

Donor Competition in Foreign Aid: The Results and Implications of States Receiving Aid from
Rival Powers

Research Thesis

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by

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Abstract:

Foreign aid, despite making up less than 1 percent of the US federal government's budget, is a contentious issue in American public discourse and foreign policy. For many recipient states, American foreign aid comes in the form of economic development aid, humanitarian assistance, military assistance, or credits or lower interest rates on loans to purchase US goods. However, in many cases, the United States is not the sole contributor of assets to a state-in-need. This becomes especially complex when states that have tense relations with the US, such as the Russian Federation and China, also donate money to that same state. This thesis seeks to address in an analytic manner whether foreign aid from rival countries tends to induce the US to give more aid to that same country, perhaps due to a competition dynamic. Furthermore, the thesis also seeks to determine whether the donation of funds from countries with very different foreign policy objectives actually has a negative relationship with metrics of state quality-of-life, such as gross domestic product per capita. Analyses have shown that there does exist a competition dynamic between states, and that aid is given to better governed states. However, this aid does not seem to have a correlation with improvement in GDP per capita or good governance metrics. Additionally, aid is not necessarily given to recipient states most in need. This thesis is only an exploratory survey and cannot make long-term causal claims; nevertheless, it establishes interesting evidence for the existence of a donor competition dynamic in the 2010s.

I: Background

Foreign aid is at present one of the most contentious issues in American foreign policy, yet also one of the most commonly misunderstood. Most egregiously, the actual percentage of the budget that goes to foreign aid is less than 1 percent, or 2.6 percent as a share of the discretionary budget, yet a 2010 poll indicated that Americans thought around 25 percent of our budget is dedicated to foreign aid.¹ The same poll indicated that Americans believed about 10 percent of our budget should be dedicated to foreign aid. It is clear that there is some misunderstanding of the federal budget, and while the average American would not generally be expected to know the intricacies of government finance, it does call some attention to a gap in public knowledge and reality “on the ground.” This effect may at least in part be attributed to the “24-hour-news cycle”; for example, in 2015, common topics on the news include the 2016 presidential primary debates often focusing on foreign policy, the Middle Eastern refugee crisis, and the West’s fight against the Islamic State of Iraq and the Levant. On the other hand, according to a Gallup poll from December 2015 only 3 percent of Americans consider the most important policy priority of the United States to be “Foreign policy/Foreign aid/Focus overseas.”² Additionally, 47 percent of respondents to an NBC/Wall Street Journal poll in 2014 said that the US “should dial down its activity in foreign affairs.”³ While poll results and policy priorities evolve rapidly as new events and challenges confront the US, there is a constant level of skepticism that affects the work of the White House, the Department of State, and other

¹ “American Public Vastly Overestimates Amount of U.S. Foreign Aid.” *World Public Opinion*. World Public Opinion: Global Public Opinion on International Affairs, 29 Nov 2010. Web. 29 Dec 2015.

“US Foreign Aid: Should the United States Increase Its Budget?” *Huff Post College*. TheHuffingtonPost.com, Inc., 5 Sep 2012. Web. 29 Dec 2015.

² “Most Important Problem.” *Gallup Historical Trends*. Gallup, 6 Dec 2015. Web. 29 Dec. 2015.

³ “47% Said U.S. Should Reduce Role in World Affairs.” *NBC News*. NBCNews.com, Inc., 30 Apr 2014. Web. 29 Dec 2012.

agencies tasked with the security and development of the United States and the world. With all these facts and figures in mind, it is abundantly clear that foreign aid is a misunderstood and controversial topic worthy of greater public scrutiny and understanding.

To understand foreign aid, the most logical starting point is a baseline definition, and unfortunately, even this is inherently controversial. Peter Burnell writes, “Foreign aid can be construed as inter-societal transfers of resources that are intended by all the relevant parties’, especially the provider, to serve first and foremost the recipients’ needs, interests, or wants.”⁴ This broad definition casts a wide net over what can be considered foreign aid, from food donations in sub-Saharan African to infrastructural development loans in south Asia to even military funding for the Afghani armed forces. Official foreign aid datasets include grants, interest-free loans, and concessionary loans. This definition also does not specifically limit foreign aid to governmental organizations, but also includes donations by private charities and for-profit organizations. One of the more infamous examples of this is the One for One policy of TOMS to donate a pair of shoes to a child in an underdeveloped country for every pair of shoes sold at a retailer.⁵ This policy and similar policies are not without controversy; as Nick Wadhams wrote in *TIME*, “...it’s not that hard to get shirts in Africa. Flooding the market with free goods could bankrupt the people who already sell them.”⁶ While the intentions of these donations to the poorest countries on the planet are generally altruistic, they are often short-term patches that actually kick the long-term problem further down the road. There is not a general consensus on

⁴ Burnell, Peter. *Foreign Aid in a Changing World*. Philadelphia: Open University Press, 1997. Print.

⁵ *TOMS: One for One*. TOMS Shoes, LLC. Web. 29 Dec 2015.

⁶ Wadhams, Nick. “Bad Charity? (All I Got Was This Lousy T-Shirt!)” *TIME*. Time Inc., 12 May 2010. Web. 29 Dec 2015.

what should be counted as aid; for instance, Zinkin further restricts the definition of aid to pure donation, stating that “Aid is charity. If it is not charity, it is not aid. It may be enlightened self interest; mutual defence; a boost for the export trade; a sop to a troublesome ally; it cannot be aid.”⁷ While this definition takes a more positive view of foreign aid and its motivations, this thesis will take a more utilitarian view of foreign aid. For this purpose, foreign aid will be defined as a payment made by an industrialized or industrializing state, or international organization, to a developing or underdeveloped state for the purposes of fulfilling a goal of the donor state or organization. This would include Zinkin’s allusion to “enlightened self-interest”; for example, the government of the United States may consider alleviating world hunger to be a moral imperative, and thus a major goal for the country. While the results may fill an altruistic goal, addressing world hunger likely provides utility and happiness to the people and government of the US. Foreign aid is not always state-to-state donations, but is often channeled through super-state organizations such as the United Nations.

The United Nations, perhaps the most well-known and prestigious intergovernmental organization in the 21st century, serves as a major channel for development and foreign aid, and is seen by many as a successful organization. The UN was actually first referenced in the 1942 Declaration of the United Nations, pledging the forces of 26 nations, primarily the United States and the United Kingdom, to fight against the Axis powers of Germany, Italy, and Japan in World War II.⁸ Of course, as the Axis alliance is now confined to history, the purpose and structure of this organization has evolved dramatically, and now works not only in peacekeeping, but also in developing the poorer nation-states of the world. The most publicized goals of the UN in the

⁷ Zinkin, M. (1978) Aid and morals: addressing the aspiration of poor countries, *Round Table*, 271: 222-8.

⁸ “1942; Declaration of the United Nations.” *United Nations*. United Nations. Web. 31 Dec 2015.

early 21st century consisted of the Millennium Development Goals, eight goals for international development set to be obtained by the end of 2015. The goals consisted of: eradicating extreme poverty and world hunger, achieving universal primary education, promoting gender equality, reducing child mortality, improving maternal health, combating HIV/AIDS and other diseases, ensuring environmental stability, and creating a global partnership for development.⁹ In some measures, these goals have been successful; for example, the proportion of the population living on less than \$1.25 a day dropped from around 35 percent in 1981 to 22 percent in 2008.¹⁰ The proportion of children getting a primary education rose from 83 percent in 2000 to 91 percent in 2015.¹¹ Due to the endogenous and complex nature of development and international finance, not all credit can be given to the efforts of the United Nations, but the cancellation of debts by the finance ministers of the Group of 8 countries totaling \$55 billion¹² in the fulfillment of these goals had a significant effect on the ability of developing countries to invest in their own infrastructure.

The efforts of the United Nations will be continued in 2016 with the Sustainable Development Goals, which consist of seventeen objectives to achieve by 2030, including 1) no poverty, 2) zero hunger, 3) good health and well-being, 4) quality education, 5) gender equality, 6) clean water and sanitation, 7) affordable and clean energy, 8) decent work and economic growth, 9) industry, innovation, and infrastructure, 10) reduced inequalities, 11) sustainable

⁹ “55/2. United Nations Millennium Declaration.” *United Nations*. United Nations, 8 Sep 2000. Web. 31 Dec. 2015.

¹⁰ “An update to the World Bank’s estimates of consumption poverty in the developing world.” World Bank. Web. 31 Dec 2015.

¹¹ “Results of the Millennium Development Goals.” The Borgen Project, 22 Nov 2015. Web. 31 Dec. 2015.

¹² E.Carrasco, C. McClellan, & J. Ro (2007) "Foreign Debt: Forgiveness and Repudiation" University of Iowa Center for International Finance and Development E-Book.

cities and communities, 12) responsible consumption and production, 13) climate action, 14) life below water, 15) life on land, 16) peace, justice, and strong institutions, and 17) partnerships for the goals.¹³ While an in-depth analysis of each of these goals is beyond the scope of this thesis, the understanding of what the aims of the international community are important to recognize as a contrast to the goals pursued in bilateral manner between a rich state and a poor state.

Unfortunately for the proponents of foreign aid, in many cases it does little to actually address the intended issues, and becomes a political tool used as a bargaining lever or even to entrench corruption. In 2016, one egregious example of this effect comes from the Democratic People's Republic of Korea, or North Korea, ruled autocratically by Supreme Leader Kim Jong-un, the grandson of DPRK "founding father" Kim Il-sung. Kim is well-known around the world for threatening the nuclear annihilation of the country's enemies, which primarily include the Republic of Korea (South Korea), Japan, and the United States. While the international consensus in 2016 is that Kim does not have the power to reach the United States with nuclear arms, there is a possibility that the DPRK can cause significant harm with missiles, especially taking into account that Seoul, the capital of South Korea, lies in close proximity to the demilitarized zone (DMZ) that separates the North and the South. In many cases, Kim makes these threats, and then is placated by food aid to be sent to the DPRK. This creates a dilemma for the rich nations of the Pacific Rim; is food aid to be given to the DPRK, entrenching the Kim regime, or should these pleas be ignored and the innocent civilians of the DPRK left to starve? This is a vexing situation for international policymakers with an unfortunate equilibrium, and foreign gift aid at present seems unable to address this dilemma.

¹³ "Sustainable development goals." *United Nations*. UN Web Services Section, Department of Public Information, United Nations. Web. 31 Dec 2015.

This case study is merely one egregious example of the limitations of grant-in-aid, but when studying the aggregate issue, some trends arise. Roger C. Riddell writes:

Many problems with aid arise from poor decision-making. Some problems with aid are specific to particular projects and programmes, and arise from the wrong decisions made by individuals and agencies as to the type of aid that should be provided to particular recipients, often as a result of an insufficient understanding of what is needed, and how aid may help. Some problems with aid arise because of individuals and agencies making over-optimistic assumptions about the capacity of organizations receiving aid to use it effectively. Other problems arise because donors or recipients either fail to undertake risk assessments or make assumptions about the external environment which turn out to be wrong, and the unexpected effects of those errors undermine or eclipse the expected beneficial outcomes intended.¹⁴

The first point made by Riddell could include organizations such as TOMS; while the most simplistic assumption is that donating more goods to a poor country is by default a net benefit, the company fails to consider that there are domestic footwear producers in sub-Saharan states and that TOMS takes these individuals out of development boosts entirely. TOMS fails to conduct an analysis of need in underdeveloped states, and the consequences are large.

As mentioned by Riddell, other problems with aid come about when an individual or agency is over-optimistic about the effective use of their donation. I would add that problems with aid are even more likely to come about when an individual or agency is over-optimistic or naïve about the willingness of a recipient to use their aid effectively. Unfortunately, whenever

¹⁴ Riddell, Roger C. *Does Foreign Aid Really Work?* New York: Oxford University Press, 2007. Print.

giving aid to any sort of non-democratic regime, there is an accountability moral hazard issue, as without proper mechanisms there is no way to ensure that simple funding does not go directly into the pockets of a nation's oligarchs. Another distinct possibility is that the donation of aid for ostensibly noble purposes will allow the recipient regime to reallocate their own funding to military or weapons research purposes against the inclinations of the donor state. In short, without accountability, foreign aid can actually exacerbate a bad situation within a state.

As previously referenced extensively, there is a great deal of literature relating to the impact of various forms of foreign aid. They have come to varying conclusions, but a common thread throughout is that the foreign aid sent through multilateral means has some level of effectiveness, while state-to-state aid varies on a recipient and government basis. However, one area that only has limited research, particularly in the post-Cold War era, is the interaction of unilateral aid donors in a recipient state. For example, when the United States and the Russian Federation both give aid to a recipient state, what is the impact of that aid? There must be some effect, as these major powers have different aims with their grants and donations.

The United States and its major allies in the United Kingdom and France have defined foreign policy goals that affect aid dispersal, yet even these policies differ from one another. The mission statement of the U.S. Department of State is:

...to shape and sustain a peaceful, prosperous, just, and democratic world and foster conditions for stability and progress for the benefit of the American people and people everywhere. This mission is shared with the USAID, ensuring we have a common path

forward in partnership as we invest in the shared security and prosperity that will ultimately better prepare us for the challenges of tomorrow.¹⁵

In a similar yet more succinct vein, the mission statement of the U.S. Agency for International Development (USAID) is “...to end extreme poverty and to promote resilient, democratic societies while advancing our security and prosperity.”¹⁶ In contrast, the mission of the UK’s Foreign and Commonwealth Office (FCO) is to promote “...the United Kingdom’s interests overseas, supporting our citizens and businesses around the globe.”¹⁷ Former French prime minister and later foreign minister Laurent Fabius describes the four foreign policy priorities of the French Ministry of Foreign Affairs as:

peace and security; organization and preservation of the planet; reorientation and revival of Europe; promotion and strengthening of France, so that our country remains an influential reference point on the international stage, a promoter of peace, protection, balance, and progress.¹⁸

These three countries, with strong alliances but their own sovereignties and values, already have differences between them in their foreign policy. For example, the United States chooses to maintain two separate agencies for diplomacy and international development aid, working in close concert, unlike France, which chooses to combine these goals into one ministry. More substantively, the stated goal of the UK’s FCO is to promote the interests of British citizens,

¹⁵ “Fiscal Year 2014 Agency Financial Report: Investing in Shared Security and Prosperity.” *United States Department of State*. U.S. Department of State Bureau of the Comptroller and Global Financial Services Office of Financial Policy, Reporting, and Analysis. Web. 5 Jan 2016.

¹⁶ “Mission, Vision, and Values.” *U.S. Agency for International Development*. USAID, 12 Nov 2015. Web. 5 Jan 2016.

¹⁷ “About.” *Foreign & Commonwealth Office* - GOV.UK. Government Digital Service. Web. 5 Jan 2016.

¹⁸ “MAEDI 21 – Global diplomacy for the 21st century.” *France-Diplomatie – Ministry of Foreign Affairs and International Development*. French Ministry of Foreign Affairs and International Development. Web. 5 Jan 2016.

while the US claims to focus on increasing prosperity for both Americans and people across the world. With a referendum on UK membership in the European Union (EU) expected in 2017, it is also interesting to note that France's foreign ministry notes the importance of reviving Europe, while the UK's statement makes no notice of pan-European sentiments. Overall, while these three countries obviously enjoy a great overlap in goals, they are all unique states with their own approaches and priorities.

If there are some differences even between states that are close allies, surely these North Atlantic Treaty Organization (NATO) allies will find larger gulfs between themselves and the foreign policies of the Russian Federation and the People's Republic of China. Russia's stated goal with foreign aid is as follows:

Aware of its historical responsibility for the formation of the modern system of international relations and its further improvement, the Russian Federation considers international development assistance as an effective mechanism to solve global and regional problems, and to respond to new challenges and threats. Consistent implementation of this Concept will help promote Russia's national interests in this area by maximizing the return on aid provided. Experience accumulated in the field of international cooperation and its own donor potential allow Russia, while enhancing the time-tested formats of participation in international cooperation and in multilateral projects, to place greater emphasis on targeted bilateral assistance programmes and to competently select recipient countries based on the provisions of the National Security

Strategy of the Russian Federation until 2020 and the Concept of the Russian Federation's Foreign Policy.¹⁹

While initially similar to the statements made by the US, the UK, and France, one major difference is the Ministry of Foreign Affairs's (MFA) emphasis on "targeted bilateral assistance programmes." One major implication with this statement is that the policy of the Russian MFA in the 2010s is to reduce focus on working with international organizations such as the United Nations, and instead act unilaterally according to the whims of the current regime. While none of the aforementioned states specifically mention international organizations (with the exception of France's allusions to the European Union,) Russia is alone in specifically deemphasizing this channel for aid distribution, which historically may be the most effective in actually addressing the root causes of development issues worldwide.

The stated foreign policy of the People's Republic of China is admittedly more neutral, stating that "China unswervingly pursues an independent foreign policy of peace. The fundamental goals of this policy are to preserve China's independence, sovereignty and territorial integrity, create a favorable international environment for China's reform and opening up and modernization construction, maintain world peace and propel common development."²⁰ Ostensibly, this statement appears similar to those of the NATO powers seen above, but one possible area of contention is the allusion to "territorial integrity." In 2016, China is involved in a wide stretch of land disputes in the South China Sea, and has been accused by the international community of using artificial islands to enhance their land claims. Of course, there is also the

¹⁹ "CONCEPT OF THE RUSSIAN FEDERATION'S STATE POLICY IN THE AREA OF INTERNATIONAL DEVELOPMENT ASSISTANCE." *MFA of Russia*, 20 Oct 2014. Web. 6 Jan 2016.

²⁰ "Policies and Activities." *Ministry of Foreign Affairs of the People's Republic of China*. Ministry of Foreign Affairs, the People's Republic of China. Web. 6 Jan 2016.

well-known historical dispute between the PRC and the Republic of China (colloquially known as Taiwan or the ROC) over rights to the name and powers of “China” in the United Nations, as well as sovereignty of the landmass of these *de facto* separate nations. Historical disputes with India, Bhutan, and various other states persist, as well as internal conflict over Buddhist Tibet, primarily Muslim Xinjiang, and other regions. The PRC’s foreign policy is indeed influenced by its unique geopolitical position. After analyzing the qualitative differences between these major Security Council nations, I believe that a quantitative analysis of the effects of these policies on foreign aid and development in the 21st century is a useful evaluative tool over the effectiveness of foreign aid overall.

II: Introduction to the Data

As with many high-level international public policy models, one of the most challenging tasks is actually finding proper data, as data collection in developing states is not generally a priority. Even in nations such as the United States, it is often challenging to find data from before the 2000s in areas such as foreign trade statistics and economic indices. Nevertheless, there are some comprehensive data of the foreign aid contributions by the major Security Council powers mentioned above, gross domestic product (GDP) per capita of many nations, and indices of good governance available to the public. Much of my most useful data came from the World Bank, where comprehensive data on foreign aid outlays by the United States, the United Kingdom, and France were available, as well as GDP data for most nations worldwide.^{21 22} However, in order

²¹ “Net bilateral aid flows from DAC donors, Korea, Rep. (current US\$).” *The World Bank*. The World Bank Group. Web. 7 Jan 2016.

²² “GDP per capita (current US\$).” *The World Bank*. The World Bank Group. Web. 7 Jan 2016.

to break down the foreign aid donations by donor state, I retrieved additional data on Official Development Assistance (ODA) by donor state from the Organisation for Economic Co-Operation and Development website.²³ However, as the PRC is not a member of the DAC and the OECD lacks this data, I needed to conduct more research with external sources in order to find their aid data. As of January 2016, while I was unable to find sufficient data from a government or interstate body, I was able to find information on aid by donor state using AidData.org, a rigorously researched and tested database unofficially tracking Chinese foreign aid activity in Asia, Africa, and elsewhere.²⁴ Based on the data available for each of these states, I decided to focus on foreign aid ranging from 2011 to 2013, as more recent data is not available for all of the P5 states, and quality of public data suffers considerably before 2011. Unfortunately, this limits the scope of econometric models that are possible, such as long-range log analysis. With this data, I was able to compute what amount of funding was coming to each state, who was giving the money to the state, and what funding was coming from states besides the aforementioned Permanent 5 (P5) Security Council member-states.

One important caveat to add to aggregate-level aid analysis is that not all foreign aid is created equal – most importantly, some aid comes in the form of grants, while much of it is disbursed in the form of loans. In particular, aid from the PRC in Africa and elsewhere primarily consists of infrastructural loans. Some loans may be interest-free, which could still be considered a gift in the sense that it gives recipients the opportunity to improve their liquidity with relatively

²³ “QWIDS: Query Wizard for Development Statistics.” *OECD – Organisation for Economic Co-Operation and Development*. OECD. Web. 7 Jan 2016.

²⁴ “Tracking Chinese Development Finance – BETA.” *AidData – Open Data for International Development*. AidData – Open Data for International Development. Web. 7 Jan 2016.

little penalty, and in the sense that the donor loses the opportunity to put this funding into profitable investments. On the other hand, many loans do have a more traditional interest-rate structure. Frustratingly, the convention is to include not just the actual aid section of the loan (i.e., the interest rate break) but the entire principal of the loan. Nonetheless, as there is some international consistency in this standard, the upward bias is relatively consistent for an aggregate analysis comparing the reactivity of one donor state to another. On the other hand, this may bias the data away from a statistically significant relationship between ODA and GDP. An interesting future study would be the effectiveness of grants versus interest-free loans and concessional loans, but that is beyond the scope of this undergraduate thesis.

As another measure of aid effectiveness, I was also interested in governance, and thus searched for a metric to measure corruption in recipient states before and after aid was given. I found a useful statistic called the Corruption Perceptions Index, which measures governance from 0 (most corrupt) to 100 (least corrupt),^{25 26} with the exception of 2011, where the score ranged from 0 to 10.²⁷ This index serves as a proxy for the effectiveness of aid in promoting regime improvement or change; additionally, it indicates whether P5 states are rewarding underdeveloped states with good governance, or focusing more on political expediency.

²⁵ "Corruption Perceptions Index 2013." *TRANSPARENCY INTERNATIONAL*. Transparency International. Web. 7 Jan 2016.

The sources for the Corruption Perceptions Index include expert opinions of the level of corruption in a country from a wide variety of sources. In 2013, this includes various surveys from the African Development Bank, the Bertelsmann Foundation, the Economist Intelligence Unit, Freedom House, Global Insight, IMD, Political and Economic Risk Consultancy, Political Risk Services, the World Bank, the World Economic Forum, and the World Justice Project.

²⁶ "Corruption Perceptions Index 2012." *TRANSPARENCY INTERNATIONAL*. Transparency International. Web. 7 Jan 2016.

²⁷ "Corruption Perceptions Index 2011." *TRANSPARENCY INTERNATIONAL*. Transparency International. Web. 7 Jan 2016.

I was also interested in using data for Gini coefficients in my modeling. Gini coefficients are a measure of income distribution in a society, where 0 indicates every resident having identical income, and a score of 1 indicates that one individual has all the income in a society. Unfortunately, after further review of data available in early 2016, comprehensive data is not publicly available for a significant portion of nations. This can be due to a variety of factors, as opaque financing in a developing state, or simple lack of resources to dedicate to the attention of collecting this data, but despite my best efforts, it cannot be included in a 2016 analysis.

Before delving into model design, evaluating the data and the trends over time is a useful exercise. The map below shows GDP per capita in 2013:



*Figure 1: Map displaying GDP per capita in 2013 in constant 2005 dollars*²⁸

In Figure 1, we see clearly that states geopolitically referred to as “the West” are along with Japan and South Korea the richest states in the world. The relative wealth of the United States, the United Kingdom, and France certainly account for the large cultural influence these states have had around the world, and explains their ability to influence the development agenda.

²⁸ “World map of GDP per capita, constant dollars.” *TheGlobalEconomy.com*. TheGlobalEconomy.com. Web. 11 Jan 2016.

Interestingly, Russia and the PRC do not appear significantly richer than their neighbors, even though they are dominant regional powers. In these cases, population size plays a major role; with the PRC the most populous country in the world, and Russia over twice the population of any EU state, they are able to maintain regional dominance even though the individual in these countries is not excessively wealthy.

In comparison, one can examine the foreign aid donated in the US by country, shown in Figure 2 below:

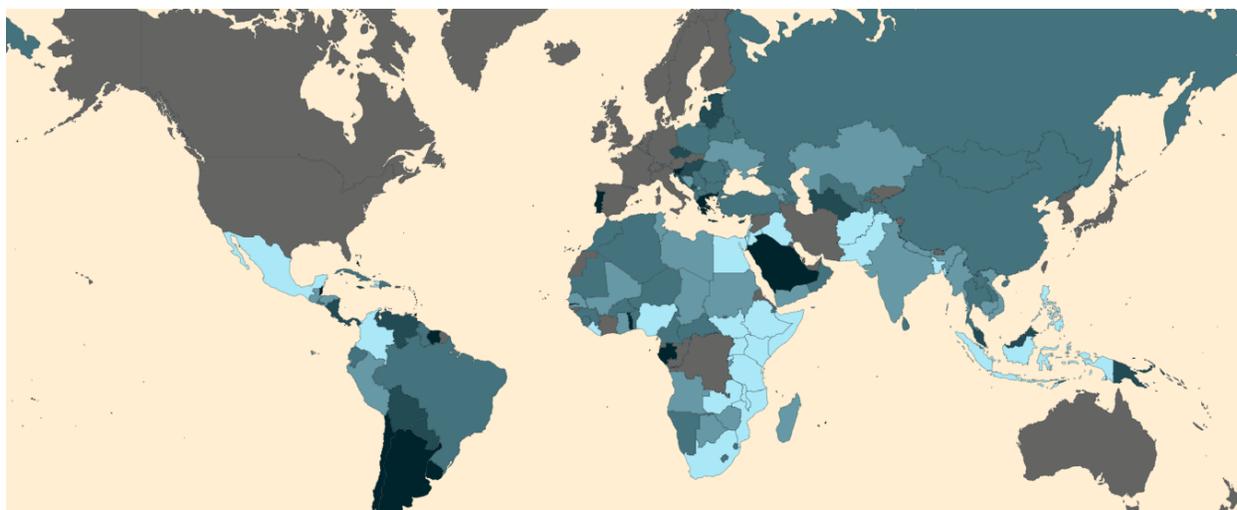


Figure 2: Foreign assistance worldwide from the US in 2013. Lighter colors indicate higher levels of foreign aid. Grayed out countries, such as the US, received no foreign aid in 2013.²⁹

Of immediate note is that this graph is not a perfect mirror of Figure 1. For instance, Afghanistan and Pakistan receive significantly more aid than their neighbors, despite similar levels of GDP per capita. We see similar examples in the Pacific Rim, where the Philippines receive more aid than their neighbors on Southeast Asia, despite similar income levels. Bolivia is the poorest

²⁹ "Explore." *ForeignAssistance.gov*. ForeignAssistance.gov. Web. 13 Jan 2016.

country in South America, yet Colombia and Peru have significantly higher levels of US funding. This would indicate that the donation of foreign aid is not solely based on poverty.

The following map of Russian foreign aid was generated in R:^{30 31 32 33 34 35}

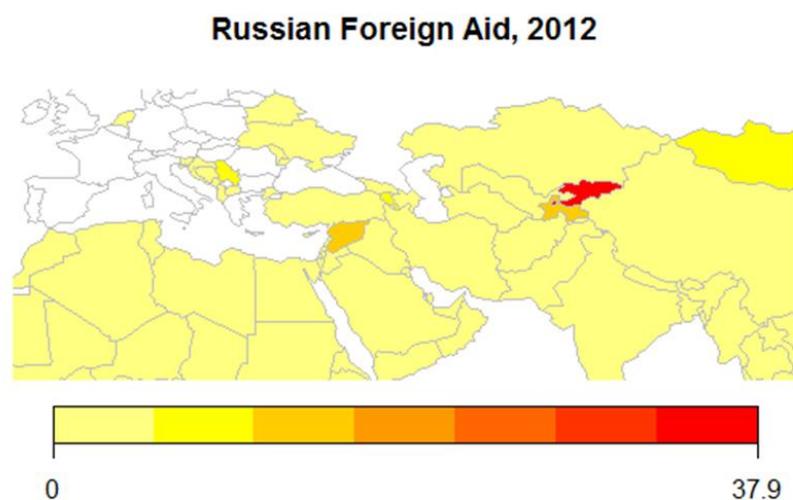


Figure 2: Foreign aid from Russia in 2012, in millions USD. White countries did not have data.

Foreign aid from Russia in 2012 as it turns out was quite concentrated. We see that the largest single recipient of Russian aid in 2012 is the Kyrgyz Republic in central Asia. Other major

³⁰ R Core Team (2015). R: A language and environment for statistical computing. R Foundation for Statistical Computing, Vienna, Austria. URL <https://www.R-project.org/>.

³¹ RStudio Team (2015). RStudio: Integrated Development for R. RStudio, Inc., Boston, MA. URL <http://www.rstudio.com/>.

³² South, Andy 2011 rworldmap: A New R package for Mapping Global Data. The R Journal Vol. 3/1 : 35-43.

³³ Original S code by Richard A. Becker, Allan R. Wilks. R version by Ray Brownrigg. Enhancements by Thomas P Minka and Alex Deckmyn. (2016). maps: Draw Geographical Maps. R package version 3.0.2. <http://CRAN.R-project.org/package=maps>

³⁴ Roger Bivand and Nicholas Lewin-Koh (2015). mapproj: Tools for Reading and Handling Spatial Objects. R package version 0.8-37. <http://CRAN.R-project.org/package=mapproj>

³⁵ Original S code by Richard A. Becker and Allan R. Wilks. R version by Ray Brownrigg. (2015). mapdata: Extra Map Databases. R package version 2.2-5. <http://CRAN.R-project.org/package=mapdata>

recipients of Russian aid include Tajikistan, the Syrian Arab Republic, Serbia, and Mongolia. For purposes of legibility and focus, the map is not comprehensive, but Cuba, Nicaragua, and North Korea are also major recipients of Russian aid. This marks a departure from US aid, which is distributed nearly the whole world over. One can see that Russian aid is primarily focused on regional allies such as Syria and former Soviet member states and satellites, as well as key Latin American states, which again introduces the plausibility of aid as a political tool rather than a humanitarian device.

Chinese foreign aid in 2012 follows a pattern that may not be immediately intuitive. The following map was generated in the same manner as Figure 2:

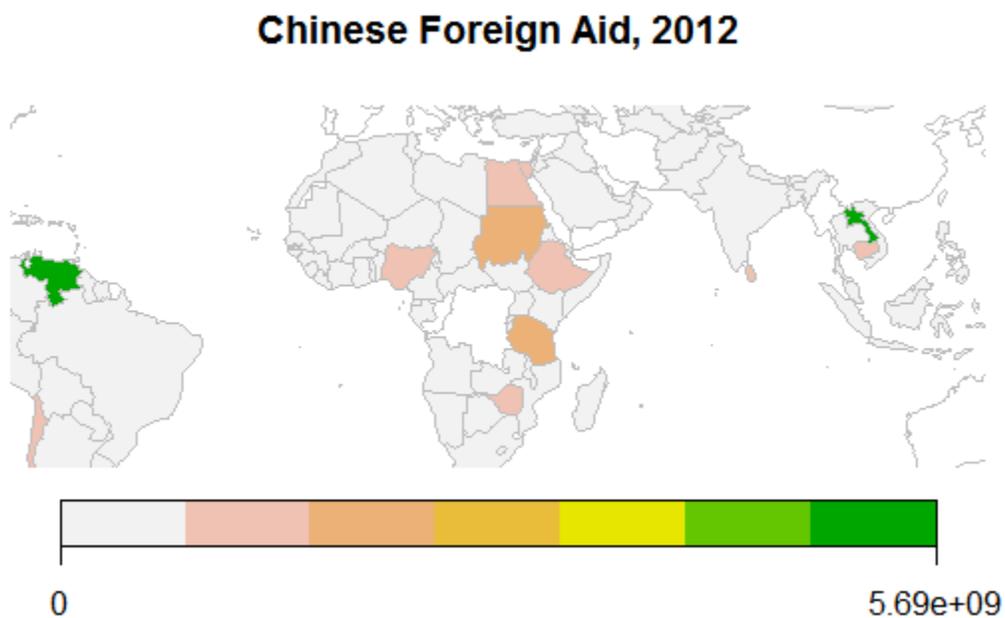


Figure 3: Foreign aid from the PRC in 2012. White states had no data.

We see immediately that much of China's foreign aid is actually focused in Africa and Latin America, with a large concentration in Venezuela. Cambodia is also a major recipient of aid,

which seems natural due to geographic proximity, but the other investments may seem more surprising. Yun Sun from the Brookings Institution describes this phenomenon of investment in the Global South, saying “Much Chinese financing to Africa is associated with securing the continent’s natural resources. Using what is sometimes characterized as the ‘Angola Model,’ China frequently provides low-interest loans to nations who rely on commodities, such as oil or mineral resources, as collateral.”³⁶ The range of China’s foreign aid focus indicates a model focused on financial gain rather than purely geopolitical interest, but in either case, foreign aid as a policy tool is clearly evident in the cases of all these highlighted P5 countries.

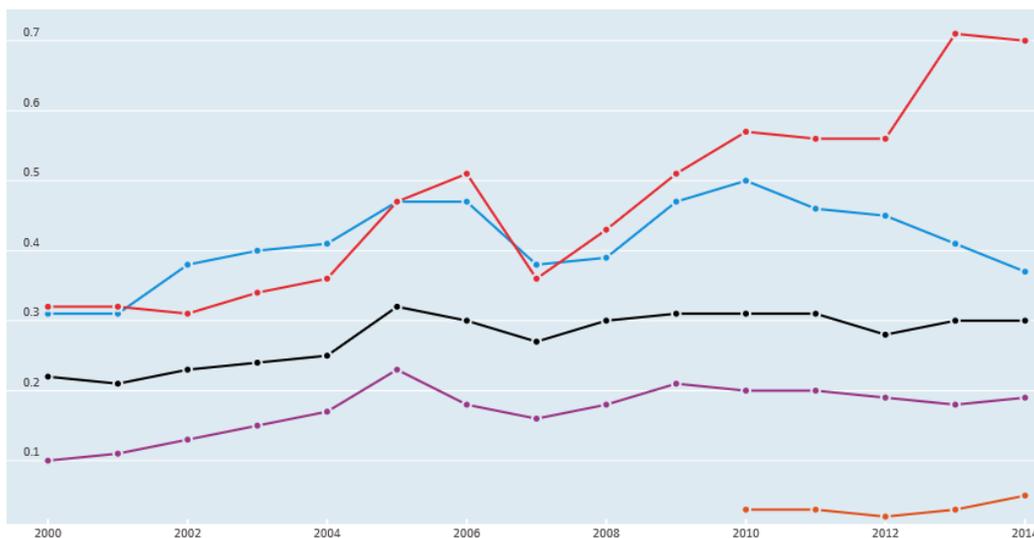


Figure 4: Net official development assistance as a percentage of gross national income, 2000-2014. Red is UK, blue is France, black is Development Assistance Committee (DAC) average, purple is USA, orange is Russia. Not pictured: PRC (not a member of the DAC as of 2016.)

One interesting tidbit immediately visible is that the United States and Russia both donate significantly smaller portions of their GDP as foreign aid to other nations when compared to the

³⁶ Sun, Yun. “China’s Aid to Africa: Monster or Messiah?” *Brookings Institution*. Brookings, Feb 2014. Web. 14 Jan 2016.

DAC average, and the UK donates a significantly larger portion of its budget to foreign assistance. But perhaps most importantly, there do not appear to be major fluctuations in foreign aid donations, particularly in the case of the US and Russia. While politicians from different political parties may make promises about the foreign policy of a country, this financial metric shows that these promises often do not play out in reality. As one would expect from time series data, significant auto-correlation will likely be an issue in creating a model for this data.

A third metric of interest is the aforementioned Corruption Perceptions Index (CPI):

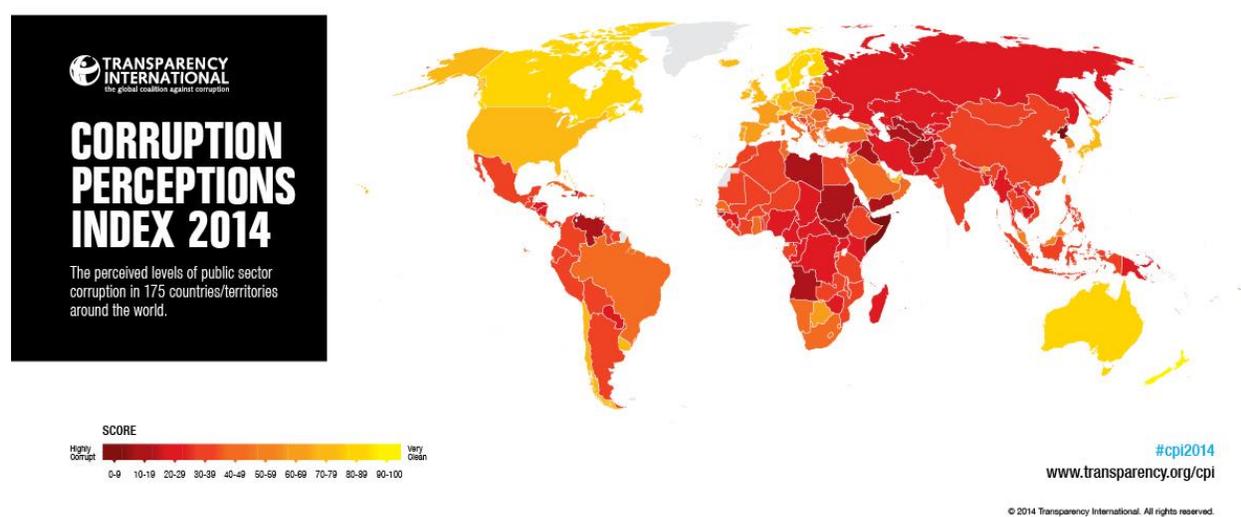


Figure 5: Corruption Perceptions Index (CPI) in 2014 for the world. Darker colors indicate lower CPI, or higher levels of perceived corruption.³⁷

As one may expect, the least corrupt countries in the world tend to be some of the most affluent countries as depicted in Figure 1. However, there are some notable exceptions; Chile, Uruguay, and Botswana score surprisingly well on these metrics despite having relatively low GDP per

³⁷ "2014 Corruption Perceptions Index – Results." *TRANSPARENCY INTERNATIONAL: the global coalition against corruption*. Transparency International. Web. 11 Jan 2016.

capita scores. On the other hand, South Korea fares relatively poorly despite its high level of development. Countries that have low levels of corruption and high GDP per capita scores such as Canada and New Zealand are not generally considered in need of foreign aid, so there is a possibility that foreign aid will appear to be biased towards more corrupt countries. One of the auxiliary goals of this analysis is to see whether less corrupt countries are rewarded for their good governance, but also whether countries improve from year to year following aid from the US or another country.

III: Models

My models seek primarily to address what factors incentivize P5 countries to donate aid to a state in need, and whether competition is a factor playing a role in the results of foreign aid programs. I hypothesize that there is a competition dynamic; i.e., states that receive large amounts of aid from both the US and Russia will have worse outcomes in terms of GDP per capita and CPI than states receiving aid primarily from only the US or Russia. I additionally hypothesize that states with higher CPI scores (less corrupt) will receive more foreign aid than states with lower CPI scores (more corrupt.) As mentioned previously, the small scope of data present in this analysis prevent long-run causal claims due to fewer potential lags, but here I am interested in seeing whether this effect exists in the short term of the 2010. My models will consist of ordinary least square regressions, including lagged terms when appropriate in order to control for autocorrelation, a major dilemma in time-series models. My first model is as follows:

$$(1) \text{GDP2013} = B_0 + B_1(\text{US2012}) + B_2(\text{AlliedAid2012}) + B_3(\text{RU2012}) + B_4(\text{CN2012}) + B_5(\text{CPI2012})$$

Where GDP2013 = GDP per capita for a given state in 2013 in USD

US2012 = US foreign aid to a given state in 2012 in USD

AlliedAid2012 = combined UK and French foreign aid to a given state in 2012 in USD

RU2012 = Russian foreign aid to a given state in 2012 in millions USD

CN2012 = Chinese foreign aid to a given state in 2012 in USD

CPI2012 = CPI for a given state in 2012

I estimate this OLS model using RStudio, and yielded the following results:

Regressor	Coefficient	Standard Error	T-value	P-value
(Intercept)	-6,961	2,139	-3.255	0.00154**
US2012	8.218e-07	2.450e-06	0.335	0.73796
AlliedAid2012	-6.156e-06	5.284e-06	-1.167	0.24597
RU2012	-257.7	313.3	-0.823	0.41261
CN2012	-1.221e-06	1.755e-06	-0.696	0.48822
CPI2012	346.5	47.83	7.245	8.46e-11***

Adjusted R-squared: 0.3731

F-statistic: 13.74 on 5 and 102 DF, p-value: 2.991e-10

From these coefficients, we observe little in the way of a causal relationship, and fail to prove a significance in aid from any country in the previous period to gross domestic product in the following period. One significant exception to this pattern lies in CPI; we observe a highly significant relationship between lower levels of corruption, or a higher CPI, and higher GDP per capita values. If one compares *Figure 1* and *Figure 5*, this seems highly logical; states that tend towards more open markets and away from cronyism tend to perform better financially as incentives to innovate and open businesses emerge. The 95 percent confidence interval for *B5* is (252.7532, 440.2468.) This means that for every CPI point in 2012, we are 95 percent confident

that *ceteris paribus* (all else equal,) expected GDP per capita increases by some value between \$252.75 and \$440.25. With CPI as an index ranging from 0 to 100, this implies a range of variation of \$27,373.50. This means that of states that receive identical amounts of aid from every P5 member, *ceteris paribus*, a state with a CPI of 0 (extremely corrupt) will have a GDP per capita \$27,373.50 less than a state with a CPI of 100 (hardly corrupt at all.) The below graph describes the general trend:

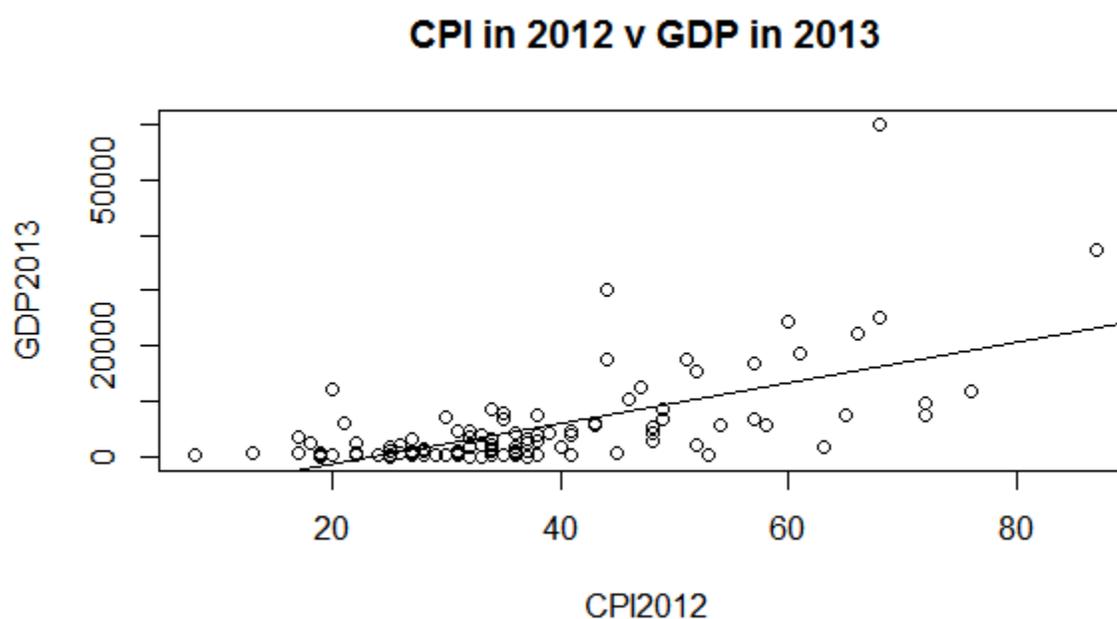


Figure 6: CPI in 2012 vs GDP in 2013. The equation for the line of best fit is $\text{GDP2013} = 363.2(\text{CPI2012}) - 8314.5$

We can observe that this relationship is not perfect, for states with similar CPIs have significantly different GDP per capita values in 2013. But despite this variation, there is a clear trend in this sample that lower levels of perceived corruption correspond to higher levels of GDP per capita.

To study this relationship further, I took the first difference of this model, modeling whether changes in foreign aid or CPI from one year to another will inspire a change in GDP. Of course, in these policy problems it is difficult to completely rule out endogeneity issues, but this first-differenced model does reduce the likelihood that endogeneity is a major concern:

$$(2) \quad GDP2013diff = \delta_0 + \delta_1 (US2012diff) + \delta_2 (RU2012diff) + \delta_3 (CN2012diff) \\ + \delta_4 (AlliedAid2012diff) + \delta_5 (CPI2012diff)$$

Where $GDP2013diff = \text{GDP per capita in 2013} - \text{GDP per capita in 2012 in USD}$

$US2012diff = \text{US aid in 2012} - \text{US aid in 2011 in USD}$

$RU2012diff = \text{Russian aid in 2012} - \text{Russian aid in 2011 in millions USD}$

$CN2012diff = \text{Chinese aid in 2012} - \text{Chinese aid in 2011 in USD}$

$AlliedAid2012diff = \text{UK + French aid in 2012} - \text{UK + French aid in 2011 in USD}$

$CPI2012diff = \text{CPI in 2012} - \text{CPI in 2011}$ ³⁸

Estimating this model in RStudio yielded the following results:

Regressor	Coefficient	Standard Error	T-value	P-value
Intercept	3.541	53.65	0.066	0.948
US2012diff	2.672e-09	3.383e-07	0.008	0.994
RU2012diff	24.47	18.96	1.291	0.200
CN2012diff	-1.885e-09	3.444e-08	-0.055	0.956
AlliedAid2012diff	-1.500e-09	3.602e-07	-0.004	0.997
CPI2012diff	9.238	11.23	0.823	0.413

Adjusted R-squared: -0.02143

³⁸ Transparency International used a CPI ranging from 0 to 10 in 2011 and prior, with significance to the tenths customary. Subsequently, for ease of analysis, CPI2011 is actually CPI in 2011 multiplied by 10 to better reflect changes from 2011 to 2012.

F-statistic: 0.551 on 5 and 102 DF, *p*-value: 0.7372

In Model (2) we observe no significant relationships, failing to disprove the null hypothesis that none of these variables explain changes in GDP from 2012 to 2013. While this model does not seem to provide new results, it does verify that these variables persist. Consider our sample:

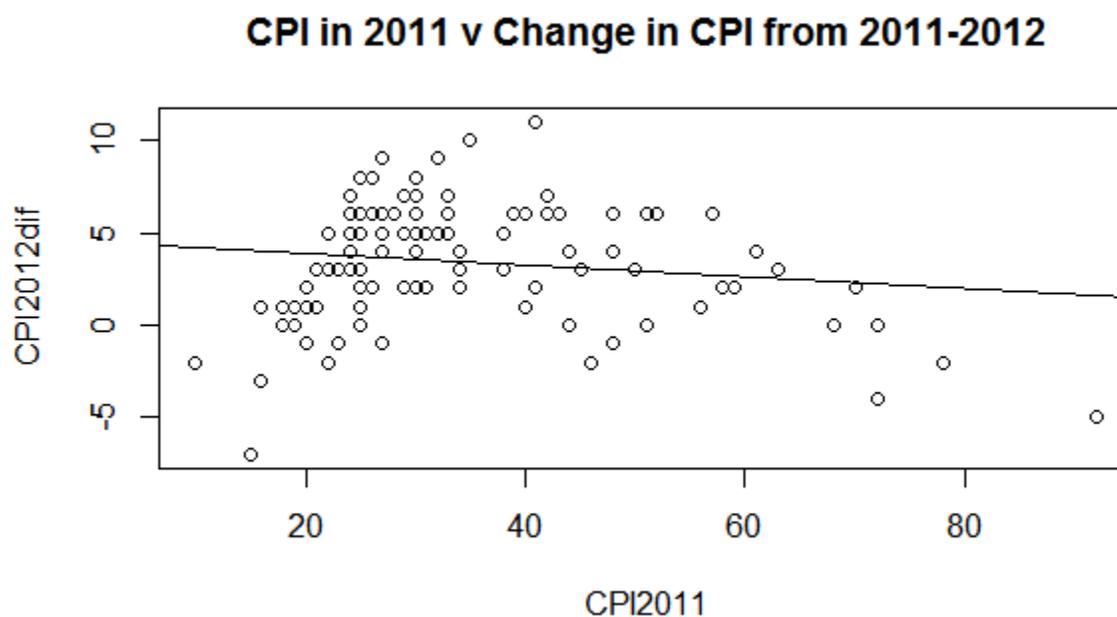


Figure 7: CPI in 2011 vs. the change in CPI from 2011-2012. Line of best fit is $\text{CPI2012dif} = 4.520 - 0.032 (\text{CPI2011})$.

In *Figure 7*, we see that with a change in measurement in CPI from a 10-point scale to a 100-point scale, as mentioned in (2), CPI2012dif for most of these countries are clustered around 5, and do not significantly change from country to country on a year to year basis. This change is almost entirely due to an aforementioned change in measurement from a 10-point scale to a 100-point scale. Since this difference in difference value is nearly consistent among the sample, it

logically follows that the coefficient for CPI2012diff in (2) will not display the same significance as the coefficient for CPI2012 in (1).

The difference-in-difference modeling technique can also be used in our first look at identifying a competition dynamic. Another term I elected to include in models was aid from the rest of the world; although we do not specifically focus on some larger states such as Germany, Japan, and India in this thesis, their aid can still have an impact on foreign policy for the P5 Security Council members, and so they are included as a control variable. Model (3) is as follows:

$$(3) \text{US2013diff} = \delta_0 + \delta_1(\text{AlliedAid2012diff}) + \delta_2(\text{RU2012diff}) + \delta_3(\text{CN2012diff}) \\ + \delta_4(\text{RestofWorld2012diff}) + \delta_5(\text{GDP2012diff}) + \delta_6(\text{CPI2012diff})$$

Where US2013diff = US aid in 2013 – US aid in 2012

AlliedAid2012diff = UK and French aid in 2012 – UK and French aid in 2011

RU2012diff = Russian aid in 2012 – Russian aid in 2011 in millions USD

CN2012diff = Chinese aid in 2012 – Chinese aid in 2011

RestofWorld2012diff = Total aid to a country less aid from the P5 in 2012 – Total aid to a country less aid from the P5 in 2011

GDP2012diff = GDP of a state in 2012 less GDP of that state in 2011

CPI2012diff = CPI of a state in 2012 less CPI of that state in 2011

The output of this model in R is as follows:

Regressor	Coefficient	Std. Error	T-value	P-value
Intercept	-4.293e-07	1.666e+07	-2.578	0.0114*
AlliedAid2012diff	0.01255	0.1247	0.101	0.9200
RU2012diff	1.284e+07	6.279e+06	2.045	0.0434*
CN2012diff	0.009299	0.01082	0.859	0.3922
RestofWorld2012diff	-0.02003	0.05388	-0.372	0.7109
GDP2012diff	1.699e+04	2.820e+04	0.602	0.5482
CPI2012diff	8.027e+06	3.497e+06	2.295	0.0238*

Adjusted R-squared: 0.04859

F-statistic: 1.911 on 6 and 101 DF, p-value: 0.08622

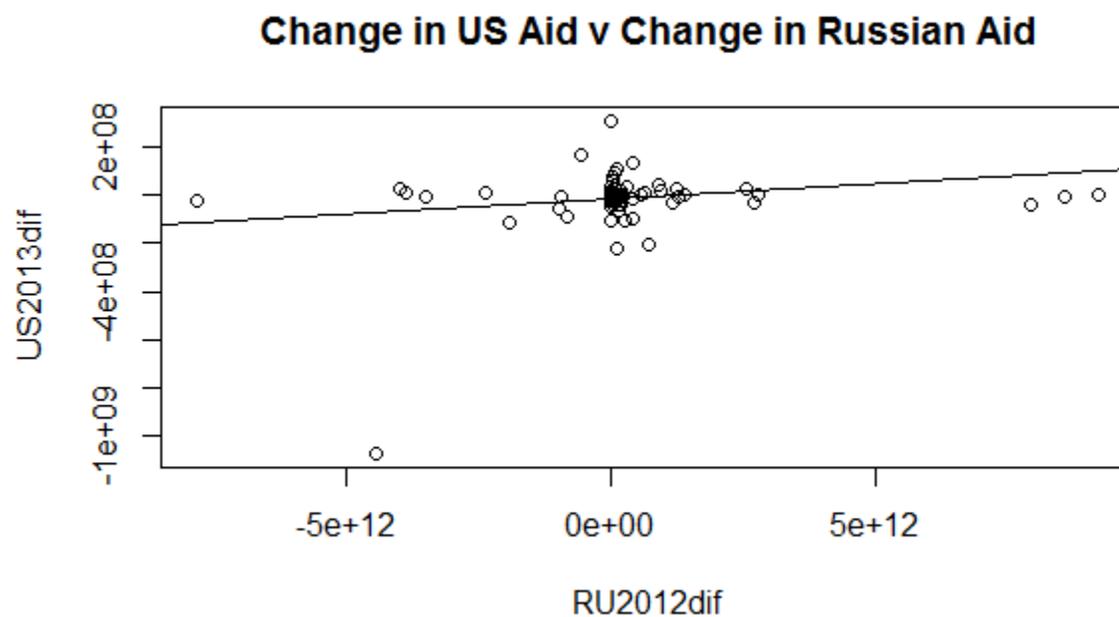


Figure 8: Change in US aid from 2012 to 2013 vs. change in Russian aid from 2011 to 2012.

$$\text{Line of best fit is } US2013dif = (-1.399e+07) + 1.271e-05(RU2012dif)$$

This model provides promising results with respect to our competition dynamic hypothesis; changes in Russian foreign aid from 2011 to 2012 have a significant relationship with changes in US foreign aid from 2012 to 2013. The 95 percent confidence interval for B2 is (\$6,561,000, \$19,119,000), meaning that for every million dollar increase in Russian foreign aid from 2011 to 2012, *ceteris paribus*, US foreign aid is expected to increase from some value between \$6,561,000 and \$19,119,000. In other words, there is evidence here that the United States is responding to the foreign aid obligations made by Russia. On the other hand, the small adjusted-R squared value would indicate that this is a far from perfect relationship. Nonetheless, the competition dynamic is certainly a part of the story and one that bears further research.

One final model that warrants review is a lagged model of US aid in 2013 on our previous variables. The model is as follows:

$$(4) \quad US2013 = \delta_0 + \delta_1(AlliedAid2012) + \delta_2(RU2012) + \delta_3(CN2012) + \delta_4(GDP2012) + \delta_5(CPI2012) + \delta_6(US2012)$$

Where US2013 = US aid in 2013

AlliedAid2012 = aid from the UK and France in 2012

RU2012 = Russian aid in 2012, in millions US

CN2012 = Chinese aid in 2012

GDP2012 = GDP per capita in 2012

CPI2012 = CPI in 2012

US2012 = US aid in 2012

The output of this ordinary least squares (OLS) model in R is as follows:

Regressor	Coefficient	Std. Error	T-value	P-value
Intercept	6.810e+06	2.225e+07	0.306	0.760
AlliedAid2012	0.08417	0.05273	1.596	0.114
RU2012	1.232e+06	3.117e+06	0.395	0.694
CN2012	0.09035	0.01744	5.179	1.14e-06***
GDP2012	-1045	981.4	-1.065	0.289
CPI2012	2.781e+05	5.821e+05	0.478	0.634
US2012	0.6735	0.02430	27.719	~0***

Adjusted R-squared: 0.9162

F-statistic: 195.9 on 6 and 101 DF, p-value: < 2.2e-16

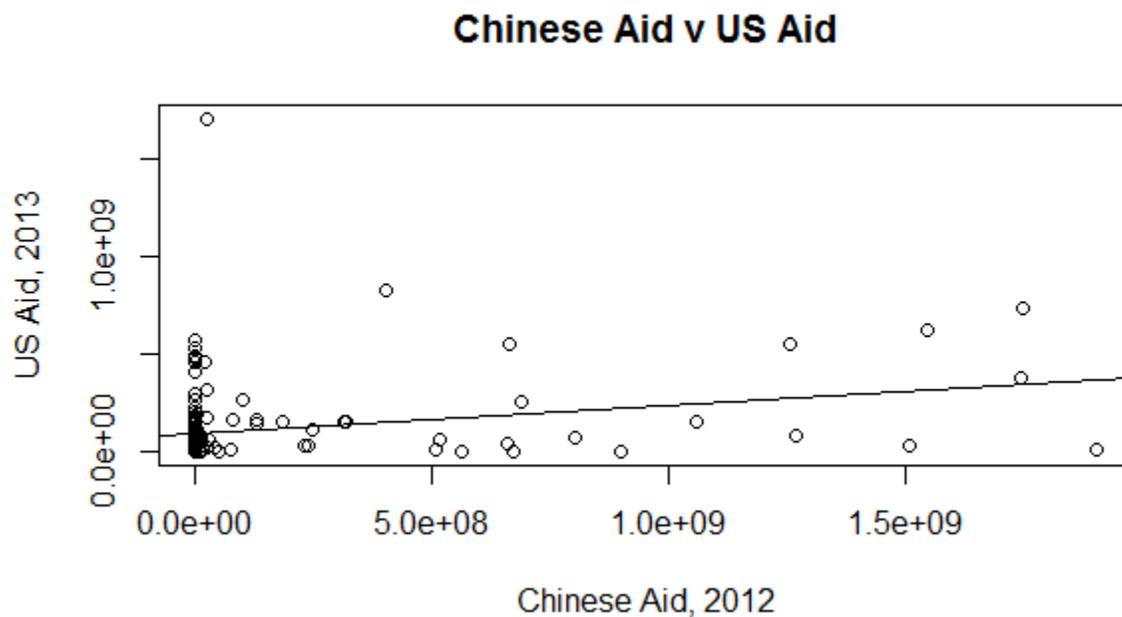


Figure 9: Chinese aid in 2012 vs. US aid in 2013. Line of best fit is $US_{2013} = (9.058e+09) + 1.423e-01(CN_{2012})$

As we would expect from a real-world econometric time series analysis, there is significant autocorrelation from one year to the next, so the coefficient of US_{2012} is by no means groundbreaking. A lot of the foreign aid decisions of a country will merely be continuations of a previous level, due to either a lack of significant change in the situation of the recipient state or bureaucracy slowing down processes. For the same autocorrelative reason, the adjusted R-squared, though highly encouraging, is not necessarily an unexpected result. What does bear study is the responsiveness of US aid in 2013 to Chinese aid in 2012; even when controlling for lagged US aid, GDP, and governance, there is still a highly significant correlation between Chinese and American foreign aid decisions. I would argue that this is due to a reactive relationship, with the US working to ensure that they have influences in similar regions than does China. In the end, one could come up with endless models in order to prove or disprove a trend, but my work has shown that there is at least plausible evidence of reactive donor competition in the 2010s, more than twenty years following the end of the Cold War.

Again, endogeneity is a major issue with a survey of this length of time. Unfortunately, with the small data sample I have, it is quite difficult to make any causal claims, although the first differenced models do have some additional explanatory power. Future researchers may wish to look into back-casting some of the variables I have used here in order to create a longer time series for more sophisticated analysis.

IV: Discussion

The large conclusions we have come to in this analysis are 1: the United States rewards good governance to some degree, as we see in model (3) and 2: the United States does exhibit some responsiveness to the foreign aid decisions of Russia and China, as in models (3) and (4). Interestingly, none of our models show any relation between GDP and CPI, and model (2) does not indicate that changes in governance indicate changes in foreign aid from the US. How could this be?

First, we can delve into the US aid – CPI relationship; that is, a positive correlation between greater standards of governance and US monies. It is a happy conclusion that this relationship has such backing, but how is this the case? One key possibility is the existence of foreign aid agencies such as the Millennium Challenge Corporation (MCC).³⁹ The MCC is unique in that it maintains rigorous standards of eligibility in terms of good governance. Additionally, the MCC funds programs that are primarily developed and implemented by the recipient state, stepping in merely to refine the program and to disburse funds.⁴⁰ The MCC does not make up the majority of foreign aid spending, but it has contributed about \$8.56 billion in aid as of June 2015, and has pledged about \$10.7 billion in this same time period.⁴¹ Much of this work consists of infrastructural development and job training in areas as diverse as El Salvador, Liberia, Moldova, and the Philippines. The models provided above would indicate that there has been some level of success with regards to the selection of countries; however as mentioned

³⁹ I would like to thank Oyebola Olabisi Okunogbe, PhD in Public Policy candidate at Harvard University, for the constructive comments regarding the inclusion of the MCC in this discussion.

⁴⁰ “About MCC.” *Millennium Challenge Corporation*. Millennium Challenge Corporation – United States of America. Web. 27 Jan 2016.

⁴¹ “Open Data Catalog” *Millennium Challenge Corporation*. Millennium Challenge Corporation – United State of America. Web. 27 Jan 2016.

before, there has not been the evolution one would hope for in terms of governance or with respect to incomes. In many cases, this may not be a major issue, for the governance of a country need not evolve as rapidly if it has already reached a fairly open level. Future analyses specifically on the impacts of the MCC would be of interest in further research as the organization builds a longer history. However, we can here say that recipient selection appears on a positive trend as shown in (3), a positive statement on American foreign aid policy.

Models (1) and (2) both show that US aid does not appear to have a significant influence on income and development on a country. If this is the case, what happens to the foreign aid? Brautigam writes that "...donors have frequently continued to fund projects outside of the budget, and thus outside of any possible review by parliament. This can have the effect of reinforcing an already strong presidentialism, and making it more difficult for the legislature to exercise its role."⁴²⁴³ This is not a full explanation, as much of foreign aid comes from donor states who are also interested in democracy. But the idea that foreign aid makes the leadership of a nation-state less accountable to their own government and more so to foreign interests is logically an obstacle to democratic self-governance. If the competition dynamic which we have observed is at play in a given state, then the recipients of aid would be even less acquiescent to the positions of their parliament and more likely to follow the whims of their donors, states with competing interests, and perhaps even a vested interest in chaos in the recipient state. The International Financial Institution Advisory commission has given a sobering account on International Monetary Fund (IMF) loans: "The use of IMF resources and conditionality to control the economies of developing nations often undermines the sovereignty and democratic

⁴² Brautigam, D. (2000) *Aid Dependence and Governance*. Stockholm: Almqvist & Wiksell International.

⁴³ Knack, S. (2004), Does Foreign Aid Promote Democracy?. *International Studies Quarterly*, 48: 251–266. doi: 10.1111/j.0020-8833.2004.00299.x

processes of member governments receiving assistance. IMF staff often admit (with pride) that the executive branch of borrowing nations likes to use IMF conditions to exact concessions from their legislatures. While this mechanism may sometimes work to achieve desirable reforms, it often does so by shifting the balance of power within countries in ways that distort the constitutionally established system of checks and balances.”⁴⁴ If the IMF, “...accountable to the 188 countries that make up its near-global membership,”⁴⁵ has this attitude, the effect is likely exacerbated when donor states have an influence on the politics of a state.

The competition between states is a trend that has played out in developing states across the globe. One example that bears study is the case of the Kyrgyz Republic, or Kyrgyzstan, a former Soviet satellite state in Central Asia. Both the United States and the Russian Federation have a deeply vested strategic interest in this state; the proximity of Kyrgyzstan to the Middle East and Afghanistan makes it a useful location for a US base, while Russia takes an interest in keeping the Kyrgyz Republic within its sphere of influence due of course to its geographic location and their historical relationship. For example, in July 2009, “President Bakiyev signs into law a deal to allow the US to continue using Manas airbase to support troops in Afghanistan, after US agreed to more than triple the annual rent it pays for the base to \$60m,” while simultaneously tentatively giving Russia approval to erect a second base in the Central Asian state.⁴⁶ In 2013, the Russian Federation pledged to give military assistance to Kyrgyzstan starting at the end of 2013 and continuing through 2014, with a total of \$1.1 billion in military pledges.⁴⁷ The Kyrgyz Republic is a prime example of a state that is of interest to multiple states, and a

⁴⁴ International Financial Institution Advisory Commission (2000) Final report to the Joint Economic Committee, the Congress of the United States, March 8.

⁴⁵ “IMF – About.” *International Monetary Fund*. International Monetary Fund. Web. 27 Jan 2016.

⁴⁶ “Kyrgyzstan Profile – Timeline.” *BBC News*. The BBC. Web. 27 Jan 2016.

⁴⁷ “Russia to Start Sending Weapons to Kyrgyzstan This Year.” *Sputnik*. Sputnik. 26 Jun 2013. Web. 27 Jan 2016.

prime target for donor competition. Both the US and Russia are involved in the Republic for their own self-interest, and they utilize funding in differing and at times contradictory ways.

USAID in Kyrgyzstan primarily invests in democracy, economic growth, and education, but is only part of the US - Kyrgyz financial picture. With respect to democracy, USAID “helps instill the rule of law and respect for human rights by supporting the judiciary, defense lawyers and activists that monitor and advocate for human rights.”⁴⁸ The document goes on to say that the United States is investing in future generations through civic education and political participation efforts. While this mission is ostensibly laudable, it certainly puts the government of Kyrgyzstan on a path quite unlike the system followed or preferred by neighborhood powerhouse Russia. As observers have seen in the highly publicized Ukrainian crisis at Euromaidan, Westernization and liberalization of countries in the Russian sphere of influence creates tension in the region. Also responsible for tension in the region is the aforementioned base at Manas, which during its existence was “...the second biggest source of income [behind a gold mine]” for the Republic.⁴⁹ With the base representing such an investment, it appears the democracy promotion was secondary to the military interests of the US. Certainly, the existence of a US-allied liberal democracy so close to Russia could be a potential future threat.

In fact, the Russian Federation has stated that this behavior has influenced their foreign policy, and these third party countries are often caught in the middle. As mentioned previously, sources such as the Kommersant newspaper reported that “Kyrgyzstan and Tajikistan...will receive \$1.5 billion for military spending...[in] response to US attempts to gain a foothold in

⁴⁸ “Kyrgyz Republic – Country Profile.” *USAID: From the American People*. USAID. Web. 27 Jan 2016

⁴⁹ Hartley, Morgan and Walker, Chris “The US Spent Billions in Kyrgyzstan, But Is Leaving Without a Trace.” *Forbes*. Forbes. 25 Sep 2013. Web. 27 Jan 2016.

Uzbekistan.”⁵⁰⁵¹ This move by the Russian Federation would certainly suggest some residual tension between the two major powers. But what has been the situation on the ground in Kyrgyzstan? This transition to democracy has appeared slow, with reports that “[In 2015]...the new leadership has largely failed to deliver on promises to remove corruption”⁵² and later that year “... the country’s political parties are the same rent-seeking patronage machines they were before, and fundamental problems with the administration of elections have only gotten worse.”⁵³ It is hard to track down the cause of this phenomenon entirely, but the scrutiny of two major powers in this country appears unable to address the fundamental problems that prevent the political and economic development of the country. Arguably, the tug-of-war between the US and the Russian Federation has played a part in this enabling of the less-than-democratic regime in place in the Kyrgyz Republic.

I believe that there is a “TIT FOR TAT” dynamic existing, a phenomenon noted by Robert Axelrod.⁵⁴ TIT FOR TAT is simply beginning with cooperation at first, and then responding based on the previous player’s action in an iterated game. I believe that this dynamic provides some explanation for the effects we see here; with no directly competing interests, the US and Russia will not behave aggressively, but will later act based on what the other did previously. Axelrod places this behavior in the context of the Cold War, but this exploratory study indicates that the phenomenon may still be at play in foreign aid competition scenarios.

⁵⁰ “Киргизию и Таджикистан вооружат российскими деньгами.” *Kommersant*. 6 Nov 2012. Web. 1 Feb 2016.

⁵¹ Kucera, Joshua. “Report: Russia Spending \$1.3 Billion to Arm Kyrgyzstan, Tajikistan.” *EurasiaNet.org*. The Open Society Institute. 7 Nov 2012. Web. 1 Feb 2016.

⁵² Standish, Reid. “Five Years on, has Kyrgyzstan’s Democratic Revolution Put Down Roots?” *Foreign Policy*. 7 Apr 2015. Web. 1 Feb 2016.

⁵³ Schenkkan, Nate. “Central Asia’s Island of Diplomacy is Sinking.” *Foreign Policy*. 30 Sep 2015. Web. 1 Feb 2016.

⁵⁴ Axelrod, David. *The Evolution of Cooperation: Revised Edition*. New York: Basic Books, 1984, Print.

This undergraduate thesis does not seek to solve the problems endemic with foreign policy, but it generates some new evidence using modern data that foreign aid, while not problematic in theory, tends to create more geopolitical competition and exacerbate conflict rather than solve it. There is some rewarding evidence that the US has moved towards selection of less corrupt countries, and organizations such as the Millennium Challenge Corporation may have played a part in that move. On the other hand, there is little evidence as presented in this thesis that United States foreign aid has any impact on the democratic or economic development of a targeted country, at least in the snapshots of the 2010s that we have been able to analyze here. Additionally, there is foreign aid competition between the major world powers of the US, Russia, and China, which appears to create extreme versions of “inefficiencies.” The case study of the Kyrgyz Republic here is one such example, but there are many cases worldwide where foreign aid from multiple major powers has not improved the livelihood of the people, despite this stated goal.

There are imperfections with this analysis which would serve as compelling areas of further research. The largest area where this would be the case is in the breadth of data: while there is some effective data from 2011-2013 or 2014, the lack of complete data for all of these years has hampered my ability to complete long-run econometric analyses on the entire decade, or stretching back to 2000, and future series could provide more evidence of trends. This analysis of the 2010s indicates a lack of clear influence of foreign aid on CPI in the short terms; on the other hand, if the relationship between P5 funding and good governance is not strictly linear, but rather stops and starts, this may not be captured in this type of analysis. Including instruments such as Gini coefficients would also be useful; this is a metric with limited availability outside all but the most industrialized states, but it may be a better indicator of the “on-the-ground” situation

in a nation-state than per capita GDP, of which a large portion may be held by the upper echelons of society in a developing country. In summary, better data would help this style of analysis to not only provide information to the next election cycle, but really indicate the long-term effectiveness, or lack thereof, of foreign aid.

Aggregate analyses have important caveats which must be kept in mind. Most importantly, the scale of the analysis is simply too large to account for all the mitigating factors that may exist in an individual state. Thus, it is difficult to make a fully causal claim with respect to this type of analysis; nevertheless, models such as the difference-in-difference models above do have some additional explanatory power. Additionally, there are variables that are difficult to quantify at the aggregate level, such as individual policymaker behavioral effects that may influence the dispersal of aid in a recipient state. It may be useful to think of these aggregate analyses as road maps that guide the reader and policymaker to look in a certain direction, rather than prescriptive formulas that solve often subjective policy issues.

Additionally, the aforementioned problem with lags remains an issue. With more data, it would be a useful and interesting exercise to examine whether lags from further back (i.e. US ODA lagged 10 years) has a significant effect on GDP per capita in a state, for instance. This would allow us to make some of the long-run claims that could be useful for a policymaker.

Nonetheless, this analysis is a starting point in seeing that while the Cold War may officially be over, there is still residual tension between major countries vying for supremacy in a state or region of the world. Ultimately, this indirect conflict has led to the delay of developing countries where large portions of the world's population lives, and this conflict must be addressed if foreign aid is to become what its proponents wish it to be: a way for the developed

countries of the world to give back to the world and make this planet a more peaceful, prosperous place for all.

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