%)
NETHERLANDS	0.186 (1.07)	0.405 (1.29)	0.186*** (6.30)	-1.346*** (-5.20)	2325	103	665 (28.6%)
CANADA	-1.005*** (-4.72)	-1.398*** (-4.06)	0.0653*** (4.83)	-1.101*** (-4.34)	2187	97	480 (21.9%)
DENMARK	0.878* (1.96)	0.601 (0.93)	0.187*** (3.77)	-2.711*** (-5.40)	2089	92	1,331 (63.7%)

t statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Notes: The dependent variable is bilateral ODA commitments in Millions 2016 Constant US Dollars at year *t*. The period under consideration is 1966-1989 and the estimates are obtained with EK Tobit. Robust standard errors are included. Singletons and observations separated by a fixed effect are dropped. All regressions include *year* and *recipient* fixed effects, an indicator for leader turnover, current leader tenure and a democracy indicator whose coefficients are not reported here, but are available upon request. Warsaw Pact members (under direct Soviet influence) are excluded from the sample as those countries received no (or limited) support from Western donors. Prior to 1976, OECD-DAC data on ODA committed to Vietnam refers to the flows towards Republic of Vietnam that was under US influence, while ODA committed to Yemen refers to the volumes towards Arab Republic of Yemen (North).

Table 2 tests the robustness of the reported results by estimating Equation (1) for the US with alternative gravity estimators. The results are qualitatively similar and point in the same direction as the benchmark estimates presented in Table (1).

Table 2: Comparing Alternative Estimators

Donor: United States	USA <i>Influence</i>	Soviet <i>Influence</i>	Imports	Income
Estimator				
PPML	0.428** (2.80)	-1.806*** (-6.58)	0.646*** (7.19)	-1.844*** (-5.77)
OLS (1 + Aid)	0.968** (1.93)	-4.215** (-5.06)	0.239*** (4.91)	-1.757*** (-3.24)
OLS	0.504** (2.81)	-1.639** (-5.31)	0.139*** (4.59)	-1.673*** (-7.39)

t statistics in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

The dependent variables are $ODA_{r,t}^d$ for Poisson PML regression, $\ln(1 + ODA_{r,t}^d)$ and $\ln(ODA_{r,t}^d)$ for the linear models (2nd and 3rd row, respectively). The regressions include the same set of controls of Table (1). Estimates for Donor countries other than the US are again in line with the EK Tobit counterparts and are available upon request.

Concluding Remarks

As concerns ideological conditionality of foreign aid during the cold war, there is not a single pattern across countries. Our results suggest that Great Britain was the only major western donor other than the United States that simultaneously rewarded developing countries under US influence and penalized recipients regarded as too close to the Eastern bloc. As for the other donors, the evidence suggests substantial heterogeneity in outcomes, indicating that ideological motivations did not seem to distinctly shape the pattern of aid allocation towards developing countries. In particular, *like-minded* countries together with France generally gave more weight to altruistic motivations and bilateral economic interactions in their allocation decisions than to ideological motives. These findings are in line with Boschini and Olofsgård (2007) and Maizels and Nissanke (1984), who observed important differences among donors' aid allocation patterns during the Cold War.

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Appendix

Table A1: ODA recipients under US political Influence that formally received no US Military Aid

Recipient	Period	Recipient	Period
Argentina	1978-1982	Iraq	1968-1988
Bahrain	1970-1989	Lebanon	1967
Chad	1982-1983	Nicaragua	1979
Chile	1976-1988	Oman	1971-1979, 1987-1989
Egypt	1972-1977	Panama	1989
El Salvador	1977-1978	Paraguay	1979-1982
Ghana	1966-1972	Saudi Arabia	1975-1989
Grenada	1983, 1986-1988	Somalia	1977-1979
Guatemala	1978-1984	Taiwan	1979-1989
Guyana	1966-1985	UAE	1971-1989
Haiti	1966-1975	Uruguay	1977-1982
Indonesia	1966	Zambia	1977
Iran	1974-1979		

Notes: data on US military Aid are from USAID while data on US influence (inclusive of onset and offset years) are from Berger et al (2013).

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