

## *Economic Logic of the Alliance Curse*

We have as our grand strategy only the arms race and the cold war.

—John F. Kennedy, *The Strategy of Peace* (1960)

American globalism requires a new script. During the cold war that script was motivated by grand theories of social change that failed to establish correlations between what actually occurred and what we had grounds to expect.<sup>1</sup> Yet cold war perceptions of threats and opportunities were built so well into our culture that they are repeated by today's policymakers.<sup>2</sup> We are prevented from seeing gaps between our vision and the effects of our actions because we continue to base perceptions of our own security on models of containment that were originally designed to prevent the spread of Soviet power across Europe and throughout the third world.

America's cold war foreign policy was characterized by alliances with autocratic leaders such as China's Chiang Kai-shek, South Vietnam's Ngo Dinh Diem and Nguyen Van Thieu, and the Philippines' Ferdinand Marcos, to name a few. These alliances, ostensibly of mutual benefit, instead resulted in political and social instability and in failures to sustain economic development. The domestic failures of those governments dragged the United States into regional conflicts and two wars, in Korea and Vietnam, in the name of containing Communism.

The U.S.-backed leaders considered in the case studies in Part 2 of this book overstayed in office without creating adequate public goods or social policies. They ruled personally and autocratically, creating neither parties nor bureaucracies to ensure a smooth succession nor policy continuity after stepping down. They eliminated secular opposition so that civil society never emerged or matured.<sup>3</sup> They did little to create thriving, competitive economies. Nor did they provide equality, meritocracy, or upward opportunities for their people. They built armies based on personal loyalty rather

than competence. Yet time and again, the United States overlooked these liabilities in its ambitious campaign to fight the spread of global Communism. When those rulers became targets of resentment by their own populations and fell, the alliances sent blowback to U.S. shores in the form of unanticipated threats.<sup>4</sup> In some situations, violent anti-American policy setbacks created security risks that were even greater than those the alliances were designed to offset. Jihadism has emerged among those nations considered to be the staunchest allies against global Communism, as has the proliferation of nuclear weapons by Pakistan and state-sponsored terrorism by Iran.

If, as has been proved through history, an alliance between a greater power and a weaker but strategically significant dictator traps the dominant partner into unnecessary conflicts and moral compromises, why has the United States forged so many such alliances since 1945? Why did regimes that are rated as highly corrupt receive a disproportionately large share of U.S. overseas assistance during the cold war? What drives democratic policymakers in the United States to support leaders who plunder their own countries, and why does the war on terror compel the United States to again ally itself with regimes that discredit America as a leader of progressive social reform? Are U.S. alliances with third world nations a possible contributor to global corruption? Have policymakers misapprehended the underlying causes that may explain the correlation of aid and corruption? What remedies can be taken today to correct mishaps of the past?

### *Consequences of the Alliance Curse*

Asymmetric alliances between first and third world countries are easily formed because in theory they appear to improve the well-being of both parties.<sup>5</sup> The more powerful partner benefits in the short run, extending its political and military influence and gaining policy concessions such as cheap oil or UN votes that are appreciated by the home electorate. The weaker state gains a benefactor, as well as protection, aid, and abundant credit. But what may at first seem a fair and cooperative mutuality of interests invariably turns out to be unfair to the disenfranchised populations within the weaker state. Because the asymmetrical alliance may create a “development trap” and reduce the incentives of local leadership to govern for prosperity, the political status of already marginalized segments is likely to diminish as regime longevity increases.

When aid from foreign taxpayers substitutes for domestic resources, the reforms and policy strengthening necessary for long-term viability can be neglected, leaving a recipient state with diminished social and institutional

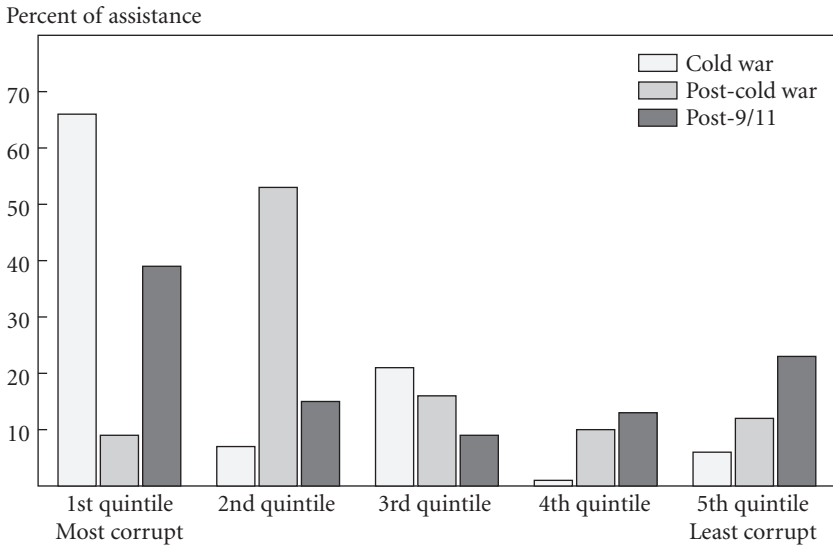
capital to resume a developmental path once a corrupt regime's grip is removed. When leadership in the weaker country depends for legitimacy on the benefactor for resources such as foreign aid, abundant credit, and military assistance, the government can neglect building its own predictable system of laws, policy, procedural transparency, and political accountability. U.S. assistance was often a reason that authoritarian rulers who exercised power unchecked by law or other institutions enjoyed great longevity in office.<sup>6</sup> The aid plays a particularly critical role if they have little popular support, because their political tenure depends on a small, exclusive coalition to whom they extend access to private goods and for whom disloyalty can be costly.<sup>7</sup>

Many third world recipients of alliance rents suffered governance failures as a result. In fact, during the final years of the cold war (1985–89), when cross-country data on corruption became available, developing countries within the lowest 20th percentile of the corruption ranking received two-thirds of U.S. aid. Only 7 percent of all U.S. aid went to the least corrupt quintiles among low-income countries. After the cold war, the bulge of U.S. assistance that went to countries with high levels of corruption was reduced and less than 10 percent of U.S. foreign aid was distributed to the most corrupt regimes (lowest 20th percentile) of the developing world. The attacks of September 11 produced another shift in the data, and the amount of aid given to the most corrupt quintile went back up to 39 percent. One recurrent pattern emerges: the bulge of U.S. assistance persistently flows to the more corrupt regimes of the developing world (figure 1-1).

Between 1985 and 1989, among the eighty developing country aid recipients, twenty out of the most corrupt thirty-two governments are classified by Polity IV as complete autocracies. Another six were autocracies that transitioned during the period; only six were consistent democracies. These deficits of democratic accountability were ignored when U.S. security concerns were raised. Many of the countries that were highly corrupt but democratic after 1985, such as Pakistan and the Philippines, were major aid recipients before holding elections and had only recently—during the late 1980s—become democracies. Thus, we can assume that if these major aid recipients are counted, the lavishly funded countries among the corrupt bottom throughout the cold war were primarily autocratic regimes or regimes whose institutions were corrupted by a long period of autocratic rule. After they transitioned into democracies their systems of public finance remained riddled with avenues for corruption.

During the cold war, while the United States touted itself as the world's greatest promoter of democracy, 53 percent of U.S. aid went to autocracies. This distressing pattern will be explored in chapter 2. The small winning

**Figure 1-1. Concentration of U.S. Assistance to Corrupt Low-Income Countries**

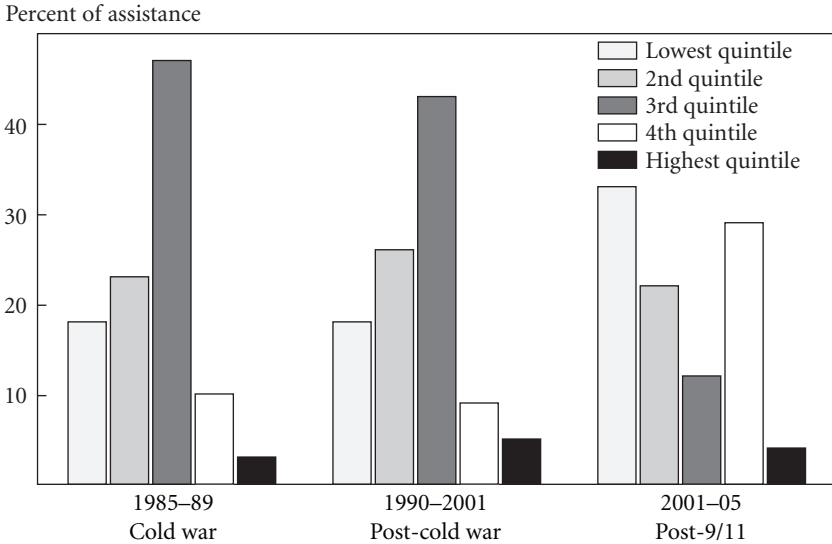


Source: Green Book and the PRS Group International Country Risk Indicators.

coalitions that controlled these recipient governments did not desire transparency, for it would have exposed the kickbacks and corruption that perpetuate the system. Because of abundant U.S. aid, accountability mechanisms to local constituents could be sidestepped. Autocrats attempt to keep their supporting coalitions as small as possible so that rents from collaboration can be concentrated among essential supporters.<sup>8</sup> Predictable contract enforcement and reliable information about the government's economic plans were averted because they would reduce dependence on the government's role as the economy's pivotal deal maker. Building an effective bureaucracy or the judicial and educational systems necessary for a strong state could represent threats to the incumbent.

Because the ruling party fails to build broad-based institutions, political and social development are stunted and the client nation is likely to manifest lower levels of social organization than are warranted by its income levels. In the extreme case, public goods, transportation, or communication networks can improve the conditions for revolutionaries to be active. Political mechanisms to reach compromises between the conflicting aspirations of citizens fail to develop. The opposition, unable to openly court broad-based support,

**Figure 1-2. Concentration of Aid to Internally Conflicted Low-Income Countries**



Source: Green Book and the PRS Group International Country Risk Indicators.

will focus its efforts on grabbing control of the governmental apparatus rather than on adapting skills of coalition formation and policy advocacy.

With a flow of resources from the outside, a leader can sacrifice policies needed to ensure growth in order to redistribute more income to key supporters. The concentration of economic opportunities in the hands of government gives the incumbent the tools to create a loyalty premium, making the defection of dissatisfied coalition members costly.<sup>9</sup> Abundant external resources also strengthen a tyrant's resistance to domestic restructuring or redistribution, which causes preexisting social rifts to fester and become poisonous. These alliance-twisted incentives are among the primary causes of development gaps that trigger regional tension, resentment, and instability. In fact, U.S. aid is skewed toward internally divided governments to ensure that domestic conflicts end with a pro-American outcome. But the availability of aid often fanned internal political tensions and often extended and intensified conflict (see figure 1-2).<sup>10</sup>

Unlike their political rivals, leaders that obtain alliance status with a wealthy sponsor can afford to reward their coalition members well. This makes it harder for rivals to survive, and forces opposition groups into subversive

activities as the only course to challenge the incumbent. When the incumbent and the regime become one and the same, the opposition must target the entire apparatus of government in order to overthrow the leader, heightening political volatility and the risk of violent overthrow.

An autocrat who has consolidated a coalition and survived an initial period of instability can enjoy a much longer survival rate than can a successful democratic leader, whose political survival depends on the support of a large coalition.<sup>11</sup> But the former is likely to face a much more disagreeable end. All dictators fear being deposed or killed in a revolution or a coup d'état, so they set aside funds as secret insurance for new payoffs or possible exile.

Fearing that its own benefits are in jeopardy, the sponsor nation may intervene on behalf of the regime. This places the sponsor nation in opposition against the local population, producing a commitment trap that arises time and again in U.S. relations with third world dictators.

Inevitably, in this kind of alliance, the aid cycle, along with the alliance, will enter a downturn. Foreign aid comes in boom-bust cycles and produces countercyclical investment patterns that leave the weaker country with debt burdens that cannot be repaid once the alliance-driven aid cycle slows down. Just as resource abundance may not generate healthy economic growth, the resources that autocrats gain from an alliance with a first world benefactor can create an "alliance curse." This curse has political-economy consequences that resemble the better-known resource curse.<sup>12</sup>

Pakistani–U.S. relations in the wake of September 11, 2001, exemplify the economic consequences of the alliance curse. A frontline country in the war on terror, Pakistan received \$10 billion in U.S. assistance in exchange for its commitment to fight the Taliban and al Qaeda at home.<sup>13</sup> That aid, however, has not targeted the sectors where it would have the largest long-term payoffs for the nation: rural health, education, agriculture, manufacturing, and infrastructure. Instead, the funds have been channeled into subsidized industries controlled by the military brass such as luxury construction, inciting a real estate boom, and into the purchase of sophisticated weapons systems for combat against state-based forces, not jihadists. In this sense, Pakistan, like every country that has experienced an alliance curse, concentrates its newly acquired resources on ephemeral sectors that benefit the regime and reward its backers. The economy's long-term production potential remains underexploited. Because uncertainty exists about the durability of alliance-cursed regimes, businesses tend to invest in sectors and projects from which rapid withdrawal is an option, and neglect investments that will come to fruition in the future.<sup>14</sup> Since the most important contributor to growth is investment,

the client nation will be economically impaired and unlikely to remain a stable and reliable ally. When the marriage arranged on the basis of short-term objectives is disrupted, the client nation is likely to become a security liability or even hostile to America. A change in geopolitical priorities will leave the country with long-term debts it cannot repay because the alliance curse has left it without resources that can be replenished from sound investments.

U.S. policy planners are generally unaware of the corrosive effects of asymmetrical alliances.<sup>15</sup> This lack of awareness results in a commitment trap in which the United States supports the status quo for fear something worse might arise in its place—a situation that will be discussed at greater length in chapter 11. The uncertainty that emerges when the patron fears that change could produce a greater evil seals the commitment trap. In fact, the very nature of the alliance (not the threats from domestic rivals or fear of the patron) is sufficient to cause an incumbent autocrat to disregard domestic accountability, equity, and transparency. The result is alienation of the domestic population, which may then harbor enemies of the tyrant and of the United States.

Such alliances deflect the focus from long-term development and allow preexisting social fissures such as inequality and ethnocentric- or class-based discrimination to trigger social conflict. In the end, the inadequacy of inclusive policies that yield rewards for the general population reproduces the security dilemmas we sought to preclude in the first place. Yet again, when facing an entirely new system of threats and warfare, the United States resorts to supporting frontline dictators, and we are surprised to be the target of a global jihad.

Since September 11, 2001, dozens of countries that promise to join the “global war on terror” have been provided with U.S. weapons and training. Many of the recipients are autocratic governments that are extremely corrupt, hostile to democracy, and dismissive of human rights. The Center for Defense Information has tracked twenty-five frontline states and found that more than half were cited by the U.S. State Department as having serious human rights abuses.<sup>16</sup> Six of the twenty-five were ranked among the most corrupt in the world by Transparency International. One of the countries not covered by the study, Sudan, is receiving assistance despite allegations that government forces have abetted genocide in Darfur.<sup>17</sup> Yet since declaring support of U.S. counterterrorist activities, the twenty-five countries have received eighteen times more total U.S. assistance than they received before September 11. The report’s lead author, Rachel Stohl, warns, “The unprecedented level of military assistance is short-sighted and potentially very dangerous. . . . Selling

arms for short-term political gains undermines long-term U.S. national security and strategic interests.”<sup>18</sup>

The arms sales create future liabilities for several reasons. The weapons are difficult to control once delivered. Sending military assistance to regimes that abuse human rights makes us enemies of the very people we are trying to defend. As long as the United States builds military capability where developmental conditions are ignored, the people in those countries will view the war against terror as a U.S. war. Under such conditions these armaments may someday be used against Americans.<sup>19</sup> Today’s terrorists will end up leaders of tomorrow’s local insurgency movements.

Both Congress and the State Department recognized the danger that the United States might lose control over the weapons it sent to coalition members. Before September 11 Congress had imposed oversight through the budgetary process. The State Department established guidelines to ensure that arms were not sent to human rights violators or to regimes that weaken democratic processes, practice terrorism, or threaten neighbors. Long lists of such countries were sanctioned before September 11 to prevent arms sales from endangering long-term U.S. security.

But on September 12, 2001, the U.S. government lifted all previous sanctions, even though conditions that led to the sanctions had not changed. It established new programs outside of the foreign operations budgets overseen by Congress.<sup>20</sup> Countries barred from receiving arms because of violations are now eligible merely by promising to help stamp out global terrorism. And by reclassifying as terrorist groups insurgencies that those countries had been fighting for years, the U.S. government greatly expanded the list of eligible arms recipients.

As a result of the lifting of sanctions and the creation of new accounts, the United States recently became the world leader in transferring arms to the developing world at a time when arms sales to developing countries are mounting dramatically. Between 1999 and 2006, arms transfer agreements with developing nations constituted 66.4 percent of all worldwide arms agreements, and in 2006, 71.5 percent of all agreements. In 2005 the arming of the third world generated \$31.8 billion in agreements, and in 2006 it generated another \$28.8 billion.<sup>21</sup> As the growth in arms sales to the third world grows, so do the risks that previous safeguards were designed to offset. Viewing counterinsurgency as counterterrorism, we interfere in domestic conflicts in which we do not have a role. Many recipients for arms are likely to use the weapons in conflicts with neighbors, making unstable regions less stable. Thus Pakistan, Azerbaijan, and Armenia, among others, have been able to fill



their shopping carts with arms they had been seeking for years. Who would be surprised to learn that some of the weapons that the State Department considers important to control have found their way into the arsenals of countries still under sanctions, such as Iran and China? Yet the greatest danger of overriding the previous safeguards is rarely mentioned. Repressive regimes that do not enjoy support at home are being strengthened, triggering a downward spiral in domestic governance that ultimately represents the greatest threat to future stable relations.

In essence, September 11 allowed the Bush administration to return to four priorities of early cold war U.S. foreign policy:

—Agreement on the need to contain the Soviets has been converted to a consensus on the global war against terrorism.

—Agreement on the need for active globalism during the cold war was characterized by the Marshall Plan and a network of alliances to contain Communism; again after Sept. 11 the arming of emerging nations and expansion of U.S. military capacity have created arms clients in all corners of the globe.

—The agreement on the primacy of presidential leadership was modified after the fall of Communism by greater attention given to voices from civil society; the war against terrorism, however, gave the president a rationale to close out civil society and tighten access to strategic information.

—Briefly during the Clinton administration international trade and commerce took priority over security in foreign policy. Clinton strengthened the international policy role of the agencies concerned with economic policy, bringing economics to the center of foreign policy.<sup>22</sup> After September 11 the “economic complex” comprising the Treasury and Commerce Departments and the Office of Budget and Management once again has been subordinated to security.

### *U.S. Popular Sentiments That Facilitate the Alliance Curse*

The United States sees itself as a benign superpower that maintains world stability, discourages regional conflicts, and facilitates democracy and economic growth.<sup>23</sup> In the words of former President Clinton, “There are times *only* America can make the difference between war and peace, between freedom and repression, between hope and fear.”<sup>24</sup> Such an optimistic self-portrait is not widely shared by the leaders of developing democracies, who must also seek to satisfy constituent goals of national pride, identity, and interest.

As we will see in the next chapter, third world democracies rarely enter alliances with first world patrons. Why? Because their home constituents

want widely distributed public goods. This feature of competitive politics makes democrats of the developed world incompatible with their developing world counterparts. It also underscores one of the regularities of cold war geopolitics: the tolerance expressed by first world nations toward compliant repressive regimes that serve entrenched elites at the expense of broader social interests. Many of the developed nations' interventions, both political and economic, lower the competitiveness of those we try to assist. This puts us into conflict with our idealization of open-market liberalism and with successful developing democracies such as India and Brazil.

We not only ignore the negative fallout from our policies, we also exaggerate our role in the downfall of our socialist enemies. The demise of the Soviet Union reinforced our belief in containment as a dominant factor in the geopolitical decline of socialism. Yet containment may have played a smaller role than we are willing to acknowledge.<sup>25</sup> Its impact was greatest in stopping a possible Soviet advance into Europe. But even the ultimate failure of the Soviet regime cannot be attributed directly to containment. The Soviet system failed in part because entrenched internal problems impeded economic and political reforms, and because of its ambitions in Afghanistan and Eastern Europe.<sup>26</sup> The evolution of socialist planning models and capitalist entities have both been deeply influenced by global forces that left centrally controlled hierarchies in the dustbin of history. The United States takes credit for precipitating the fall of the Soviets without acknowledging that the same foreign policy planning apparatus failed to anticipate the rise of China's market economy—grown out of socialist institutions and practices. That planning apparatus also produced unsustainable alliance partners in the Islamic world that today harbor our most virulent foes. Surrounding the Soviet Union with an Islamic "green field" created a hospitable environment for the spread of Taliban-style Islamic revolution.

Clearly, the United States should have sought alternatives to the alliance curse. However, the political process has a limited capacity to anticipate or respond to the blowback effects triggered by overseas interventions. Elected officials use foreign policy as a tool to obtain such public goods as security and cheap natural resources that their constituents desire at home. Public opinion surveys consistently show that voters place democracy building and development low on their lists of foreign policy priorities. These items rate below emergency humanitarian assistance, which only helps reduce short-term problems rather than build durable overseas economies.<sup>27</sup> Foreign policy debates invariably focus on convincing domestic audiences that their elected leaders deserve credit and reelection for having brought home valuable

resources and investment opportunities, policy concessions, and the political and military influence cited earlier. As a result, system-level social and political transformations occurring in the third world are generally ignored in U.S. policymaking.

### *Reframing Our Global Agenda*

Dynamic changes throughout the world suggest that U.S. policymakers have fundamentally misapprehended the relationship between global economic development and political stability. So off-balance has been our understanding of this fundamental relationship that we failed to anticipate the most consequential transformations of the cold war—the peaceful dissolution of the Soviet Union and China’s rapid rise from a Communist past. Efforts to graft policies and practices from the first world onto the third world in order to stimulate growth and progressive social change produced meager results. Ironically, allies that we bolstered with military and economic assistance in the Philippines and Pakistan are politically unstable, socially volatile, and economically stagnant. Meanwhile, American businesses seek opportunities among our former geopolitical enemies, China and Vietnam. In South Asia anti-U.S. terrorist cells thrive in allied regimes such as those of Pakistan, the Philippines, and Indonesia. Yet China and Vietnam, our former adversaries, stand firmly in the antiterrorist camp. No one could have anticipated that the world’s most tenaciously Communist country is the leading creditor of the world’s largest capitalist nation. Or that Vietnam’s middle class in 2007 is broader and the gap between rich and poor narrower than in the Philippines, our cold war ally.<sup>28</sup> Nevertheless, almost two decades after the demise of the Soviet Union, the strategies designed to counter another global menace are constructed using a cold war model that planted the seeds of much subsequent instability.

During the cold war, we chose allies simply because of their anti-Communist credentials and ended up being defeated by Communists in China, North Korea, and Vietnam. Today we support regimes that are anti-jihadist, regardless of their repressive policies and dubious domestic support. Insensitivity to the negative consequences of asymmetrical alliances has biased our effectiveness on many issues and leads us to an insufficient understanding of local and regional economic realities. This foreign policy downplays the social and economic challenges faced by the populations whose trust our security ultimately requires. Yet even so, the relevance of global economic development to U.S. security and of sound relations with the major developing powers

appears to be counterintuitive to U.S. strategic culture. To fight the new enemy, both the administration of President George W. Bush and the political opposition accept the logic of propping up autocratic leaders with high-tech weapons and training in exchange for short-term strategic services. Our triumphalism—and the militarism it provokes—are so deeply embedded in our institutions that we are unable to see that we can sometimes be the author of the very evils that we seek to overcome.

In place of transferring weapons to regimes that violate the rights of their citizens, an alternative strategy is needed that ties security to economic development. This book attempts to focus attention on general global forces that underscore geopolitical order and stability. Third world reconstruction requires that we pay more attention to the principles of self-organization and the fact that our actions often create the environment that determines the strategies of third world adversaries and allies alike. Because foreign policy, national security, and development policy are generally taught, studied, and managed through largely separate entities, they produce fragmented policy recommendations. This book aims to unify the three to bring about an integrated approach to the political economy of U.S. foreign relations.