AN ISSUE OF NATIONAL SECURITY: THE ROLES OF UNITED STATES ECONOMIC AND MILITARY AID IN PROMOTING HUMAN DEVELOPMENT AND POLITICAL STABILITY IN DEVELOPING COUNTRIES

By

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Title: AN ISSUE OF NATIONAL SECURTIY: THE ROLES OF UNITED STATES ECONOMIC AND MILITARY AID IN PROMOTING HUMAN DEVELOPMENT AND POLITICAL STABILITY IN DEVELOPING COUNTRIES

This thesis examines the effects of United States economic and United States military aid on the factors of human development, political stability, and rule of law on three regions of the world, the Middle East, South America, and Sub-Saharan Africa, through a series of ordinary least squares regressions utilizing lagged independent variables in order to indicate causality. In this manner, the thesis evaluates the success of US foreign aid in regards to these three aforementioned independent variables. The results are compared and contrasted with previous studies, which came to varying conclusions regarding the effectiveness of aid. This thesis finds that US economic aid has both positive and negative, both significant and insignificant, effects upon human development, political stability, and these effects vary dynamically between the three regions, while not having any significant effects upon the rule of law. The thesis concludes by acknowledging both the positive and negative effects of US economic and military aid, and recommends a reevaluation of current US aid policy to right certain inefficiencies and ineffectiveness.

TABLE OF CONTENTS

I. Introduction

Despite frequent attempts at isolationism, the United States of America has always been an integral player on the world stage. And for those hundreds of years, there has existed a heated debate over the effectiveness of US foreign economic and military aid. In recent years, as world politics and economics has become more and more global, the debate has only intensified. In 1995, Senator Jesse Helms (R-N.C) and Senator McConnell (R-Ky) embodied prominent anti-aid sentiments via a report the two men published for the Congressional Budgetary Committee on Foreign Affairs, stating,

> *"Despite the natural assumption embodied in the term 'foreign assistance,' there is little evidence that American cash transfers actually do much to aid Third World peoples, or US taxpayers."*

This was a response to a 116-page report entitled *Increasing US Security through Foreign Aid*, published only a year earlier by the Congressional Budget Office, at the request of the Senate Committee on Foreign Relations. In the study's summary it stated that,

> *"The squalor and lack of economic opportunity that remains in parts of the developing world, if not mitigated, could intensify schisms and instability. When combined with the ongoing proliferation of weaponry including nuclear, biological, and chemical arms, they could produce volatile conditions. To respond to some of these threats, the United States may want to… consider increased funding for foreign assistance programs that can help meet national security goals… If all of the options were put in place, this study's illustrative set of ideas for expanding foreign assistance could cost the United States up to 12.5 billion a year above 1994 levels during the next decade."[1]*

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[1] Congressional Budget Office, *Enhancing U.S. Security through Foreign Aid,* 1994

Yet is important to note that neither of the aforementioned statements referred to any solid empirical data suggesting that their position was correct. This thesis will seek to analyze the positive and negative effects of United States economic and military aid on political stability, rule of law, and the human development index, from 1980 to 2008, on the developing and least developed countries of the Greater Middle East, Sub-Saharan Africa, and South America. This thesis will also describe how the promotion of these three areas not only benefits developing countries, but also US citizens, through enhanced national security. The thesis primarily uses least squares (OLS) regressions on statistical data to generate results, but uses historical analysis and deductive reasoning to arrive at specific conclusions. Specifically, the thesis takes three dependent variables which are related to political stability: political stability/absence of violence index, rule of law index, and the human development index, and regresses them upon US economic assistance, military aid assistance, along with the control variables of non-US aid and country GDP. By lagging the economic aid, military aid, and GDP data to from one to fifteen years, this thesis strives to determine what sort of causality exists between foreign economic and military aid and political stability, if any.

II. Historical Background

II.i The Post Cold-War New World Order

The year was 1989, the Soviet Union crumbled, the Cold War ended, the United States emerged as the one true super power. For the first time since the end of World War II,[2] no single power posed a clear and present danger to the welfare of the United States. The post Cold-War world posed daunting potential opportunities and pitfalls for the United States' foreign policy. Once the first world (The bloc of democratic-industrial countries

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[2] Snow, Donald, *Distant Thunder*, St. Martin's Press, 1993, New York, NY,

within the American influence sphere)[3] and the second world (The Eastern bloc of the communist-socialist states) were no longer locked in conflict, arguably the most notable change was the rise of the Third World into the US's world purview. The United States of America had more immediate liberty than ever to choose their role in the affairs of the nations of the third world: to refrain from intervention or to become the foremost active player in world politics. The United States, perhaps in an effort to avoid an eventual repeat of the Cold War, chose the latter option.

Throughout the decades, the United States continued their interventionist policies throughout the world, especially in the turbulent Third World. In February of 1991, in his speech to Congress immediately following the relatively short-lived Persian Gulf War, which occurred primarily in the third world countries of Iraq, Kuwait, and Saudi Arabia, then President George Bush Senior gave the Executive's answer to the dilemma of the US's emerging role in this new world. "Now, we can see a new world coming into view," he told congress, "A world in which there is the very real prospect of a new world order. In the words of Winston Churchill, a 'world order' in which "the principles of justice and fair play ... protect the weak against the strong ... A world in which freedom and respect for human rights find a home among all nations…The Gulf war put this new world to its first test, and, my fellow Americans, we passed that test…"[4]

In the new world order, no powerful nation stood between the US and its foreign policy. This time period represented an opportunity to create stability in what America viewed as an unstable world, a world which was constantly on the precipice of rebellion, insurgency, and ultimately, chaos that would be detrimental to US national security. The

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[3] http://www.nationsonline.org/oneworld/third_world_countries.htm
[4] President Bush's Speech to Congress, March 6, 1991

Second World had been tamed, and thus the Third World would move to center stage in America's quest to create a world of stability and peace that was favorable to US interests. Taming the Third World would be essential to creating George Bush's new world order. Donald Snow, in his 1994 book *Distant Thunder*, echoes this sentiment, stating, "In terms of national security, the developing world is likely to remain an area of great concern throughout the rest of this century and in the beginning of the 21st century. This is partly because most of the threats to international peace will occur in the Third World."[5] In fact, of the 150 wars fought between the end of the Second World War and the mid-1990s, more than nine out of ten occurred in the developing world.[6] Apart from several instances of direct military intervention, the primary tools of Third World intervention would be the United States governments' use of economic and military aid to less developed countries.

II.ii The Third World's Role

The Third World had its definitive birth at the end of World War II. World War II changed the international order significantly. The major European powers, whether winners or losers in the conflict, were no longer able or willing to reconstruct and operate the international system. Britain and France, although on the winning side, were physically and economically reduced to regional power status.[7] During the next two years they were forced to retreat from their colonial empires in the Middle East, Africa, and Asia. These events led immediately to the emergence of the third world. The one-time subjects of these empires were left to fend for themselves and to face the challenges of nation and state building on their own for the first time. The wealth disparity between developed and developing

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[5] Snow, Donald, *Distant Thunder*, St. Martin's Press, 1993, New York, NY

[6] Amnesty International, *Guns or Growth*, Control Arms Campaign, June 2004

[7] Snow, Donald, *Distant Thunder*, St. Martin's Press, 1993, New York, NY,

countries grew during the Cold War and post Cold War periods. In 1960, the per-capita gross domestic product (GDP) of the 20 richest countries was 18 times that of the 20 poorest countries. By 1995, the gap between the richest and poorest nations had more than doubled to 37 times.[8] The third industrial revolution of the First World occurred in the 1980's (the information based economy), while many developing countries had not even entered the first industrial revolution (basic industrialization), and this further exacerbated this dichotomy.[9]

For the sake of clarification, in the post-Cold War era, "Third World," countries are primarily referred to as, "developing countries," or "less developed countries (LDC's)." This is because the term "Second World countries," was no longer necessary after 1991, as virtually all Soviet Union and Soviet satellite countries had been westernized, and the classification was no longer pertinent. However, during the Cold War, the differentiation was necessary to generalize between lesser-developed countries that were significantly dominated and influenced by Russia, and those lesser-developed countries that were not part of the Cold War tension. The latter countries were, in effect, marginalized on the sidelines, and allowed to act in the absence of considerable support from either the US or Russia. This thesis hereafter uses the term "Less Developed Countries," to refer to Third World countries. Also, this thesis will use the term, "Less Developed Countries," to include the fifty "Least Developed Countries," as defined by the United Nations, unless specifically stated otherwise.[10] Least Developed countries are countries that, according to the United Nations, exhibit the lowest indicators of socioeconomic environment, with the lowest Human Development Index ratings of all countries in the world. A country is classified as a Least Developed Country if it meets three criteria based on GDP per capita, human resources, and

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[8] http://www.worldwatch.org/node/1056
[9] Snow, Donald, *Distant Thunder*, St. Martin's Press, 1993, New York, NY,
[10] http://esa.un.org/unpp/index.asp?panel=5

economic vulnerability. The thesis also examines the "Greater Middle East," which is different from the traditional "Middle East." The "Greater Middle East" refers to the countries of the Arab world, plus Pakistan, Afghanistan, Iran, Turkey, and Israel, and was formalized in a 2004 document from George Bush its G-8 counterparts in early 2004.[11]

II.iii Aid throughout Recent History

Beginning at the date of 1965, there are three distinct time periods in foreign aid policy to Third World Countries. The years 1965 to 1970 saw a dramatic decrease in the amount of foreign aid. In fact, there was an 80% overall drop in the amount of economic and military aid.[12] This was due various reasons, some being the rising cost of the war in Vietnam, Egypt's severed relationship with the United States due to the June 1967 War, and an undercurrent that considered various Third World countries as becoming more self-sufficient. Due to the very low nature of aid in 1970 relative to the 1970-2008-time period, this thesis finds it a time to begin analyzing trends, and as a way to avoid possibly troubling outliers.

The first important time period is that of 1971 to 1990. This time period is interesting because takes place from the height of the Cold War to the end of the Cold War.

The next time period of interest is from 1991 to 2001. This time period takes place from the end of the Cold War to the September 11th attacks. This time period demonstrated a relatively low amount of foreign aid when compared to the Cold War and post 9/11 periods.

The third time period of note to the thesis is post 9/11/2001 to the year 2007. This period is interesting, as it has seen increased US foreign aid to the Middle East, due to

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[11] G-8 Greater Middle East Partnership Working Paper, http://www.meib.org/documentfile/040213.htm
[12] Sharp, Jeremy, *U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2008 Request*, http://italy.usembassy.gov/pdf/other/RL32260.pdf

increased national security interests. In fact, a study undergone by the Inter Press Agency found that US foreign during the War on Terror is more and more resembling Cold War foreign aid distribution. The study, published in the year 2004, states that, "The president is asking Congress to increase by more than one billion dollars military and security assistance, particularly to key 'front-line' states in the 'war on terror.' Those two categories, which include anti-drug aid and proliferation categories, would make up nearly one-third of all U.S. foreign aid under Bush's request, roughly the same percentage of total foreign aid when the Cold War reached its height during the 1980s."[13]

III. Literature Review

III.i Importance of Political Stability to Respective Countries

Political instability has been proven to have many detrimental effects on the economic and social growth of countries. Specifically, political instability hinders economic development through its effect on the accumulation of physical and human capital.[14] The 1996 study *Political Instability and Economic Growth* found that, in a sample of 113 countries from 1950 to 1982, instability had a negative and significant effect on per capita GDP growth rates.[15] Another 1998 study, *Openness, Productivity, and Growth: What do we really know?* found a significant, but relatively weak, negative relationship between instability and productivity growth.[16] Political stability also has a negative affect on a country's policy-making environment and governance in general. A 2005 study by

[13] Lobe, Jim, *US Foreign Aid Budget Takes on a Cold War Cast,* IPS, http://ipsnews.net/interna.asp?idnews=22232
[14] Blanco, Luis, Grier, Robin, *Long Live Democracy: The Determinants of Political Instability in Latin America,* Department of Economics, University of Oklahoma, p2
[15] Alesina, Alberto, Ozler, Sule, Roubini, Nouriel, & Swagel, Phillip, *Political Instability and Economic Growth,* Journal of Economic Growth, 1996, p190
[16] Edwards, Sebastian, *Openness, Productivity, and Growth: What do we Really Know?* The Economic Journal 108 (447), p 398

Butkewicz & Yanikkaya, *The impact of sociopolitical instability on economic growth: Analysis and Implications,* found significant evidence that, "governments in politically unstable and polarized countries are more likely to adopt inefficient or sub-optimal policies, including the maintenance of inefficient tax systems, higher current government consumption, or the accumulation of larger external debts, which, in turn, adversely affect long-run economic growth."[17]

Political Instability can negatively affect other aspects of developing countries' livelihood as well. Ades and Chua, in a 1997 study titled *Thy Neighbor's Curse: Regional Instability and Economic Growth*, have explored the consequences of regional political instability for growth. They show that regional political instability has strong negative externalities for developing countries, of a similar extent to that of internal political instability.[18] They also study the transmission mechanisms. Ades and Chua show that regional political instability has a significantly negative impact on trade between neighboring countries and that it increases government military expenditures and decreases education expenditures.

III.ii Previous Studies linking Aid with increased HDI

Aid has been previously linked with increased HDI. In the study *Aid, Pro Poor Government Spending and Welfare* by the Centre for Research in Economic Development & International Trade, official development assistance was shown to both directly or indirectly

[17] Butkiewicz, James L. and Yanikkaya, Halit, 2005, *The impact of sociopolitical instability on economic growth: Analysis and Implications*, Journal of Policy Modeling 27, p 238

[18] ADES A. and H.B. CHUA, 1997. Thy Neighbor's Curse : Regional Instability and Economic Growth. *Journal of Economic Growth* 2, 279-304.

finance pro-poor public expenditures, and thus raise HDI. [19] The study found that, indirectly, aid releases revenue to be spent on such projects as sanitation, education, and health reform. However, this study only surveyed 38 developing countries, and surveyed only the years from 1980 to 1998. The study also found that military aid had no significant effects upon HDI. This thesis will expand upon these conclusions by broadening the scope of the investigation.

Another study by the Centre for Research in Economic Development & International Trade, *Aid, Public Spending and Human Welfare: Evidence from Quantile Regressions,* found that, "Aid is more effective in enhancing welfare in countries with lower values of welfare… aid is most effective in improving welfare in the poorest countries."[20] Thus it is possible that, in the case of this Thesis, poorer regions will see the most positive results from aid.

III.iii Previous Studies linking Aid with Political Stability

There have been numerous studies of the effectiveness of foreign aid in affecting economic growth, with very few papers analyzing a direct connection between foreign aid and political stability. However, it has been found that political stability and economic growth are correlated. A 1996 empirical study by Edgardo Zablotsky, of the Argentinean Center for Macroeconomic Studies, found that "political instability significantly lowers private investment, as well as economic growth, since [sic] its adverse effects on property

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[19] Centre for Research in Economic Development & International Trade, *Aid, Pro Poor Government Spending and Welfare,* 2003
[20] Centre for Research in Economic Development & International Trade, *Aid, Public Spending and Human Welfare: Evidence from Quantile Regressions, 2004*

rights, and by that on investment and growth."[21] In light of these results, it is applicable to use the plethora of aid growth literature to analyze aid and political stability relationships.

The literature mirrors the debate: the results run the gamut. Throughout the past few decades, studies have claimed positive causality, no causality, and negative causality. A 1996 study by Boone, "The Impact of Foreign Aid on Savings and Growth," stated that aid had no effect on investment or growth on a sample of developing countries. Two years later, a controversial and widely cited study, *Aid, Policies and Growth*, by Craig Burnside & David Dollar expanded upon Boone's research, by adding economic policies into the equation. Burnside and Dollar found "that aid has a positive impact on growth in developing countries with good fiscal, monetary, and trade policies. In the presence of poor policies, on the other hand, aid has no positive effect on growth."[22] The study stresses that aid will only work if it is spent on the right countries with low inflation, small budget deficits, openness to trade, strong rule of law, and a competent bureaucracy. The study also found, "No evidence that aid has systematically affected policies - either for good or for ill. We estimate an aid allocation equation and show that any tendency for aid to reward good policies has been overwhelmed by donors' pursuit of their own strategic interests."[23] This would insinuate that foreign aid would have little effect upon political stability, as it is primarily countries and institutions that are conducive to the presence or lack of political stability. Taking this study into consideration, this thesis will maintain a healthy skepticism regarding causality between foreign aid and political stability.

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[21] Zablotsky, Edgardo, *Political Stability and Economic Growth. A Two Way Relation*, Argentinean Center for Macroeconomic Studies, 1996, p 3

[22] Burnside, Craig, and Dollar, David, *Aid Policies and Growth*, Policy Research Department, World Bank, 1998. p1

[23] Burnside, Craig, and Dollar, David, p1

However, the Burnside and Dollar report has been met healthy skepticism of its own. There is a very helpful report by Henrik Hansen and Finn Tarp, called *AID Effectiveness Disputed*, which empirically compares the results of 131 first generation studies on foreign aid and growth (1960 to 1975) and second-generation studies on foreign aid and growth (1975 to 1995), and compares them with several third generation studies (post-1995), including the Burnside and Dollar report. Third generation studies have the advantage over earlier generation studies of "work[ing] with a panel data for a number of years and a large number of countries…. [and] recognize that development is a complex process with interactions between economic and non-economic variables."[24] However, the Hansen and Tarp study refutes the Burnside and Dollar report by concluding that, "There is a significant effect on growth, either alone or in combination with a policy variable… The result that there is a link between aid and growth is robust and consistent with past studies."[25] It goes on to conclude "the Burnside-Dollar result that there is a significant interaction between aid and policy is delicate… [and it] turns out to be sensitive to data and model specification."[26]

IV. Aid and National Security

IV.i The Need for a Multi-Lateral Approach to Promoting Stability

In 1994, the Clinton administration proposed a rewriting of the Foreign Assistance Act, suggesting it read that all funding for international affairs focus on six objectives: building democracy, promoting peace, promoting sustainable development, providing humanitarian assistance, promoting prosperity, and advancing diplomacy. The Congressional

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[24] Hansen, Henrik, Tarp, Finn, *Aid Effectiveness Disputed*, Institute of Economics, University of Copenhagen, 2000, p 10
[25] Hansen, Henrik, Tarp, Fin, p 16
[26] Hansen, Henrik, Tarp, Fin, p 16

Budget Office's 1994 report, *Enhancing U.S. Security Through Foreign Aid*, stated that

foreign economic and military assistance would be a vital tool in achieving this multilateral

approach to diplomacy.[27]

Promoting political stability is, and should be, one of the primary goals of US

Foreign Aid policy in developing countries, and the RAND document makes several

arguments to this effect. The document refers to the Cold War, declaring that when the US

openly and, sometimes, forcefully, promoted the democratization of nations, this fueled anti-

American sentiment among populations throughout the region. RAND also stressed that

nations undergoing the transition to democracy are more likely to become involved in

conflicts with their neighbors. "In the future," the document concludes, "the United States

will need to make a greater effort to its explain its policies to ordinary citizens … and also

need to weigh the prospects for democratic change with the potential for instability and the

loss of key allies." [28]

In referring to the methods needed to defeat Islamic extremism and promote political

stability in the Middle East, Donald Rumsfeld also advocated towards an open-minded

approach, "It is clear that the political, the economic, and the military have to proceed apace

… I think that there's a better, deeper understanding of the fact that this is not a one-

dimensional, military-only conflict; this is something that is multidimensional."[29] Although

the United States would assume that citizens of the Middle East would prefer living in a

tolerant and democratic society, the US will not be able to achieve this through sheer

willpower and force alone. A more encompassing strategy must be used, and improving

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[27] Congressional Budget Office, *Enhancing U.S. Security through Foreign Aid,* 1994, p xii
[28] RAND, The Future Security Environment in the Middle East, Prepared for the US Air Force
[29] Eikmeier, Dale, *How to Beat the Global Islamist Insurgency,* Middle East Quarterly, Winter 2005

stability and overall well being in the region via economic and military aid is fundamental to any successful strategy to create a world which is friendly to US interests.

IV.ii Poverty, Insurgency, and Political Stability

Insurgency is also a pressing problem for political stability in developing countries, and has consequences that can spill over into the developed world. Insurgency in general is described as, "The culmination of what many militarily inferior forces have learned to do to succeed against stronger foes. It is a method of war that gradually inverts the traditional strengths of large armed forces from an advantage to a disadvantage."[30] In his study *Why Men Rebel*, Ted Robert Gurr defined four steps that promote insurgency.[31] First, insurgency occurs in the face recognition of deprivation. In an isolated social setting where the human condition is uniformly wretched, this recognition will not occur. The second step is the necessary realization that the condition of deprivation is not universal. This step is aggravated in developing societies where the majority of the resources are controlled by an elite group, and where capital outflow and development have accentuated this internal misdistribution. The third step is the realization that the state of deprivation is inequitable. The fourth step is the realization that action can better the deprived individuals conditions. If political action is not possible, insurgency will occur.

Many have argued that in the post Cold War world, where insurgency will not be in a position to receive significant extraneous support, it is in a position to be defeated. Because of insurgency's close relationship with the both state of deprivation and with military conflict, economic and military aid will be essential in dealing with the issue. The UK

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[30] Snow, Donald, *Distant Thunder*, St. Martin's Press, 1993, New York, NY,
[31] Gurr, Ted Robert, *Why Men Rebel*, Princeton University Press, Princeton, New Jersey, 1970

Department for International Development, seconds this opinion, declaring, "Physical and economic vulnerability drives people into poverty and prevents them from escaping it. Conflict and poverty go hand in hand. Increased security is an important part of any poverty reduction strategy."[32] For the three regions of the world that this thesis focuses on, military aid has played key roles in attempts to prevent instability and the loss of human development.

IV.iii The Importance of a Politically Stable Middle East

During the Cold War, the Middle East was a theater of ideological struggle between the two superpowers: the United States and the Soviet Union, as they competed to influence regional allies. Of course, besides the political reasons, there was also the "ideological conflict" between the two systems. Moreover, as Louise Fawcett argues in *International Relations of the Middle East*, among many important areas of contention, or perhaps more accurately, of anxiety, were, first, the desires of the superpowers to gain strategic advantage in the region, and second, the fact that the region contained some two thirds of the world's oil reserves in a context where oil was becoming increasingly vital to the economy of the Western world.[33] Within this contextual framework, the United States sought to divert the Arab world from Soviet influence. In the post Cold War world, the absence of the Soviet power brought Middle Eastern countries from an indirect relationship into a direct, yet at times still just as heated, relationship with the United States.

Even when compared to Sub-Saharan Africa and South America, the Middle East is of utmost vital and special interest to the US due to its reserves of the majority of the world's crude oil and its position as a hotbed of powerful and militarily capable anti-US sentiments.

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[32] A *Just War? Poverty, conflict and instability in Iraq and the Middle East*, War on Want, http://www.waronwant.org

[33] Louise, Fawcett. *International Relations of the Middle East.* Oxford University Press, New York, 2005

Today, 66% of global oil reserves are in the hands of Middle Eastern regimes: Saudi Arabia

(25%), Iraq (11%), UAE (9%), Kuwait (9%) and Libya (2%).[34] Oil, as a resource, today

supplies about 40% of the world's energy and 96% of its transportation energy.[35] It is easy to

see how the Middle East will play a substantial role in the US's future. With less than five

percent of the world's population, the United States consumes about one fourth of the

world's energy resources.

The Middle East is a priority for US Foreign Policy, due to its relationship to US

national security. This, in part, is directly related to the Middle East's oil reserves. The US

relies heavily on them for energy, and unrest in the region, as well hostile countries

obstructing access would, and has led to compromised US security. In addition, the 9/11

attacks are a testament to the direct threat to US national security due to unrest in the Middle

East. A 2004 report by the non-profit RAND, called *The Future Security Environment in the*

Middle East, describes this in stark terms. "Since the Terrorist attacks of September 11th,

2001, the Middle East has played a more prominent role in U.S. policy than ever before," it

states, "The United States relies on Middle Eastern partners such as Israel, Saudi Arabia,

Qatar, Egypt, and others to fight terrorism and to halt the proliferation of WMD's by rogue

states."[36] The report then goes on to stress that, "The loss of key partners due to hostile

regime changes or increasing anti-Americanism could limit the United States' ability to fight

terrorism within the region."[37] The report also emphasizes the importance of Middle Eastern

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[34] *The Future of Oil,* Institute for the Analysis of Global Security, http://www.iags.org/futureofoil.html
[35] *The Future of Oil,* Institute for the Analysis of Global Security
[36] RAND, The Future Security Environment in the Middle East, Prepared for the US Air Force, 2004
http://www.rand.org/pubs/monograph_reports/2005/MR1640.sum.pdf
[37] RAND, The Future Security Environment in the Middle East

oil reserves, noting that, "Given the West's dependence on Middle East oil, political instability in the region could hurt economies around the world."[38]

The two main threats to Middle East political stability are external conflict between nation states, and internal conflict between nation states and their populations. Tensions between varying Middle Eastern states have long threatened to destabilize the Middle East as a region. At times those tensions resulted in open warfare, disrupting political and economic security and creating humanitarian crises. The RAND report, "The Future Security Environment in the Middle East," a study contracted by the US Air Force, states that threats to the political security in the Middle East have increased since the US victory in the 1991 Gulf War.[39] The document notes that the proliferation of weapons of mass destruction has raised the potential for conflict between rival countries, especially because long ranged delivery mechanisms are not necessary in the region. In addition, the new leaders at the heads of these governments who have emerged since 1991, such as those in Iran, Algeria, Bahrain, Jordan, Morocco, and Syria, may be weaker and less likely to cooperate with the United States. New leaders may have to concentrate on building popular support for their regimes, and may be therefore less willing to cooperate with the US "War on Terror," or supporting Arab concessions to Israel in future peace negotiations.[40] These problems could be mitigated via increase political stability.

The RAND report also refers to internal emerging trends within individual nations that could lead to destabilization of the region. First, it states that the expanse of liberalization (the introduction of civil liberties such as free speech and freedom of assembly) but the suppression of actual democratic government institutions will cause friction between

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[38] RAND, The Future Security Environment in the Middle East
[39] RAND, The Future Security Environment in the Middle East
[40] RAND, The Future Security Environment in the Middle East

the government and their respective subjects. RAND also stresses the fact that declining

economies will likely increase popular dissatisfaction with governments. It is referring to the

failed economic reforms initiated by many Middle Eastern countries. The report explains

how heavy debt, over taxation, and government corruption will exacerbate the

unemployment, poverty, and lack of sanitation and food distribution infrastructure that

plague the region. The report also states that as economic and social pressures cause

domestic threats to increase, militaries will be more devoted to internal control than to

external defense, and while, "The persistence of the short-term effects [of these conditions]

could spell political and economic turmoil, and increase the threat of conflict and

unpredictable shifts in policy and behavior by individual states."[41] It seems possible that

these threats of conflict could be mitigated through increased military aid.

IV. iv The Importance of a Politically Stable South America

Political stability in South America is primarily important because of its close

proximity to the United States. One of the issues this leads to is the existence of terrorist

attacks on US soil. It has been estimated that the Revolutionary Armed Forces of Columbia

are the source of 44 percent of terrorist attacks against the US.

South America will become more strategically important in the future, in large part

due to its growing oil reserves. A 2003 report by NPR states that, "The U.S. imports more oil

from Latin America than from all Middle Eastern countries combined."[42] The report goes on

to describe how, "oil wealth has long generated dreams of prosperity but in the lands of

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[41] RAND, *The Future Security Environment in the Middle East*
[42] *Latin America's Oil Legacy,* NPR, 2003, http://www.npr.org/programs/morning/features/2003/jul/latinoil/

production, the reserves have often been a Midas curse of political and economic instability."

Oil imports from South America are expected to increase substantially in the future.

South America is also a very important trading partner of the US. As of September 2008, South America contained two of the three developing countries (the third is Saudi Arabia) that make the list of the US's top ten largest trade partners. There is Mexico at number three, and Brazil at number ten. Any political instability in South America could upset trading patterns and mean economic turmoil for the United States.

Indeed, as recently as early 2009, Mexican gang violence has been ravaging Mexico's political environment, and the violence has spilled over the border and into the United States of America. A recent article by Francis Fukuyama, *Mexico and the Drugs Wars*, explains how democracy and political stability in Mexico are very important to the United States. There has been a lot of loose talk about Mexico becoming a 'failed state,'" the article explains, "This rhetoric is much overblown, but it is the case that the drug trade is highly corrupting to Mexico's basic political institutions. It will be impossible to deal with Mexico on immigration or any other problem if its government can't govern, is pervaded by corruption, or is unable to enforce the law in border areas."[43] The article also explains how basic deficiencies in human development could also lead to political instability. "Mexico's poverty makes the populist alternative a continuing attraction for Mexican borders," writes Fukuyama, "and the United States needs to bolster the credibility of sensible democrats in its neighborhood. We do not need another Hugo Chávez right on our border."[44]

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[43] Fukuyama, Francis, *Mexico and the Drug Wars,* The American Interest Online, March 23, 2009, http://www.the-american-interest.com/contd/?p=729
[44] Fukuyama, Francis, *Mexico and the Drug Wars,* The American Interest Online, March 23, 2009, http://www.the-american-interest.com/contd/?p=729

IV.v The Importance of a Politically Stable Sub-Saharan Africa

Sub-Saharan Africa is currently a hotbed of conflict, recent examples being the genocide in Darfur and piracy in Somalia. Although the countries of South Africa have no nuclear weapons or any other immediate method of exercising a terrorist attack on the United States, many have argued that the US should invest in Sub-Saharan Africa in order to offset possible future animosity and military capability.

Sub-Saharan Africa is also becoming more strategically important due to its increasing oil reserves. Currently about 15% of US oil comes from West Africa, and that figure is projected to rise to 25% in the next ten years. Sub-Saharan Africa contains other natural resources as well. Zaire and Zambia contain 50% of the world's cobalt reserves, Zimbabwe and South Africa have 98% of the world's chrome reserves, and South Africa has 90% of the world's reserves of platinum metals.

Sub-Saharan African countries may have limited capacity to absorb foreign resources.[45] This is mainly due to political instability, terrible infrastructure, rampant disease such as malaria and AIDS, and exorbitant birth rates. These are major barriers to political stability which economic aid has helped solve in the past, and still have a large capacity to continue to do so.

Regarding the AIDS crisis, a recent report found the crisis to bode badly for individual countries' national security efforts. A lack of effective national security measures reduces the power of state governments and exacerbates political instability. The study makes three different arguments, "The first describes the impact of HIV/AIDS on individuals critical to the maintenance of state and international security: soldiers and peacekeepers. The

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[45] Levy, V. (1988) 'Aid and Growth in Sub-Saharan Africa: The Recent Experience', *European Economic Review* 32(9): 1777-95.

second argument suggests that the epidemic in some sub-Saharan African nations may cause state instability and failure. The third argument focuses on the security effects of the worsening pandemic on the large, strategically important states of Russia, India, and China."[46] US economic and military aid may be able to directly mitigate these effects, by fortifying failing military operations, and increasing money allocated towards health and infrastructure. In fact, by 2006, funding for HIV/AIDS had reached approximately 80% of US aid for health and population.[47]

V. Theory and Econometric Process

VI.i Regions

These regressions seek to determine which hypotheses are applicable to the aggregate regions and each region individually. By lagging the effects of economic aid, military aid, non-US aid, and GDP, the relative differences between the four factors' effectiveness in affecting the human development index, political stability, and the rule of law can be analyzed.

The Middle East, although sometimes thought of as a uniform region, actually lies across the spectrum in GDP, religion, and politics. This thesis will examine an aggregate of all Middle Eastern countries. Important to note is that the Middle East contains two least developed countries, Afghanistan and Yemen. It also contains some relatively wealthy developing countries, such as Saudi Arabia and the United Arab Emirates. Additionally, Egypt and Israel have received massive amounts of aid over the years, as is the more recent case with Afghanistan and Iraq.

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[46] Feldbaum, Harley, *The National Security Implications of HIV/AIDS*, Centre on Global Health, London School of Hygiene and Tropical Medicine, 2006
[47] Feldbaum, Harley

South America also runs a wide spectrum of GDP and politics. It contains only one least developed country, Haiti, and is, by average GDP, the wealthiest of the three regions.

The countries of Sub-Saharan Africa vary by large amounts in terms of politics, ethnicity, and GDP per capita from the countries of North Africa. For this reason, those countries are not going to be included. Sub-Saharan Africa also has the world's largest concentration of least developed countries, thirty-two of them in fact. This means that 72% of Sub-Saharan African countries are least developed, and Sub-Saharan Africa contains 67% of the world's least developed countries. Fro this reason, Africa can be used as a proxy for a least developed region.

V.ii Promoting Stability through US Economic Aid

The paper presents three different hypotheses: a null hypothesis, a positive hypothesis, and a negative hypothesis, for both US economic and US military aid.

Null Hypothesis (0a): US foreign economic aid has no significant effect on the factors of political stability, rule of law, and human development index.

Hypothesis 1a: US foreign economic aid has a significantly positive effect on the factors of political stability, rule of law, and the human development index.

Despite changing geopolitical conditions, US foreign aid has historically been directly related to US national security interests in the respective regions. Jeremy Sharp in his report to congress, *U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2008 Request*, remarks that since the end of World War II, "The United States has pursued a foreign policy that seeks stability in a [Middle East] with abundant energy reserves but volatile interstate relationships… [and] policymakers have

often employed foreign aid to achieve this objective."[48] This same general statement can be extended to include South America and the Sub-Saharan Africa. Nancy Birdsall, in her 2008 book *The White House and the World*, supports these policy decisions, stating that aid can, "Greatly improve the lives of poor people in developing countries, thus fostering greater stability, security and prosperity globally and at home."[49]

　　Hypothesis 2a: US foreign economic aid has a significantly negative effect on the factors of political stability, rule of law, and the human development index.

　　While some favor using aid more assertively as leverage in the Middle East peace process, others assert that the overt use of aid, and the threat of its reduction, to promote stability and reform could lead to a backlash. Doug Bandow of the Cato Institute, in his 1995 proposal *A New Aid Policy for a New World*, commends Senators Jesse Helms (R-N.C.), chairman of the Foreign Relations Committee, and Mitch McConnell (R-Ky.), chairman of the Appropriations Subcommittee on Foreign Operations, for introducing legislation to cut US foreign aid by 20 to 35 percent. "But even these measures should merely be viewed as a starting point," states Bandow, "Despite the natural assumption embodied in the term 'foreign assistance,' there is little evidence that American cash transfers actually do much to aid Third World peoples (or U.S. taxpayers). Many developing states are moving backward economically, and well-subsidized political clients have been overthrown, while funds continue to flow to nations that regularly oppose U.S. interests."[50]

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[48] Sharp, Jeremy, *U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2008 Request*, http://italy.usembassy.gov/pdf/other/RL32260.pdf

[49] Birdsall, Nancy, *The White House and the World*, Washington, D.C.: Center for Global Development, 2008

[50] Bandow, Doug, *A New Aid Policy for a New World,* CATO Institute, 1995, http://www.cato.org/pubs/pas/pa-226.html

V.iii Promoting Stability through US Military Aid

   Null Hypothesis (0b): US Foreign Military Aid has no significant effect on the factors of political stability, rule of law, and the human development index,.

   Hypothesis 1b: US Foreign Military Aid has a significant positive affect on the factors of political stability, rule of law, and the human development index.

   The United States administers three major security assistance programs: foreign military sales credits, which help finance weapons purchases; military assistance program grants, which underwrite local defense efforts; and international military education and training, which schools foreign military officers.[51] First of all, these assistance programs are argued to be necessary, as progress towards stability can only be made in a secure environment. Amnesty International, in their report *Guns or Growth,* conceded that, "Where such security services are provided lawfully according to international standards, as set out in international human rights and humanitarian law, they can facilitate good governance, support human security, and hence help attract foreign investment especially from foreign powers with interest in the region, all of which can be beneficial to trade, investment, and aid."[52] Also, by providing military credits for expenditures that were already planned by the receiving government, this can free up receiving countries' national budgets for spending on social programs and infrastructure improvement.

   The 1994 The Congressional Budget report states that, "In the realm of security, aid can fund peacekeeping operations that can help quell conflict, as in such places as Cambodia, El Salvador, and Mozambique. It can help countries improve their export controls, as is now

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[51] Bandow, Doug, *A New Aid Policy for a New World*
[52] Amnesty International, *Guns or Growth*, Control Arms Campaign, June 2004

being attempted in the former Soviet republics. It can strengthen their militaries, contributing

to a self-defense capability. Notable success stories here include Israel, Taiwan, and South

Korea. Not least, it can provide a political and economic boost to regimes willing to try to

resolve conflicts, such as in the Middle East."

Hypothesis 2b: US Foreign Military Aid has a significant negative effect on the

factors of political stability, rule of law, and the human development index.

Some critics of US military aid policy accuse the US of being contradictory in its

methods, by "bolstering its ties to autocratic regimes through military assistance, while

advocating liberalization in the region with less funds dedicated to reform and development

aid."[53] Also, the arguments exist that military credits exacerbate third world arms races,

leading to overall less spending on social programs and infrastructure. This could be seen as

a possible problem when it is taken into account that the two Middle Eastern countries Oman

and Pakistan spend more on military than on health and education combined, and the three

middle eastern countries of Saudi Arabia, Jordan, and Iran spend more on their military than

health or education taken individually.[54]

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[53] Sharp, Jeremy, *U.S. Foreign Assistance to the Middle East: Historical Background, Recent Trends, and the FY2008 Request*, http://italy.usembassy.gov/pdf/other/RL32260.pdf

[54] Amnesty International, *Guns or Growth*, Control Arms Campaign, June 2004

VI. Empirical Analysis

*VI.i Variables**[55]*

Dependent Variables:

Political Stability Index[56]

> The *Political Stability and Absence of Violence Index*, (hereafter referred to as the political stability index) is a measure of "perceptions of the likelihood that the government will be destabilized or overthrown by possibly unconstitutional and/or violent means, including domestic violence and terrorism." Low scores in this variable indicate that citizens cannot count upon continuity of government policy or the ability to peacefully select and replace those in power.
>
> Values are indexed to have a mean of zero and a standard deviation of one index unit. Positive scores indicate better governance and 99% of the values fall between 2.5 and -2.5.[57]

Rule of Law Index:

> The *Rule of Law Index* is a measure of the extent to which agents have confidence in and abide by the rules of society, and the degree to which a society's atmosphere is conducive to regular, orderly social and economic activity and the protection of private property is an important measure of government effectiveness.
>
> Values are indexed to have a mean of zero and a standard deviation of

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[55] Note Regarding World Bank Governance Indicators (Political Stability Index, Human Development Index): The six World Bank governance indicators presented in Governance Matters VII are composite indices created from several hundred variables derived from 32 different data providers. It should be noted that all variables are not available for every country in each year. This will result in significant margins-of-error in countries for which a substantial amount of data is not available. The variables used in calculating the final indices are comprised of expert opinions, such as Freedom House's Level of Freedom indicator, surveys, such as Transparency International's Corruption Perceptions Index, and "hard" data, like the percent of government revenues generated by trade-related taxes.[55] For an in-depth discussion of the methodology used in calculating the indexes, please see http://go.worldbank.org/2E0SXCR850.

[56] http://earthtrends.wri.org/searchable_db/index.php?theme=10&variable_ID=1277&action=select_countries
[57] http://earthtrends.wri.org/searchable_db/index.php?theme=10&variable_ID=1277&action=select_countries

one index unit. Positive scores indicate better governance and 99% of the values fall between 2.5 and -2.5.[58]

Human Development Index

The Human Development Index (HDI) is an index combining normalized measures of life expectancy, literacy, educational attainment, and GDP per capita for countries worldwide. It is claimed as a standard means of measuring human development — a concept that, according to the United Nations Development Program (UNDP), refers to the process of widening the options of persons, giving them greater opportunities for education, health care, income, employment, etc. Higher HDI levels have been linked with more content civilians and less social unrest. This data was acquired through the United Nations website.

Independent Variables:

Total US Military Aid

Total US Economic Aid

Controls

Non US-Aid: To attain this variable US Economic Aid will be subtracted from "Total Official Assistance," (Official Development Assistance – US Aid). US Military aid will not be subtracted, as Total Official Assistance does not include military aid.

Real GDP (in year 2000 dollars): Most importantly, this variable will allow the regressions to account for country gross domestic product, as this might account for a fair deal of independent variable change. Lagged Real GDP will also serve as a contrast with economic and military aid.

Dummy Variables

Regions: Middle East, South America, & Sub-Saharan Africa

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[58] http://earthtrends.wri.org/searchable_db/index.php?theme=10&variable_ID=1277&action=select_countries

VI.ii Data
     See Table 1 in the Index.

VI.iii Regression Techniques and Econometric Models

     Comprehensive OLS Regression: I use OLS to examine the correlations between the dependent and independent variables, testing these against the control variables, and also testing each individual dummy variable for variations in correlation.

     Lagging: To assess the lag effect between US military aid, US economic aid, and official development assistance on the three dependent variables, I ran each regression lagged one to fifteen years. This function allows the study to determine that, "a certain amount of <independent variable> provided < insert years > years ago has a < insert coefficient > correlation with <dependent variable> in the present." This will allow the results to suggest causality between the dependent and independent variables. I then aggregated the annual data into five-year aggregates, to show five-year trends. In terms of the independent variables of US economic aid, US military aid, and non-US aid, the one to five year aggregate demonstrates short term changes, the six to ten year aggregate demonstrates changes which occurred six to ten years after the aid was given, and the eleven o fifteen year aggregate shows long term and/or latent correlations between aid and the dependent variable. In terms of GDP, the lagged aggregates show how a country's GDP affected the dependent variables in one to five, six to ten, and ten to fifteen years in the future. Also, I use a one to fifteen year lag to demonstrate the aggregate effects of fifteen years of aid/GDP changes.

     Absorb Function: The absorb function on STATA controls for time-invariant country-specific unobserved effects that makes their level of dependent variable naturally higher or lower at the base year. These include such things as culture norms, ethnic dichotomies, arable land, etc. I use the absorb function on every regression to account for these effects.

Robust Function: Robust regression deals with cases that have very high leverage, and cases that are outliers. Robust regression is essentially a compromise between dropping the case(s) that are moderate outliers and seriously violating the assumptions of OLS regression. It is a form of weighted least squares regression, not eliminating outliers, but mitigating their effects.

Dummy Variables: To test differences across the three regions, the Middle East, South America, and Africa, I will be utilizing the region specific dummy variables.

The three comprehensive regressions, one for each dependent variable, I will be using are as follows:

Political Stability $= C + B_1$ USEconomicAid $+ B_2$ USMilitaryaid $+ B_3$Non-USAid $+ B_4$ RealGDP $+ B_5$Middleeast $+ B_6$Southamer

Rule of Law $= C + B_1$ USEconomicAid $+ B_2$ USMilitaryaid $+ B_3$Non-USAid $+ B_4$ RealGDP $+ B_5$Middleeast $+ B_6$Southamer

HDI $= C + B_1$ USEconomicAid $+ B_2$ USMilitaryaid $+ B_3$Non-USAid $+ B_4$ RealGDP $+ B_5$Middleeast $+ B_6$Southamer

VII. Results

VII.i US Economic Aid and HDI

One can take a great deal of information from these results. Table 3 tells us that, regarding the aggregate of the three regions, the change in HDI correlated with increases in US aid and non-US aid are greater than those correlated with GDP growth. This supports the findings of the Centre for Research in Economic Development and International Trade's

study *Aid, Pro Poor Government Spending and Welfare,*[59] which found that that aid

alleviates poverty via indirect methods that exceed the capabilities of GDP growth.

To illustrate how these coefficients are used, we can compare the three region

aggregate results for US economic aid from given one to fifteen years earlier. The coefficient

for aggregate US economic aid is .00000375, which means that for every one $1 million of

US economic aid given over the course of those fifteen years, a .00000375 change in HDI

will result. To expand upon this effect, we can imagine that the US decides to allocate 250

million dollars a year to developing countries. To find the total change in HDI after fifteen

years one multiplies $250*15 years * 0.00000375, and the result is .01406. This means that

after 15 years of this aid policy, on average, one would see a 0.01406-point increase in the

human development index. However, regional results would be much more meaningful. To

illustrate this, we'll use the coefficient for the effect of fifteen years of US economic aid on

HDI in Sub-Saharan Africa, 0.0000375 (found on Table 3). An increase in US economic aid

of $95 million per year (approximately the US economic aid mean + the standard deviation

for the region) would result in ($90*15 years*0.0000375) a change of .05625 on the 0 to 1

HDI index. This is a substantial increase.

The country specific results partially support the study *Aid, Pro Poor Government

Spending and Welfare*'s[60] conclusions regarding what countries aid will benefit the most

from economic aid. As stated earlier, the study found that, "[economic] aid is more effective

in enhancing welfare in countries with lower values of welfare… aid is most effective in

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[59] Centre for Research in Economic Development & International Trade, *Aid, Pro Poor Government Spending and Welfare, 2003*

[60] Centre for Research in Economic Development & International Trade, *Aid, Pro Poor Government Spending and Welfare, 2003*

improving welfare in the poorest countries."[61] This means that economic aid should be most

helpful to countries that have both low HDI and low average GDP. By examining and

comparing Table 1 and Table 3, it is apparent that this is the case. The three regions ranked

from highest mean HDI to lowest mean HDI are the Middle East with a mean HDI of .895,

South America with a mean HDI of .816, and Sub-Saharan Africa with a mean HDI of .513.

Similarly, the regions ranked in order of highest mean GDP to lowest mean GDP are South

America with a mean GDP of $53,314.04 million, the Middle East with a mean GDP of

$50,840.13 million, and Sub-Saharan Africa with a mean GDP of $6,401.621 million. If the

aforementioned study's results hold, we should see that aid is most effective when allocated

to the region with the lowest HDI and GDP, as in Sub-Saharan Africa. US economic aid

follows this trend, and non-US aid partially follows this trend. Table 3 shows that, when

provided to these regions, US aid results in the greatest HDI gains in Sub-Saharan Africa,

with South America following closely, and the Middle East featuring negative results.

Non-US aid however, does not follow this pattern, causing the most HDI gains in

South America, not in Sub-Saharan Africa. These results demonstrate that there is no black

and white rule that determines the effectiveness of economic aid. This also supports some of

the results of the Dollar & Burnside report, which found that aid has more of a positive

impact on regions that have the fiscal, monetary, and trade policies to allocate the aid

efficiently and effectively. Those regions with higher mean rule of law and mean political

stability have more effective fiscal, monetary, and trade policies than those countries with

low levels of political stability and rule of law. This theory was substantiated in Butkewicz &

Yanikkaya's study *The impact of sociopolitical instability on economic growth: Analysis and*

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[61] Centre for Research in Economic Development & International Trade, *Aid, Public Spending and Human Welfare: Evidence from Quantile Regressions, 2004*

Implications, as mentioned in section III.i. Sub-Saharan Africa has drastically lower mean political stability and rule of law factors than does South America. Sub-Saharan Africa has mean political stability and rule of law ratings of -.48202 and -.73171, respectively, which are significantly lower than South America's political stability and rule of law ratings of -.09392 and -.11509, respectively. In this light, these results make sense. This also demonstrates that US aid interacts significantly differently with countries than does non-US aid.

In the Middle East, Hypothesis 2a, that economic aid has a negative correlation on HDI. Both Table 2 and 3 show the negative correlation between US aid and HDI in the Middle East. The aggregate effect of fifteen years on HDI in the Middle East (-0.0000159) is more negative than the effect of non-US aid (-0.00000387), and is in stark contrast to the positive effects of GDP growth. These results demonstrate inefficiencies and ineffectiveness in regards to the allocation and distribution of US economic aid in the Middle East.

However, apart from the Middle East, the economic aid regressed on HDI results are promising for US economic aid. US aid has resulted in increases in HDI for both South America and Sub-Saharan Africa, changes of .0000121 and .0000375, respectively, on the 0 to 1 HDI index. These correlations also greatly exceed the correlations caused by GDP gain (a 0.000000022 and a 0.000000168 point increase for South America and Sub-Saharan Africa, respectively) and this suggests a success in US economic aid policy in regards to increasing HDI in these regions.

VII.ii US Economic Aid and Political Stability

There are few significant fifteen-year cumulative correlations between aid and political stability. In fact, non-US aid is the only factor to show significant results, which suggests bad policy choices on behalf of the United States. When the effects of US aid on political stability in examined in five years increments (Table 4), these results are reinforced. US economic aid has no significant effects upon political stability in any of the five-year increments. However, in contrast, non-US aid does have significant short-term effects, showing a change in the political stability of developing countries of .0000547 in response to a one million dollar increase in foreign aid. Once again, this demonstrates inefficiency in the allocation of US aid relative to non-US aid. The actual index change can be calculated the same way as with HDI, however, these numbers refer to the –2.5 +2.5 political stability scale.

When the effects of US economic aid upon the political stability of specific regions is examined, similarly troubling results appear. Using the fifteen-year aggregates, it is apparent that US aid has no significant effects on political stability in the Middle East, South America, nor Sub-Saharan Africa. A closer examination using five-year increments does not reveal any more promising results. In fact, the only significant effect that is apparent is a negative correlation between aid given eleven to fifteen years earlier and political stability in the Middle East. The correlation between these two factors is -.0001922, which is in fact quite troubling. This means that for every million dollars of US aid given to the Middle East, eleven to fifteen years earlier, resulted in a loss of .0001922 from the political stability index. To expand upon these numbers, a 200 million dollar a year contribution to a Middle Eastern country over the course of five years (1 billion cumulative) would have resulted in a .1922 point change on the –2.5 to 2.5 scale of political stability ten years later. It is important to note however, that the Middle East may be a region with an inherently decreasing political

stability index. This is demonstrated by the negative correlation between GDP growth and political stability in the region ten years later, a correlation of –0.0000041. Still, relative to non-US aid, US aid has the greatest negative correlation with political stability in the Middle East, a -.0001922 change contrasts heavily with the effects of non-US aid, which results in an index change of -0.0000635 and is approximately a third of the negative effect of US-Aid, and the effects of GDP increase, which results in the previously stated index decrease of –0.0000041, approximately only a 50th of the US economic aid induced decrease.

These results illustrate US economic foreign aid's ineffectiveness in promoting political stability through aid, as the demonstrated results have been either insignificant (in South America and Sub-Saharan Africa) or negative (in the Middle East). These results support the findings of the Dollar and Burnside report *Aid, Policies and Growth*, previously mentioned in this paper, which came to the conclusion that potential positive effects of aid to promote growth and political stability can be overwhelmed by donors' and ineffective policy and pursuit of their own strategic interests. This idea has been reinforced in previous literature. Samuel Sedai, a director for "Nonviolence International" in Washington D.C., in his paper *The United States Foreign Aid in the Twenty-First Century,* describes how the United States' agenda in foreign aid as well as its institutional means for aid allocation and distribution have been distinctly different from those of other major foreign assistance donors, and this has led to a lack of common goals and effectiveness in US aid.[62]

These results suggest the ineffectiveness of US economic aid to increase political stability in developing countries. However, when combined with US economic aid's success in raising the HDI of developing countries, it would be unwise to simply dismiss US economic aid as ineffective.

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[62] Sedai, Sam, *The United States Foreign Aid in the Twenty First Century: A NewVision*,

VII.iii US Military Aid and HDI

Hypothesis 1b declared that military aid can increase good governance, support human security, and hence help attract foreign investment, which is ultimately beneficial to trade, investment, and HDI. In the case of the three region aggregate and in the case of South America, these assertions do not stand, and hypothesis 2b holds sway. This could possibly the tangible result of military credits reducing the amount of recipient funds spent on social programs and infrastructure, or it could also be a result of increased hardship caused by conflict. Military aid on the aggregate, given one to fifteen years earlier, results in a negative HDI change in developing countries, specifically a -.00000834 point index change on the 0 to 1 HDI scale.

Hypothesis 2b also holds for Sub-Saharan Africa, and these results overshadow the positive results for the Middle East. In Sub-Saharan Africa, hypothesis 0b is validated, as US military assistance has no significant effect upon the human development index. This could be due to vast range of experiences with military aid between the many countries of Sub-Saharan Africa.

However, military aid to the Middle East manages to refute the US economic aid trend, and correlates with increased HDI. This refutes the results of the study *Aid, Pro Poor Government Spending and Welfare* by the Centre for Research in Economic Development & International, mentioned in section III.i, which found that military aid had no effect upon HDI. However, it is important to not that that study did not differentiate by region, and in that respect this study came to that same conclusion. The positive correlation between US military aid and HDI overshadows the HDI increases realized through GDP growth. The

difference between GDP's coefficient 0 .000000165/million dollars of military aid, US military aid's coefficient of 0.0000159 /million dollars of military aid is significant. US military aid is approximately one hundred times more effective than GDP growth at increasing the HDI of the Middle East.

 Also notable is the fact that US military aid increases HDI in the Middle East, while US economic aid to the region correlates negatively with HDI. These results reinforce the concept that a multilateral approach is necessary in increasing human development in developing countries. Military aid can succeed where economic aid cannot, and economic aid can succeed where military aid proves insignificant. These results also demonstrate that a strategy that is appropriate in one region may not be appropriate in another.

VII.iv US Military Aid and Political Stability

The results suggest that US military aid is largely ineffective in improving political stability in the Middle East and Sub-Saharan Africa, as all US related correlations are either insignificant or negative. Regarding all three regions aggregately, the effect of military aid on political stability is unclear. Similarly, when the results of military aid given over the entire fifteen-year span are examined in table 4, US military aid shows no significant results in the regions of South America and Sub-Saharan Africa as.

Interestingly enough, in the Middle East, while US military aid correlated positively with HDI, it correlates negatively with political stability. Conversely, US economic aid correlates negatively with HDI in the Middle East, but has insignificant results regarding political stability. This demonstrates another reason for a multilateral approach.

However, although the fifteen aggregate shows insignificant effects of military aid on political stability, short term five year US military aid to South America shows some very promising results. Military assistance has a very high short-term positive correlation with political stability in South America, at .0022592. In order to illustrate this large effect, we can examine the effect of an additional 20 million dollars per year in aid given over a five-year period. This amount is well within one standard deviation of the mean. This would mean a total aid allocation of $80 million. This would result in an increase in the political stability index of the respective South American country by .180736 on the –2.5 to +2.5 scale. The results show that in the next ten years, a small part of those benefits from the US military would be lost, but by no significant amount. Interestingly enough, these results are puzzling when compared to the negative correlation US military aid has with short term HDI increases in South America. It seems that it is not unusual for US economic and military aid to have conflicting effects regarding changes in HDI and political stability. Perhaps this reflects the failure of US foreign aid focus a lack of common goals and effectiveness that Sam Delai alluded to.

VII.v US Military Aid and Economic Aid and Rule of Law

Both the 15-year aggregate regressions and the five increment regressions for rule of law resulted in very low R-squared values, .0987 and .0588 respectively. This means US economic assistance, US military assistance, non-US assistance, and real GDP only explain less than ten percent of the change in the rule of law. Unfortunately, this means that we cannot use the regression results to adequately examine the relationships between aid and rule of law. Our take away from these results however, is that our independent variables do

not determine rule of law to any great degree. Thus we can remove the concept of the rule of

law from this thesis's discussion. An interesting extension of this study would be to

investigate what factors indeed affect the rule of law in developing countries.

VIII. Conclusion

There is no single answer to the question of how economic and military aid effects

HDI and political stability among developing countries. The six hypothesis presented earlier

in the paper are validated in some instances and regions, and repudiated in others. The effects

of US aid, both economic and military, on the human development index and political

stability, have proved beneficial in some aspects, harmful in others, and many times,

insignificant. However, the successes of foreign in increasing human development, political

stability, and thus national security, are substantial enough to warrant continued allocation.

Some of the successes I am alluding to are US economic aid's success in raising HDI in

South America and Sub-Saharan Africa, the increases in South American political stability

from US military aid to the region, and the increases in HDI which military aid brings to the

Middle East. The failures of US aid do not warrant any sort of immediate cessation, but

instead an in depth examination and analysis of how US aid could be more efficient in

increasing the human development index and political stability across the globe. Some of the

failures I am referring to are the negative correlations between US economic aid and HDI in

the Middle East, and the decreases in political stability in the Middle East that correlate with

US military aid to that region. This thesis comes to three separate conclusions. First of all,

foreign aid must remain multilateral, involving both military and economic aid. Secondly,

although US aid has fairly insignificant effects upon political stability in developing

countries, its profound effects upon HDI will in fact lead to increased political stability and US national security. Lastly, there is potential, and a necessity for, a reorganization of US foreign aid policy.

US aid must remain multilateral, economic aid has been demonstrated to succeed in some areas where military aid fails, and military aid has been demonstrated to succeed in some areas where economic aid fails. As stated earlier, this is true in particular in the in the Middle East, where US military aid correlates positively with HDI, and US economic aid correlates negatively with HDI in the Middle East, but US military aid correlates negatively with political stability and US economic aid has no significant effect (although it is positive). Another example occurs in South America, where US military aid has profound positive effects on short-term political stability and a negative effect on HDI. US economic aid however, mitigates about half of the military aid's long-term negative effects in the region. An across the board reduction in either US military or US economic aid would result in various increases and decreases in HDI and political stability. Therefore this decision would not be Pareto efficient, or in other words, positive effects could not be attained without incurring negative effects as well. Thus any decreases in US economic or military aid should be premeditated and strategic.

It has been shown that US aid has many more positive and significant effects upon the HDI of developing countries than it does upon political stability. However, this does not mean that US aid has not had, or will not have, any effect upon political stability. As stressed in section VII.i, increases in HDI will ultimately lead to increased political stability and thus increased US national security. In 2005, The United Nations Development Program, in its report *Poverty Breeds Insecurity*, as part of the Millennium Project to increase development

assistance, expanded upon the points made in Ted Gurr's *Why Men Rebel,* declaring that, "[Reducing Poverty) does not only reflect global justice and human rights – [it is] also vital to international and national security and stability. Poor and hungry societies are much more likely than high-income societies to fall into conflict over scarce vital resources, such as watering holes and arable land-and over scarce natural resources, such as oil, diamonds, and timber. Achieving the Millennium Development Goals should therefore be placed centrally in international efforts to end violent conflict, instability, and terrorism."[63] Many of these developed countries have very low HDI's, and if these gains caused by US aid are continued, increased human development will lead to increased political stability and US national security. Also, it has been demonstrated that increased political stability can lead to more efficient use of aid, and thus the benefits could be compounded. Thus, due to these indirect effects upon political stability, it is important not to stop foreign aid due to currently insignificant results.

Additionally, it is apparent that aid has profound effects upon HDI and political stability, when compared to GDP growth as a control. In section III.iii, the idea that aid increases GDP growth and subsequently increases human development was explored. This thesis's data demonstrated that in many instances, such as the increases in HDI caused by fifteen years of US economic aid to South America and Sub-Saharan Africa, the positive effects of US economic aid dwarf the effects of GDP increases. Table 3 shows us that US Economic aid to South America generates a coefficient of .0000121 HDI points per $1 million dollars given over that fifteen period, which dwarfs the positive effect of GDP growth, .000000022 HDI points per $1 million increase, by a factor of 550. This means that a

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[63] United Nations Development Program, *Poverty Breeds Insecurity,* 2005, http://yaleglobal.yale.edu/display.article?id=5150

one million dollar increase in US economic aid, over the course of fifteen years, raises HDI

by 550 times the amount than a one million dollar increase in GDP over the same time period

does. The same is seen in Sub-Saharan Africa, as US economic aid outdoes GDP growth by a

factor of 223.2. This effect is not as impressive in quantitative terms, as GDP can increase

annually by large amounts when compared to changes in aid provision, but the point is that

aid is much more effective than GDP at improving HDI. While studies have found

conflicting results regarding the correlation between aid and growth, such as the dilemma

between the Burnside/Dollar and the Hansen/Tarp studies, this thesis supports the findings of

the Centre for Research in Economic Development & International Trade's study, *Aid, Pro*

Poor Government Spending and Welfare,[64] which found that aid does indeed improve HDI,

regardless of the effects upon GDP. Therefore, when it comes to HDI increases, the question

that was discussed extensively in section III.iii, of whether aid does indeed inspire growth, is

not as important as the question of what are the direct effects foreign aid has on HDI. This

provides further support to the position that US economic aid is in fact productive and

effective in some very substantial respects.

However, while US aid in successful in many respects in increasing HDI and political

stability in developing countries, US aid has could improve a great deal in many respects.

This thesis recommends an in depth examination of US foreign aid policy, which would

concentrate on the strengths and weakness of US aid in regards to its impact on human

development and political stability. As in most instances, save a few exceptions, non-US

performs better than US economic aid in increasing HDI and political stability, this

demonstrates that it is not economic aid itself that is ineffective, but the manner in which the

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[64] Centre for Research in Economic Development & International Trade, *Aid, Pro Poor Government Spending and Welfare, 2003*

US allocates and distributes it. The exceptions to this are in Sub-Saharan Africa, where the US affects a greater gain in HDI from their economic aid than non-US aid. However, this is the exception to the rule. In regards to regions that deserve special attention, the results consistently show the he Middle East is largely a region in which the US could improve its effectiveness in regards to economic aid. However, the actual methods for realizing this improvement are beyond the scope of this study.

There are multiple ways this study could be extended, in order to delve deeper into the issues of aid and political stability. One way would be to generate more comprehensive political stability and HDI data (the data for this paper's dependent variables goes only back to 1996) and investigate causality between HDI increases and political stability increases down the road. This paper uses historical and logical evidence to assert this concept, and a empirical study would further substantiate these claims. Another interesting study would be to examine the relationship between aid and political stability on a country specific level, and, by accounting for individual country specific factors (ones that this paper accounted for by using the absorb function), determine how certain country specific characteristics affect the relationship between aid and political stability.

In conclusion, the process of allocating foreign aid is a dynamic and contentious one, and it is important the US government remain flexible and responsive to global trends when deciding foreign aid policy. Stability in the developing world, both politically and socially, will continue to be the greatest charge for US foreign economic and military aid. It is promising that US economic and military aid has provided some tangible results, in the form of increased HDI and political stability in developing countries, but there exists much room for improvement. If the United States is to ever build that elusive "New World Order," a

world in which violent conflict, destitute poverty, and insurgency are but distant memories and in which US national security is equated with peace of mind, the most important tools it could wield are those of efficient and effective foreign aid policies.

Table 1: Descriptive Statistics

Variables	Observations	Mean	Standard Deviation	Min	Max
Aggregate Dependent Variables					
Human Development Index	603	0.741333	0.201649	0.411	0.93
Political Stability	867	-0.40639	0.922126	-2.5	1.47
Rule of Law	886	-0.47882	0.754651	-2.5	1.22
Dependent Variables: Middle East					
Human Development Index	102	0.895	0.169204	0.411	0.895
Political Stability	165	-0.72184	1.010816	-2.5	0.93
Rule of Law	160	-0.09804	0.844106	-2.07	1.22
Dependent Variables: South America					
Human Development Index	194	0.816	0.169204	0.411	0.816
Political Stability	264	-0.09392	0.757111	2.21	0.93
Rule of Law	264	-0.11509	0.845379	-2.07	-2.21
Dependent Variables: Sub-Saharan Africa					
Human Development Index	302	0.513	0.214253	-0.24	0.79
Political Stability	395	-0.48202	0.927051	-2.5	1.16
Rule of Law	419	-0.73171	0.67766	-2.5	0.93
Aggregate Independent Variables					
US Economic Aid	3511	76.61908	298.3226	0	8152.3
US Military Aid	3472	58.38439	378.2704	0	9502.7
Non-US Aid	3511	165.4569	476.4871	0	15580.26
Real GDP (2000)	3511	30421.29	81218.59	2.43283	807079.6
Independent Variables: Middle East					
US Economic Aid	666	223.3889	643.4373	0	8152.3
US Military Aid	664	287.1433	827.1133	0	9502.7
Non-US Aid	684	232.1311	823.6567	0	15580.26
Real GDP (2000)	600	50840.13	58573.88	2.43283	372744
Independent Variables: South America					
US Economic Aid	1109	54.47117	109.7625	0	1341.4
US Military Aid	1072	7.630009	24.70661	0	338
Non-US Aid	1139	55.99211	133.8699	0	1171.45
Real GDP (2000)	1117	53314.04	124814.5	102.1593	807079.6
Independent Variables: Sub-Saharan Africa					
US Economic Aid	1736	34.58238	60.06267	0	912.5
US Military Aid	1736	2.389171	11.21441	0	188.4
Non-US Aid	1785	209.9233	420.7796	0	11248.62
Real GDP (2000)	1573	6401.621	18038.23	99.96962	176914.4

Table 2: Lagged Effects of Aid and GDP on the Human Development Index, 5-Year Increments

*The number on the same row as the variable is the coefficient, the number directly below the coefficient is the p-value.

Variable	Aggregate	Middle East	South America	Sub-Saharan Africa
US Econ. Asist. 1 to 5 Years	0.00000961*	0.0000018	0.0000115	0.0000401**
	0.056	0.8857	0.1894	0.015
US Econ. Asist. 6 to 10 Years	-0.00000622	-0.0000311**	0.000003	0.000061**
	0.464	0.0342	0.79	0.031
US Econ. Asist. 11 to 15 Years	0.0000165**	-0.0000253***	0.0000153	-0.0000101
	0.043	0.0015	0.1206	0.653
US Milit. Asist. 1 to 5 Years	-0.0000104*	0.0000243	-0.0001348***	-0.0002553
	0.093	0.1151	0.0003	0.149
US Milit. Asist. 6 to 10 Years	0.000000772	0.00001	0.000059*	0.0001792
	0.917	0.4024	0.0695	0.369
US Milit. Asist. 11 to 15 Years	-0.0000152	0.0000126	-0.000068**	0.0002688*
	0.212	0.4266	0.0157	0.054
Non-US Assist. 1 to 5 Years	0.00000552**	0.000000625	0.00002075**	0.00000115
	0.005	0.8708	0.0107	0.627
Non-US Assist. 6 to 10 Years	0.00000468	-0.00000715***	0.00001687**	-0.00000553
	0.195	0.001	0.017	0.316
Non-US Assist. 11 to 15 Years	0.0000118***	-0.000007**	0.0000309***	0.000015***
	0	0.0162	0	0
Real GDP (2000's) 1 to 5 Years	0.000000189***	0.000000328***	0.000000068**	0.00000101*
	0	0.0038	0.048	0.084
Real GDP (2000's) 6 to 10 Years	-2.76E-09	-5E-08	0.00000002	-0.0000014*
	0.965	0.7369	0.5215	0.077
Real GDP (2000's) 11 to 15 Years	-9.12E-08**	0.00000006	-0.000000028	0.000000895
	0.036	0.6812	0.4019	0.183

Statistical evidence at the 10,5,and 1 percent levels are denoted by *, **, and ***, respectively.

Number of obs = 667
F(12,   574)   = 4.15
Prob > F   = 0.0000
R-squared   = 0.8853
Adj R-squared = 0.8669
Root MSE   = 0.31356

Table 3: 15 Year Cumulative Effects of Aid and GDP on the Human Development Index

Variable	Aggregate	Middle East	South America	Sub-Saharan Africa
US Econ. Asist. 1 to 15 Years	3.75E-06	-0.0000127***	0.0000121***	0.0000375***
	0.19	0.0004	0.0096	0.002
US Milit. Asist. 1 to 15 Years	-8.34E-06***	0.0000159***	-0.0000244***	-0.0000741
	0.002	0.004	0.0905	0.557
Non-US Assist. 1 to 15 Years	8.37E-06***	-0.00000387*	0.00002445***	0.00000435*
	0	0.0883	0	0.057
Real GDP (2000's) 1 to 15 Years	3.64E-08***	1.165E-07***	0.000000022***	0.000000168
	0	0	0	0.125

Statistical evidence at the 10,5,and 1 percent levels are denoted by *, **, and ***, respectively.

Number of obs = 456
F(12,   365)   = 24.34
Prob > F   = 0.0000
R-squared   = 0.9869
Adj R-squared = 0.9837
Root MSE   = .02231

Table 4: Effects of Aid and GDP on Political Stability, 5-Year Increments

Variable	Aggregate	Middle East	South America	Sub-Saharan Africa
US Econ. Asist. 1 to 5 Years	-0.0000615	0.0000735	0.0000862	-0.0001967
	0.161	0.3782	0.2071	0.313
US Econ. Asist. 6 to 10 Years	0.0000552	0.0001195	-0.0001581	0.0000731
	0.481	0.3153	0.5453	0.829
US Econ. Asist. 11 to 15 Years	0.0000439	-0.0001922*	0.0000273	0.0000366
	0.452	0.0969	0.5168	0.897
US Milit. Asist. 1 to 5 Years	-0.0001837**	-0.0004032***	0.0022592***	0.0011807
	0.027	0.0003	0.0009	0.457
US Milit. Asist. 6 to 10 Years	-0.0000906	-0.0003436**	-0.0008116	0.0002566
	0.246	0.0155	0.1308	0.924
US Milit. Asist. 11 to 15 Years	0.0001931**	0.0001423	-0.0003243	0.0004825
	0.061	0.3705	0.652	0.715
Non-US Assist. 1 to 5 Years	0.0000547***	-0.00001617	0.0000384	-0.00000247
	0.004	0.7464	0.7252	0.923
Non-US Assist. 6 to 10 Years	0.000036	0.0000383	0.0000115	-0.000024
	0.268	0.249	0.9062	0.72
Non-US Assist. 11 to 15 Years	0.0000271	-0.0000635**	-0.0001981	0.0000853
	0.229	0.041	0.1502	0.081
Real GDP (2000's) 1 to 5 Years	0.000000851	-0.0000011	-0.0000438	0.0000446***
	0.288	0.5256	0.4536	0.001
Real GDP (2000's) 6 to 10 Years	-0.000000743	0.0000012	0.0000401	-0.0000406**
	0.112	0.4796	0.2894	0.049
Real GDP (2000's) 11 to 15 Years	-9.78E-08	-0.0000041***	0.0000301	-0.0000295**
	0.929	0.0026	0.6307	0.039

Statistical evidence at the 10,5,and 1 percent levels are denoted by *, **, and ***, respectively.

Number of obs = 630
F(36, 513)   = 6.21
Prob > F   = 0.0000
R-squared   = 0.8985
Adj R-squared = 0.8755
Root MSE   = .30359

Table 5: 15-Year Cumulative Effects of Aid and GDP on Political Stability

Variable	Aggregate	Middle East	South America	Sub-Saharan Africa
US Econ. Asist. 1 to 15 Years	2.17E-05	0.0000275	-0.0000691	-0.0000291
	0.357	0.6438	0.1198	0.831
US Milit. Asist. 1 to 15 Years	-2.30E-05	-0.0001783***	0.0001146	-0.0002645
	0.56	0.0045	0.4913	0.744
Non-US Assist. 1 to 15 Years	3.18E-05*	-0.0000422	-0.000021	0.0000865***
	0.057	0.2525	0.6628	0
Real GDP (2000's) 1 to 5 Years	7.02E-09	-8.70E-07***	1.60E-07	1.40E-06
	0.942	0.0067	0.1132	0.641

Statistical evidence at the 10,5,and 1 percent levels are denoted by *, **, and ***, respectively.

Number of obs =   630
F(12,   537) =   2.61
Prob > F   = 0.0022
R-squared   = 0.8846
Adj R-squared = 0.8648
Root MSE   = .31635

Table 6: Effects of Aid and GDP on Rule of Law, 5-Year Increments

Variable	Aggregate	Middle East	South America	Sub-Saharan Africa
US Econ. Asist. 1 to 5 Years	0.0000301	0.0000121	-0.0000405	-0.0000615
	0.137	0.3782	0.2071	0.536
US Econ. Asist. 6 to 10 Years	0.0000181	0.0001631	-0.0000508	0.0003192**
	0.689	0.3153	0.5453	0.032
US Econ. Asist. 11 to 15 Years	0.0000417	0.0000343*	0.000213	0.0004187***
	0.209	0.0969	0.5168	0.001
US Milit. Asist. 1 to 5 Years	-0.0000818*	-0.0000247***	0.001869***	0.0001057
	0.082	0.0003	0.0009	0.892
US Milit. Asist. 6 to 10 Years	-0.0000195	-0.00006114	-0.00042694	-0.00000244
	0.71	155	0.1308	0.998
US Milit. Asist. 11 to 15 Years	-0.0000681	-0.00008	-0.0006673	-0.0014906***
	0.258	0.3705	0.652	0.003
US Non-US Assist. 1 to 5 Years	0.0000209***	-0.00001825	-0.00021605	0.00000975
	0.002	0.7464	0.7252	0.384
Non-US Assist. 6 to 10 Years	-0.0000185	0.0000188	-0.0001252	-0.0000396
	0.27	0.249	0.9062	0.33
Non-US Assist. 11 to 15 Years	-1.52E-06	0.0000297**	-0.0000525	-0.0000286
	0.896	0.041	0.1502	0.208
Real GDP (2000's) 1 to 5 Years	1.08E-06**	-0.0000018	0.0000007	0.000019***
	0.021	0.5256	0.4536	0
Real GDP (2000's) 6 to 10 Years	-1.42E-06***	0.0000013	-0.0000017	-0.0000235***
	0	0.4796	0.2894	0.009
Real GDP (2000's) 11 to 15 Years	-4.00E-07	-0.00000034***	0.00000037	-0.00000664
	0.526	0.0026	0.6307	0.165

Statistical evidence at the 10,5,and 1 percent levels are denoted by *, **, and ***, respectively.

Number of obs =   655
F(36,   535) =   5.14
Prob > F   = 0.0000
R-squared   = 0.2301
Adj R-squared = 0.0588
Root MSE   = 2.5052

  *Due to a very low adjusted R2 of .1206, the data is not applicable

Table 7: 15-Year Cumulative Effects of Aid and GDP on Rule of Law

Variable	Aggregate	Middle East	South America	Sub-Saharan Africa
Econ. Asist. 1 to 15 Years	0.000038***	0.0000249*	8.1E-06	0.0001864***
	0	0.0726	0.7129	0
Milit. Asist. 1 to 15 Years	-0.0000513***	-0.0000563**	-0.0004281***	-0.0011024***
	0	0.0613	0.0001	0
Non-US Assist. 1 to 15 Years	0.0000122**	-5E-07	-0.0001014***	0.000031***
	0.019	0.9733	0.0001	0
Real GDP (2000's) 1 to 5 Years	-0.000000202***	-0.00000032	-0.0000002***	-0.0000027***
	0	0.1182	0.0009	0.001

Statistical evidence at the 10,5,and 1 percent levels are denoted by *, **, and ***, respectively.

Number of obs = 655
F(12,   559)   = 7.66
Prob > F   = 0.0000
R-squared   = 0.2296
Adj R-squared = 0.0987
Root MSE   = 2.4515

  *Due to a very low adjusted R2 of .1206, the data is not applicable

Table 8: Aggregate Aid and GDP Correlations

	HDI	Political Stability	Rule of Law	GDP
HDI	1			
Political Stablity	0.3476	1		
Rule of Law (R of L)	0.5902	0.7177	1	
GDP	0.3566	-0.0307	0.0928	1

Table 9: Middle Eastern Aid and GDP Correlations

	Mid East HDI	Mid East Pol. Stab.	Mid East R of L	Mid East GDP
Mid East HDI	1			
Mid East Pol. Stab.	-0.5801	1		
Mid East R of L	0.0555	0.6299	1	
Mid East GDP	0.6873	-0.4868	0.0177	1

Table 10: South American Aid and GDP Correlations

	S. Amer HDI	S. Amer Pol. Stab.	S. Amer R of L	S. Amer GDP
S. Amer HDI	1			
S. Amer Pol. Stab.	-0.0924	1		
S. Amer R of L	-0.3269	0.8335	1	
S. Amer GDP	0.3961	-0.1159	-0.205	1

Table 11: Sub-Saharan Africa Aid and GDP Correlations

	Africa HDI	Africa Pol. Stab.	Africa R of L	Africa GDP
Africa HDI	1			
Africa Pol. Stab.	-0.1088	1		
Africa R of L	-0.3694	0.7862	1	
Africa GDP	0.3082	-0.0818	0.0071	1

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USAID Compilation of all US foreign aid statistics.

World Development Indicators, http://0-ddp-ext.worldbank.org.janus.uoregon.edu/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=6
    World Development Indicators Online (*WDI*) provides direct access to more than 800 *development indicators*, with time series for 209 countries for 1940 to 2008.

World Resources Institute, EarthTrends: The Environmental Information Portal, http://earthtrends.wri.org/searchable_db/index.php?theme=10&variable_ID=1277&action=select_countries
    Includes customized indicators drawn from a variety of basic indicators.

Worldwide Governance Indicators, World Bank, http://info.worldbank.org/governance/wgi/index.asp
    Provides an indicator of governance stability for all major countries, from the year 1996 to 2007.