

# 'No Free Lunches' and Their Efficacy: Analyzing the Role of Foreign Aid in US Foreign Policy

Md. Abdul Hannan

Lecturer, Department of International Relations,  
Bangladesh University of Professionals (BUP), Dhaka, Bangladesh

## ABSTRACT

Foreign aid is often equated with the 'no free lunch' aphorism by many which means nothing comes for free, not even the aid money or commodities that apparently seems to be a manifestation of the spirit of benevolence or charity. Most of the time, the donor countries' strategic, economic, political or other interests play a predominant role under the cover of humanity or benevolence in the practice of foreign aid (Hannan and Alam, 2019). This paper aims to critically analyze how foreign aid works as a leverage for the USA in achieving its foreign policy objectives. Conducted in a qualitative manner, it is based on finding answers to the question how political, economic and strategic interests of the USA works behind offering foreign aid. To find the answer, the rational choice theory, the definition of foreign aid provided by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) and the notion of 'soft power' given by Joseph Nye have been adopted and their applications have been examined. In this process, several critical areas have also been highlighted and connected. And finally, on the basis of the findings conclusion has been drawn up.

**KEYWORDS:** Foreign Aid, politics, foreign policy, national interest, objectives

## INTRODUCTION

### 1. Background of the Research:

In the dynamics of international relations, changes in the power structure has always been an obvious reality. That is why the world has experienced the rise and fall of various powers. It is only after the World War I that the United States of America (USA) started marching towards the centrality of power and by the end of the World War II, it established itself as one of the great powers of the world. With the termination of the Cold War and the dismemberment of the USSR, the USA emerged as the sole superpower of the world. However, as the surge of multi-polarity is getting stronger day by day, the USA is struggling a lot to uphold and uplift its power position in the world. In this struggle, the USA uses several tools to succeed. Foreign aid is said to be one of them.

Foreign aid is not anything new but its definition and the way it is being practiced today are relatively novel concept. It can be understood as the transfer of capital, commodities and other things from a country or international organization to another for the benefit of the recipient country and its population. Generally, foreign aid is given on economic, development, disaster management and humanitarian ground.

With the course of the time, foreign aid has got complex dimensions and it is classified in various ways. Multilateral, bilateral, conditional, non-conditional, grant, tied-aid are various terms that foreign aid today is associated with.

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As a single country the USA provided a total of \$49.87 billion in the fiscal year 2017 through the US Department of State and USAID and it was 1.2% of total spending (USAID, 2019). By pouring down this much money, actually the U. S. endeavors to accomplish its foreign policy objectives, it is claimed by many. The U. S. has various foreign policy objectives. Security, prosperity and the creation of a better world are considered to be its main objectives (Ginsberg, Lowi and Weir, 2012). This paper thus looks into how the practice of foreign aid helps the USA to achieve these objectives.

### 2. Central Research Question:

Question central to this research is: how foreign aid helps the USA in achieving its foreign policy objectives?

### 3. Rationale of the research:

Foreign aid has been an integral part of foreign policy of both the developed and developing countries. As a superpower, the USA in many ways, influences the dynamics of international relations. Foreign aid is something that is claimed by many, to be used by the USA to influence international politics. So a careful and critical look on the U. S. motivation behind offering aid would be highly helpful in understanding the role of the U. S. in today's world and also many critical issues in international relations. Moreover, it will definitely help the countries and policy makers in reconsidering their orientation towards foreign aid.

#### 4. Methodology:

This study has been conducted in a qualitative manner. It primarily relies upon qualitative data but quantitative data have also been used where required. The study strives to examine the existence of political, economic, strategic and other foreign policy objectives of the USA behind the practice of offering aid. For that reason, it is an exploratory research. Secondary data have been collected for this study. Secondary data have been collected from relevant books, reports and articles of reliable newspapers, journals and websites. A large share of the data has been collected from internet and unjustified websites were carefully avoided in this regard.

#### Analytical Framework:

The analytical framework of the study has been drawn up on the basis of rational choice theory, the definition of foreign aid given by the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) and the notion of 'soft power' given by Joseph Nye.

**1. Rational Choice Theory (RCT):** This theory effectively helps to understand how states realize their interests and formulate policies to secure those interests in international relations. It attempts to explain all social phenomena in terms of how self-interested individuals make choices under the influence of their preferences. RCT's basic premises are that (1) human beings base their behavior on rational calculations, (2) they act with rationality when making choices, and (3) their choices are aimed at optimization of their pleasure or profit (Hodgson, 2012). In formulating its foreign policy, states endeavor to maximize their advantage or gain, and to minimize their disadvantage or loss. As states are represented by human beings, it is easily comprehensible that the concerned people of the states formulate policies considering these things.

**2. Foreign aid:** The Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) defines its aid measure, Official Development Assistance (ODA), as follows: "ODA consists of flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25% (calculated at a rate of discount of 10%)" (OECD, 2006).

So this definition clearly manifests that developed countries offer aid for the economic development and welfare of the developing and underdeveloped countries. Here is no mentioning about political aspect. That means political motivation does not work behind that.

**3. Soft Power:** The operation of foreign aid as a means to pursue foreign policy objectives can be well understood by the concept of 'soft power' given by Harvard Professor Joseph Nye. Power, as Robert A. Dahl says, is the ability to get someone to do what he or she would not do otherwise (Dahl, 1957). Traditionally power has been seen in terms of coercion that is called hard power. But it is as late as in 1980s that Nye came up with the

idea of soft power that implies "the ability of a country to persuade others to do what it wants without force or coercion" (Ikenberry, 2004). Its essence is that something can be done by generating consent or attraction, not necessarily involving military. Strong relations with allies, economic assistance programs, and vital cultural exchanges can be good examples of soft power.

And foreign aid is something that is not much related to hard power rather can be effectively employed to generate consent. That is why soft power is essential in understanding the role of foreign aid in pursuance of U. S. national interest.

#### Major findings of the research:

This research came out with several important and interesting findings. All of these findings have significant implications in both domestic and international arena. Some findings have the potential to influence national policy formulation and implementation. However, the major findings of this research are:

##### 1. Aid for securing markets for the US goods:

A major justification for U. S. foreign aid is humanitarian impulse. But economic and political motivation also work there. In most cases helping other countries by providing aid to develop their economy is an important component of the U. S. strategy to sustain its own process of economic expansion. Developing other countries' economy is something synonymous with ensuring their capability to buy U. S. goods. Milner and Tingley have shown that more economically developed countries can buy more U. S. exports and thus represent a healthier environment for investment by the US corporations (Milner and Tingley, 2011). The Millennium Challenge Corporation is a bilateral U. S. foreign aid agency that plays significant role in overseas development by nudging countries towards reform that helps create congenial atmosphere for US investment in these countries. Its ex-CEO Daniel W. Yohannes says that, "What we do is really creating the conditions, the environments, for businesses to be very successful in those countries. We are building the infrastructure; we're also making significant changes in those countries with policy reforms, which create a tremendous environment for businesses to be successful" (Good News Network, 2011).

Mayar and Moller have found out countries which were once recipients of U.S. aid and later became major trade partners for the U.S. (Mayar and Moller, 1999). Part of the motivation behind the Marshall Plan was to rebuild Europe at the end of the World War II in order to have markets for U.S. goods (Ibid). More recently, Korea and Taiwan have become major importers of U.S. goods who received U.S. food aid twenty-five years ago. USAID estimates that almost all of the top fifty countries that today consume U.S. agricultural products were once foreign aid recipients (Milner and Tingley, 2010)

##### 2. Political reforms in foreign countries:

It is frequently claimed that the U. S. uses foreign aid to bring in political changes or reforms in foreign countries. It is always careful about bringing political regimes or political system in action that is conducive to its national interests and in many cases that has been facilitated by offering aid (Lancaster, .2007). A careful study of US operation of aid gives several interesting understanding in this regard.

During the cold war period when the U. S. was in all-out effort to contain communism and the USSR bloc, it showered gigantic amount of money to keep countries away from communism. After the cold war, the U. S. has concentrated more on the promotion of democracy and provided aid to countries for their political reform as spread of democracy happened to be one of the U. S. foreign policy objectives (Ibid). And after the 9/11 terrorist attack as the security of the U. S. shook up, it started to offer aids in ambition to counter terrorism. In Iraq, Afghanistan and Syria, the U. S. is pouring down huge amount of aid to bring in political system there that is conducive for its national interest. The recent US involvement in Venezuela in the form of proactively offering foreign aid has also given birth to debates and controversies regarding its political intention in that Latin American country (Hannan and Alam, 2019).

### 3. Geographic destination of US aid:

To understand how foreign aid serves the political, economic and strategic interests of the USA, it is something obligatory to look at the list of the countries who receive U. S. aid and in what percent. The IMF lists that 142 countries in the world received U. S. aid in 2014 (Howmuch.net, 2015). And approximately 76% of the world received some form of economic assistance from the U.S. in 2014 (Ibid). Below is a breakout of aid received by geographic region in fiscal year 2014 (Ibid):

- Africa: 20%
- East Asia and Pacific: 2%
- Europe and Eurasia: 2%
- Near East: 20%
- South and Central Asia: 7%
- Western Hemisphere: 4%

This account should give a positive impression about U. S. foreign aid as it shows that Africa, as a continent that is hit by poverty in the worst manner, receives the most U. S. aid. But the real politics gets revealed when the country wise aid allocation is considered. Of the \$35 billion of total economic aid the U.S. distributed in 2014, almost a quarter of funds went to five countries. Below are the top 5 recipients of economic aid in 2014. (Ibid)

- Israel: \$3.1 billion
- Egypt: \$1.5 billion
- Afghanistan: \$1.1 billion
- Jordan: \$1.0 billion
- Pakistan: \$933 million

So surpassing many poor and underdeveloped countries of the world, Israel manages to be consistent in remaining the highest US aid recipient. Egypt has been one of the highest US aid receiving country after it went for the Camp–David agreement which served U.S. interest a lot. Again, in Asia, Afghanistan and Pakistan receive the lion's share the U. S. aid despite there are countries there which needs foreign assistant more badly (at least than Pakistan). It demonstrates that U. S. not necessarily aims at the development or poverty alleviation when it is offering foreign aid. Rather it looks for areas where its interest lies in. The Taliban haunted Afghanistan and its adjacent neighbor Pakistan have been proved to be more important for U. S. security than any other countries in that region. And thus it is understandable why they are receiving aid more than other countries there. In the oil rich Middle East, it is necessary for the U. S. to satisfy its ally Israel by offering bulk

of aid so that it can exercise influence in this region. Similarly most other countries that are receiving larger share of U. S. aid because of their importance to the U. S.

### 4. Native peoples' opposition to allocate funds for aid:

Another important aspect to look at in this regard is domestic politics and public opinion in the U. S. with regard to foreign aid. It is easily comprehensible that governments undertake policies on the basis of the demand of the people. The American people are ill-informed about foreign aid policy and there is no broad-based support for the policy. For example, a 2013 Pew survey found that foreign aid was by far the least popular major spending category, with nearly half of all respondents favoring cuts to the program (Dilger and Boyd, 2014). Yet, for decades after decades politicians have been continuing to fund foreign aid, taking tax dollars from voting constituents and sending the money to the citizens of foreign countries who can have no direct impact on the politicians' chances for re-election. It is because politicians and some of their constituents see foreign aid as a broader tool of foreign policy, important for addressing a range of issues beyond economic development (Ibid).

So, despite little support from the general public, foreign aid continues to be funded as an important pillar of US foreign policy.

### 5. US dominance in IFIs and influencing the disbursement of aid:

The US plays a crucial role in the World Bank, IMF and other financial institutions. The World Bank offers loan and aid for development purpose and the IMF offers loan for efficient management of short term trade deficit. Despite these organizations are created for the betterment of all the members, it is overwhelmingly claimed that these organizations strive to secure the interest of the developed countries ('The IMF and', 2000).

And among the developed countries the U. S. offers the highest funding for these institutions and naturally it has the proportionate voting power that does not match that of others. And the U. S. along with other developed countries there control the flow of aid and loan. Those countries who have good affiliation with the U. S. are said to receive these facilities with minimum conditionality (Ibid). Again, the developed world uses these to secure their own interest with seldom consideration of the interest of the poor countries. For example: the World Bank always conditions that the government of the developing countries have to stop offering subsidies to their industries in order to get aid or loans. Without subsidy the industrially and technologically backward countries cannot produce quality products as the developed world can. As a result they cannot offer quality goods at a cheaper rate what the developed countries can. Then ultimately, markets of the developed country products get extended.

### 6. Democracy:

Democracy, today is considered to be the best form of government and is essential for economic, social and all other kind of development. Hence, the U. S. worldwide promote democracy, spread out democratic values and offers aid for that purpose. But issues remain overlooked that historically the U. S. offered aid and assistance to many undemocratic regimes. Here also what lies behind the mirror

is - instead of democracy, national interest gets preference of the US leaders and they offered aid to secure that interest not to secure democracy actually. In Argentina, Brazil, Chile, Tunisia, Egypt, Syria, Iran, Bangladesh and many countries it supported autocratic leaders and offered aid (Davies, 2014).

#### **7. Not providing much aid on the ground of environmental degradation despite being responsible for environmental degradation:**

Another important point is that the US financial contribution on the ground of environmental protection does not match to its economic capacity despite it being one of those countries which are mostly responsible for environmental degradation. It appears that on ground the U. S. hardly find any concrete interest to secure and thus do not offer much aid on that ground. And the lack of US dedication has been one of the key reasons why in the regime of environmental protection still there is no concrete success. Because of US withdrawal, the Kyoto protocol lost its strength and could not be much effective. The US withdrawal from the Paris Climate Agreement has also given birth to much uncertainty regarding the future of the agreement.

#### **8. Lobbying groups:**

There is a wealth of documents which reveal the important relationship between U.S. interest groups and aid policy-making. The concerned interest groups always maintain lobby to offer aids in certain societies so that market can be created and extended there for their products. For instance, in a memo to President Ford in 1975, Secretary of the State Henry Kissinger argued for continued aid to Zaire, out of the demand of the business groups based on the fact that the U.S. had billions of dollars of foreign investment in Zaire and that it was "our second largest market in black Africa" (after Nigeria) (Diven, 1995).

#### **9. US dominance in the UN:**

Foreign aid has significant role in increasing U. S. dominance in the United Nations (UN). To garner support for their proposals, the U. S. offers aid to many members of the UN which is some sort of bribery. Ten of the fifteen seats on the UN Security Council are held by rotating members serving two-year terms. A study shows that foreign aid receipts can drastically rise during a rotating member's tenure on the Security Council. For example, US economic aid increases by 77 percent and UN development aid rises by about 42 percent to countries that serve during a typical important year for the council (Kuziemko and Werker, 2004). The study also found that the positive effect of the Security Council on aid is much greater during years when key diplomatic events take place. But the increase in aid disappears immediately after a rotating member's tenure ends.

#### **10. The Bangladesh case:**

How much humanitarian and altruistic motivation works behind offering aid, can be well understood by looking at what happened to Bangladesh and Cuba in 1974. Bangladesh and Cuba started diplomatic relations officially in 1972, right after the independence of Bangladesh. The relationship took a turning point when Bangladesh signed an agreement with Cuba to export jute products in 1974. The deal enraged the United States which had hostile relations with Cuba and led to the suspension of US food aid to Bangladesh (Sobhan,

1979). This was followed by a devastating flood in July–August 1974 that submerged a large portion of Bangladesh and caused a severe damage to the domestic food production. As a result, the country got hit by a deadly famine that killed almost 1 million people through starvation (Ibid). To get the food and other aid from the United States in that situation, Bangladesh government then had to cut all ties with Cuba and the bilateral relations reached the nadir.

#### **Analysis:**

So the above findings demonstrate that the USA offers aid mostly to secure or extend market of its product, to explore and exploit the natural resources of the recipient country, to bring in friendly regimes to power in the recipient countries, to please different domestic interest groups, to have influence in geographic areas that have strategic importance to it, to have a tighter grip on the UN and other significant international institutions and to make the IFIs effective instruments for the pursuance of national interests. As a result, the USA finds it easier to accomplish its strategic, political, economic and other objectives.

For more illustration, we can recall the incident when Bangladesh had to cancel the trade agreement with Cuba in order to get aid from the US. In that situation, Bangladesh needed aid because there was devastating flood which affected domestic food production and brought deadly famine. So it was a call purely from humanitarian ground. Yet politics was injected there- putting the adversary in a hazardous position and magnifying own national interest enough to make Bangladesh cancel trade agreement with the US rival, Cuba.

This incident demonstrate that even in the case of humanitarian call, the USA looked for interests that persuades it to offer aid. As the rational choice theory explains, the U. S. found it more profitable to get the Bangladesh-Cuba agreement cancelled than to help the famine hit people. And they got it done by showing up the carrot of foreign aid. That means they used soft power instead of using military. So we see, the U. S., after doing cost benefit analysis finds out where its interest lies in. And then attempts to secure that interest by using its soft power when it is not required to use hard power. That is why we see instead of offering much assistance to the poverty, hunger, malnutrition and premature death hit African countries, the US consistently offers larger share of its aid to the relatively developed Israel. That also explains that foreign aid not really comes free just as 'no free lunch'. The donor countries' interest are always attached to this tangibly or intangibly.

#### **Conclusion:**

USA, in today's world, portrays itself as a responsible power. Hence, development of other countries and creation of a better world are identified as parts of its responsibilities. Foreign has the potential to serve in this regard. Foreign aid is supposed to be something that aims at eradicating poverty, developing economy, providing welfare facilities and better life for the people of the developing and underdeveloped countries. But in the practice, USA foreign aid is found to serve for different purposes and thus foreign aid has become an instrument to secure its foreign policy objectives.

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