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Strategic Insight

The Role of Foreign Aid in the War on Terrorism

by [Robert Looney](#)

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July 1, 2002

Introduction

Last fall, as United States troops launched their attack on Afghanistan's ruling Taliban, a battle of an entirely different sort was being planned in Washington. This campaign didn't get as much attention, but it was no less important, because it involved winning new allies in the war on terrorism with humanitarian relief for millions of refugees and financial assistance for eradicating poverty through higher rates of economic growth in key regional countries.

The events of September 11 made it painfully clear that the political, social and economic problems of other countries have a direct impact on American national security. The United States was attacked by a terrorist organization that has had great success in recruiting new members in nations which offer young men little political voice and limited economic opportunity.

With this in mind the United States and its coalition partners have responded to the terrorist attacks with a three pronged strategy -- short run military, medium term aid to vulnerable countries and groups, and longer term assistance programs that directly focus on the sources of terrorist motivation. The first task has been in large part successfully completed while the second is only in the initial stages of implementation. In all likelihood however these initial successes must also carry to the second and third medium- to longer-term strategies to assure the ultimate defeat of al Qaeda and like-minded groups.

Initial Aid Response

Prior to the September 11 terrorist attacks, the Administration's top foreign aid initiatives for the 2002 fiscal year had been combating the spread of HIV/AIDS and other infectious diseases, fighting poverty, broadening the public/private partnership in aid programming, and expanding the counter-narcotics campaign in the Andean region. With the focus now on anti-terrorism measures, these issues are much less of a priority.

A main concern from the beginning was Pakistan which borders Afghanistan's entire southern rim and contains critical access routes to the country. Virtually all U.S. aid to the country had been cut off after the Pakistanis revealed they had conducted nuclear weapons tests in 1998.

To enlist Pakistan's assistance in fighting terrorism, the Bush administration on September 22, 2001 asked Congress for blanket authority to waive economic sanctions against countries whose help is needed in the anti-terror coalition. Congress quickly granted a limited form of such authority. Four days later the International Monetary Fund, where the U.S. has the largest share of votes, approved a \$135 million loan for Pakistan even though the country was in arrears on servicing its \$37 billion national debt. The Treasury Department then announced it would ease terms on \$379 million of Pakistan's debt to the United States, setting the stage for other nations to follow.

On October 15 in Islamabad, the United States announced that it would provide \$600 million in aid to the country in fiscal 2002, a figure that later rose to \$673 million. On November 10, President Bush said long-term aid for Pakistan could total as much as \$1 billion. The funds for the Bush administration's foreign aid initiatives in the immediate aftermath of September 11 came from the \$40 billion supplemental appropriations bill Congress passed on September 18. The administration quickly pulled together a \$1.06 billion aid package out of those funds, covering the aid packages for Afghanistan and Pakistan, and millions more for the four former Soviet states of Afghanistan's northern rim: Turkmenistan, Uzbekistan, Kyrgyzstan and Tajikistan.

United States Aid Allocation for FY 2002 (million\$)

<i>Country</i>	<i>Before 9/11</i>	<i>Post 9/11 Increase</i>
Afghanistan	2.9	278.0
Pakistan	10.5	673.0
Kazakhstan	51.5	2.0
Kyrgyzstan	32.0	3.5
Tajikistan	11.0	27.5
Turkmenistan	5.5	7.0
Uzbekistan	29.0	83.5

For 2003, the President's budget includes \$5.2 billion for programs that are essential in pursuing the war on terrorism.

The President's use of aid in fighting terrorism was reaffirmed by Senate Resolution 204 in early February 2002. This resolution expressed the sense of the Senate regarding the importance of U.S. foreign assistance programs as a diplomatic tool for fighting global terrorism and promoting U.S. security interests.

In this resolution the Senate noted that:

- U.S. foreign assistance programs should play an increased role in the global fight against terrorism to complement the natural security objectives of the United States;
- The United States should lead coordinated international efforts to provide increased financial assistance to countries with impoverished and disadvantaged populations that are the breeding grounds for terrorism;
- Consistent with United States foreign policy, economic incentives should be used to end state support or tolerance for terrorism; and
- The United States Agency for International Development and the Department of Agriculture should substantially increase humanitarian, economic development, and agricultural assistance to foster international peace and stability and the promotion of human rights.

In short, U.S. foreign assistance is enjoying a new lease on life as it is being looked upon by the Administration as an effective, highly visible tool in the early days of the anti-terrorism campaign. Clearly, the Administration and Congress feel that aid has the potential to strengthen the economic and political stability of those governments that cooperate with Washington while responding to humanitarian needs.

Longer Term Aid Strategy

Most of the pieces of the initial aid campaign were in place within the crucial 10 weeks after September 11. U.S. officials then started looking to the next phase, which is likely to last much longer and be much

more expensive. The reconstruction plan for Afghanistan alone will likely cost anywhere from \$6 to \$10 billion. Implementation will take years to complete.

To date, the anti-terrorism aid strategy has been based largely on the assumption that there is a strong connection between poverty and terrorism and that aid is an effective tool in combating poverty. Unfortunately, while both propositions appear intuitively correct there is little hard evidence supporting either assertion. In fact, as skeptics often point out, there is an extensive literature that seriously questions both assumptions.

The Aid/Poverty/Growth Relationship

Most of the serious research in the area has been focused on the aid/growth/poverty reduction relationship. Here there is a wide-ranging list of academic studies analyzing the impact of aid by looking econometrically at the experience of many countries over the past 40 years. A general characterization of these studies is that it is hard to find a clear correlation between overall aid flows on the one hand, and economic growth or reductions in poverty on the other.

Because of the unfavorable popular and academic perceptions concerning the effectiveness of aid, U.S. assistance programs have suffered through decades of declining public support and dwindling resources. It is often maligned as a wasteful enterprise that is rife with corruption and one that drains resources from pressing problems at home. For the United States the real question is how to make aid more effective. Here two areas hold great promise -- tying aid to good policy-making on the part of recipient countries (balanced government budgets, low inflation, moderate levels of external debt, high openness to foreign trade and exchange rate stability); and whenever possible using grants rather than the traditional forms of aid (where some sort of debt is incurred by the receiving nation).

With regard to the first point there is a strong body of evidence compiled by World Bank economists David Dollar, Craig Burnside and Paul Collier suggesting that aid does increase economic growth in countries undertaking responsible economic policies. Furthermore, the poorer the country, the more effective aid is at reducing poverty. The trouble is, foreign aid has rarely been allocated with these points in mind. In 1990, for instance, countries with bad policies (large government deficits, high rates of inflation, protectionist trade policies, unsustainable external debt, and foreign exchange instability) and institutions got an average of \$44 a person in aid, while those with better policies got \$39.

Fortunately the situation has changed in recent years, so that by the late 1990s, countries with better policies got \$29 of aid per person, while worse countries got \$16. The World Bank is a particularly effective poverty alleviator, because its subsidized lending to the poorest countries depends more on good economic performance than that of many bilateral donors. Even in 1990 the World Bank spent more than twice as much per head on poor countries with good policies than on those with bad policies. Now the ratio has risen further, with good performers getting \$6.50 a head, compared with \$2.30 for weaker countries. Overall, World Bank lending to the poorest is now 60% more effective than in 1990 and 50% more than general foreign aid.

In addition to requiring more responsible policy making on the part of recipient countries, the U.S. should also consider substituting grants for aid as a more effective means of monitoring projects and providing performance incentives to the recipients.

Grants are a gift with strings attached. Counter to the usual policy of lending blanket sums for indeterminate government plans, grants are usually project-linked and executed under competitive bid. For the easily quantified basic needs that improve the quality of life and are the preconditions for economic growth—health, primary education, and water sanitation—the grant system would count by independent audit and pay for output: numbers of babies vaccinated, children that can read, and water and sewer services delivered to villages. No results, no funds expended. No funds diverted to off-shore bank accounts, vanity projects or private jets.

The Bush Administration is already moving in these directions. In addition to its growing preference for grants, the President's recent speech at the United Nations March 2002 conference on financing for development in Monterrey, Mexico emphasized the importance of sound economic policies and the encouragement of enterprise. He promised that countries that adopt the right policies will get more aid from the United States.

The Poverty/Terrorism Relationship

Some observers contend that the terrorist attack on September 11 was the logical violent expression of anti-globalization; it was an act of revenge by people either oppressed or marginalized by the global economy. However, a careful reading of Bin Laden's fatwas and other Qaeda documents suggests the attacks were motivated more by a Pan-Islamic radical agenda hostile to U.S. intervention in the Middle East and moderate Middle Eastern governments alike. Certainly, poverty, poor access to education, and despair are important in explaining the failed states that are fertile al Qaeda recruiting grounds. This is only one factor, however, in a broader set of issues that must be confronted.

A recent United Nations Association of the National Capital Area (UNANCA) study notes that al Qaeda leaders and the September 11 participants were also affected by the following factors:

- Widespread feelings of humiliation and decline from past high achievements of Islam throughout the Arab countries.
- Broad acceptance throughout the Middle East of the fundamentalist message that the reason for the plight of Middle Eastern countries is that they and their governments have reverted to pre-Islamic barbarism by falling away from the original principles of Islam.
- Despair over sagging economies, high unemployment, poor education, and low technological and scientific achievement in Middle Eastern countries.
- Hatred for ineffective, often corrupt, authoritarian, predominantly secular Middle Eastern governments, which pay lip service to the tenets of fundamentalist Islam, but are reluctant to put it into practice and often suppress fundamentalists by force.
- Resentment against the United States for its highly visible, seemingly unquestioning support of some Arab governments.
- Resentment against the United States and other Western countries for their putative arrogance, secular materialism, history of colonial domination, political manipulation and interference in support of corrupt governments; for civilian casualties from U.S.-U.K. military actions and Western economic sanctions in Iraq; and also for Western material success while Islamic governments fail.
- Resentment against the United States for its support of Israel; resentment against Israel itself for its treatment of the Palestinians, for repeatedly defeating Arab armies and clearly demonstrating the inferiority of these armies, and for prospering far more than Arab countries.

Summing Up

Clearly military actions together with foreign aid/grant programs provide an effective start to abating the al Qaeda threat. It is clear, however, that the ultimate defeat of al Qaeda and similar groups will require the elimination of the appeal of terrorist motivation to potential adherents. Fighting the sources of terrorist motivation will call for comprehensive international cooperation in support of long-term political, economic and social programs in many Middle Eastern and South Asian countries aimed at affecting and modifying the values and convictions that have motivated the suicide bombers and at drying up the support for al Qaeda and similar organizations. Aid can play an effective role here, but will require the restructuring of traditional assistance programs to deal not only with poverty and growth but a whole set of broader issues.

For more topical analysis from the CCC, see our [Strategic Insights](#) section.

For related links, see our [Homeland Security & Terrorism Resources](#).

Further Reading

Sokolsky and McMillan: "[Foreign Aid in Our Own Defense](#)", *The New York Times*, February 12, 2002 -- articulate advocacy for anti-terrorism foreign aid

Bruce Bueno de Mesquita and Hilton L. Root, "[The Political Roots of Poverty](#)", *The National Interest* (Summer 2002) -- examines the advantages of grants over traditional loans/aid packages

The Peace and Security Task Force Report to UNANCA Board of Directors: [Fighting an Effective War Against Terrorism](#) (March 19th 2002) -- outlines a comprehensive aid based approach to defeating terrorism

Oxford Analytica, [Anti-Terrorism Foreign Aid](#) (October 15, 2001) -- outline of initial aid efforts and potential problems.

The works of David Dollar, Craig Burnside, and Paul Collier on Aid and Growth are contained in several separate publications. A good summary of this research can be found at:

<http://odin.dep.no/ud/engelsk/publ/rapporter/032001-220016/index-hov010-b-n-a.html>