

# Purchasing Power: U.S. Overseas Defense Spending and Military Statecraft\*

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## Abstract

The literature on economic statecraft has long focused on the effectiveness of foreign aid and trade as tools of inducement. However, existing scholarship largely neglects the role played by government procurement. By choosing to purchase goods or hire labor in foreign states, governments can provide an economic boon. The United States in particular leverages its defense procurement as a foreign policy tool. We introduce a new dataset of U.S. government procurement using information on all contracts executed overseas from 2000 to 2015. We develop a typology of how states use procurement to achieve foreign policy goals—power projection, counterinsurgency, and development—and provide descriptive statistics to explore variation in spending across countries and over time. Finally, we illustrate the power of the contract data by using it to code U.S. military access in Africa, and demonstrate that U.S. access is by far the most powerful predictor of U.S. spending.

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*Leaders must leverage money and contracting in operations.*

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—Commander’s Guide to Money as a Weapons System

## 1 Introduction

Large posters on barrack walls asked the U.S. soldiers occupying Mosul in 2003: “What have you done to win Iraqi hearts and minds today?”<sup>1</sup> The answer that became an integral part of the U.S. counterinsurgency strategy: spend money. American military officers were authorized to dispense cash as aid and do business locally when possible to create jobs and economic opportunities. As a handbook on “money as a weapons system” reminded officers, “Money and contracting in a [counterinsurgency] environment are vital elements of combat power” (MNC-I CJ8, 2009: i). Shipments of cash moved around the battlefield in armed convoys that became known as “jingle runs.”<sup>2</sup>

Using contracting to fight an insurgency is just one way that governments use spending toward security ends. Since the end of World War II, the United States in particular has leveraged its defense spending as a foreign policy tool. Yet we know very little about the conditions under which it uses spending or the consequences. How much spending does the United States do with foreign firms, where, and why? What impact does this spending have on U.S. interests such as power projection or political influence and what are the effects on stability or economic growth in recipient countries?

Within the field of international relations, scholars focus on the role of foreign aid and sanctions in persuading or coercing changes in states’ behavior. Within the field of economics, scholars examine the effects of government procurement on domestic markets and international trade. Neither, however, can adequately explain the conditions under which states contract with foreign firms

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<sup>1</sup>Dana Hedgpeth and Sarah Cohen, “Money as a Weapon,” *Washington Post*, <http://www.washingtonpost.com/wp-dyn/content/article/2008/08/10/AR2008081002512.html> (accessed May 4, 2018).

<sup>2</sup>The logistics of moving cash and keeping track of it became so problematic that the U.S. military began a “Cashless Battlefield” initiative in 2008 to introduce electronic transactions. See Armev, Lipow, and Webb (2014: 46).

to achieve policy ends. Yet, as Baldwin (1985: 43) notes, “Direct monetary payment is one of the most common ways for some people to get other people to do things they would not otherwise do.”

Scholars are beginning to study how states use their economic power abroad for political ends as attention shifts to China’s economic rise (e.g., Norris, 2016). Surprisingly, however, this literature largely neglects the “world’s largest client” (Kuchins and Sanderson, 2010: 6). The U.S. military spends more money annually than any other organization in the world. Like all government procurement, this spending can be strategic, meaning that it is designed to meet both efficiency and policy needs. As we demonstrate in this project, military spending represents a huge potential tool for inducing policy compliance, albeit one with uncertain effects.

This paper introduces a framework for conceptualizing spending as military statecraft. We outline the interests that motivate spending and sketch the conditions under which the United States chooses procurement as a policy tool. Next, we introduce an original dataset of global U.S. government procurement, created from contracting records in the Federal Procurement Data System-Next Generation (FPDS-NG). We illustrate the potential of these data not only to test the theoretical propositions, but for a variety of academic purposes. In particular, spending functions as a remarkably accurate indicator of U.S. military access, for which data have been notoriously hard to obtain.

The remainder of the paper is organized as follows. In the next section, we review efforts to measure strategic procurement, highlighting the gap between economic and international relation literatures. Section 3 develops a conceptual framework for understanding when states use spending as a tool of military statecraft. Section 4 introduces a new dataset of U.S. global defense procurement. Section 5 examines patterns of global spending and demonstrates two applications of the spending data. The final section discusses government procurement as a research agenda and considers policy implications.

## 2 Measuring Strategic Procurement

Political scientists are paying new attention to government procurement as a foreign policy tool. Their interest has been sparked by China's growing investments in developing countries (e.g., Strange et al., 2017). Scholars of China's behavior observe that states may use economic power to advance national industries, secure access to resources, or even incur economic losses for strategic gains (Brautigam and Xiaoyang, 2012; Gallagher and Irwin, 2015).<sup>3</sup> The debate centers on the relative weight of economic and political interests that motivate Chinese spending, as well as the challenge differentiating between types of interests that drive investments (Norris, 2016).

Traditionally, however, the political science literature has neglected a “not-so-obvious” type of economic statecraft: government spending on goods and services (Baldwin, 1985: 40-42). Early scholarship explicitly denied spending as statecraft, arguing that direct purchases were essentially commercial transactions and thus beyond the purview of political science (Baldwin, 1985: 43). For its part, the economics literature has long noted that governments use their market power strategically. As Baumol (1947: 2) says, “It is primarily the fact that a government often purchases for other reasons than direct consumption that distinguishes it from the ordinary purchaser.” In other words, government procurement often happens not only because of the need for goods and services, but also because of the anticipated market effects.

Government procurement in the developed world typically represents around 19% of the market (Audet, 2003); it is this “gargantuan nature” that makes procurement a policy tool (Baumol, 1947: 2). The assumption, however, is that governments harness this procurement power to bolster national firms (Branco, 1994) or to achieve domestic political gains. The small political science literature that looks at procurement focuses on the latter (e.g., Goldman, Rocholl, and So, 2013; Mayer, 1995; Young and Sobel, 2013).<sup>4</sup>

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<sup>3</sup>Of course, China is not the only state that uses a mix of aid and trade toward foreign policy ends. Brautigam and Xiaoyang (2012: 802) discuss Japan's “flying geese” model in which Japan uses a mix of concessional and non-concessional financial incentives to help launch regional production networks.

<sup>4</sup>The Young and Sobel (2013) article is the only one in we found to mention FPDS-NG in a leading political science

The former assumption—that governments have a home bias in procurement—has attracted economists’ attention, with scholars studying the effects of domestic government spending on foreign trade (Muller, 2008), and the ways that governments use preferential procurement as a non-tariff barrier to trade (Rickard and Kono, 2013; Shingal, 2015). Given their size, government markets have huge foreign trade potential if home bias can be overcome. Of course, government procurement markets are not entirely contestable; employee salaries and defense expenditures are often considered non-contestable (Audet, 2003). Still, the contestable portion is estimated at around “7-9% of gross domestic product (GDP) in developed countries” (Shingal, 2015).

Recent work examines the effects of the 1996 World Trade Organization (WTO) Agreement on Government Procurement (GPA), designed to open government markets to foreign competition.<sup>5</sup> Scholars have found little evidence that GPA membership leads to more procurement from foreign firms (Rickard and Kono, 2013; Shingal, 2015). Rickard and Kono (2013) argue that disappointment with the GPA has led to “rapid proliferation of procurement rules in preferential trade agreements (PTAs).” They find no evidence that these agreements reduce discrimination either, but suggest that PTAs provide “a win-win situation”—they can be violated easily or used as a cover to smuggle contracts to foreign firms. For the most part, however, scholars argue that governments use these agreements as a “weapon” to penetrate foreign markets (Weiss and Thurbon, 2006).

### **3 Procurement as (Military) Statecraft**

These bodies of literature have overlooked a huge source of economic power that the U.S. government uses strategically: overseas government spending, particularly military procurement. Although civilian agency procurement can also be used strategically, we show that the scale is significantly smaller and thus rarely the preferred tool for policy-makers. The focus on military procure-

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journal in the last 20 years. The American politics literature that does look at spending tends to focus on grants and assistance, given the greater political discretion in their allocation (e.g., Healy and Malhotra (2009)).

<sup>5</sup>Each member determines which sectors to open to competition. An annex to the United States’ membership specifies that it “does not cover procurement of any service in support of military forces located overseas.” See United States, Annex 5: services, Coverage Schedules, Agreement on Government Procurement, World Trade Organization Web site, [https://www.wto.org/english/tratop\\_e/gproc\\_e/gp\\_app\\_agree\\_e.htm#revisedGPA](https://www.wto.org/english/tratop_e/gproc_e/gp_app_agree_e.htm#revisedGPA) (accessed March 28, 2018).

ment makes sense given the U.S. reliance on defense-related money for foreign policy ends that has been observed elsewhere. For example, the “militarization” of foreign aid has been linked to the ease of justifying military aid to Congress compared to economic aid (Milner and Tingley, 2015). Military aid is a drop in the bucket compared to the billions that the U.S. military spends annually on goods and services. Moreover, much of this money is spent across the globe, given the far-flung U.S. military presence overseas. At least three factors plausibly increase the incentives to use this procurement strategically. First, political reluctance to curtail military spending—particularly spending associated with contingency operations—reduces the need to prioritize efficiency above other considerations. Second, the scale of spending means that even comparatively modest purchases can have outsized local effects. Third, distance and opacity around operational requirements reduces public scrutiny, providing “cover” similar to PTAs.

Strategic military procurement involves purchases of goods and services that are intended to have specific market effects. Unlike foreign aid, inducements do not go directly to the recipient government; instead, the spending state contracts with commercial firms. The challenge with procurement is ensuring that the right people get the benefits. For states like China, this challenge may be mitigated by the prevalence of state-owned or affiliated firms. The American government, by contrast, is usually prohibited from dictating subcontracting practices to private firms. In competitive bids for contracts, large American or transnational firms almost always win over local firms. Large firms may subcontract locally for goods and services to fulfill the contract, but the government cannot require them to do so. If firms prefer not to buy or hire locally, their profit motive may get in the way of the sending state’s effort to use targeted spending as a tool of statecraft.

As a result, U.S. policymakers sometimes seek to circumvent this risk by awarding contracts directly to local firms. A common way to do this is via non-competitive spending, which allows the U.S. government to award contracts to foreign firms without going through an open, competitive bidding process. Limiting competition to select sources enables the U.S. government to contract directly with targeted firms, thus mitigating principal-agent problems involved in delegating local

Year	Total obligation value	Non-competitive obligations	“Strategic” non-competitive obligations
2000	8.45	0.76	0.41
2005	31.67	4.69	0.89
2010	40.29	9.27	2.05
2015	15.57	3.84	1.46

Table 1: Proportion of U.S. spending from “strategic” contracts, for selected years, 2000-2015. All values represent billions of constant 2005 U.S. dollars.

procurement responsibility to U.S. firms as agents.

Internal audits highlight the scope of non-competitive defense spending. In 2014, a Government Accountability Office report found that over 80% of U.S. government non-competitive awards were defense contract awards (Government Accountability Office, 2014: 1). Of the \$308 billion that the Department of Defense (DoD) awarded in fiscal year (FY) 2013, 43% were non-competitive contract awards (Government Accountability Office, 2014: 1). Around 90% of these cited “only one responsible source” as the justification for the sole-sourced award, leaving around \$13 billion in directed spending for other reasons. These other reasons fall under three categories: (1) “authorized or required by statute,” (2) “international agreement,” or (3) “other,” which includes “urgency; industrial mobilization; engineering, developmental or research capability; expert services; national security; public interest” (Government Accountability Office, 2015: 3).

To illustrate the use of non-competitive spending, we use our data to differentiate between “de facto” reasons a contract may be awarded non-competitively (e.g., only one acceptable source) and “strategic” reasons. We code the following justifications for non-competitive awards as being strategic in nature: Authorized by Statute; International Agreement; National Security; Urgency; and Public Interest. Table 1 shows the breakdown of overseas non-competitive spending for strategic reasons. These figures suggest that in any given year, the United States non-competitively awards upwards of \$1 billion in overseas contracts.

### **3.1 Why States Spend Strategically**

In this section, we develop a conceptual framework for understanding when states use spending to pursue security ends. Our empirical evidence focuses on the United States, but these categories generalize to regional powers with security interests beyond their borders. There are two important caveats to this framework. First, the categories are neither exclusive nor exhaustive. As such, the framework is not a typology; rather, it represents three major sets of security objectives that motivate spending. Second, as we noted above, states have different policy interests against which they apply diverse economic tools. Defense spending, however, is always linked to military and security requirements. This implicates different interests and policy tools than the literature typically considers, which is why we develop a new framework.

#### **3.1.1 Power Projection**

The first set of objectives involve military access, which spans a continuum from overflight rights to major overseas bases. Under an international system characterized by norms of sovereignty, great powers generally attempt to induce rather than compel other states to provide access to their territory (Cooley and Spruyt, 2009). Local procurement serves as an inducement used to gain access to other countries' territories for purposes of power projection.

Previously identified vehicles for inducement include military aid and security guarantees (Cooley, 2008). These benefits accrue to the regime or the state rather than to the population directly. Procurement, on the other hand, is a more flexible tool that can funnel money to the government (i.e., through state-owned enterprises) or into the local economy.<sup>6</sup> Economic benefits come from increased demand for production or through direct employment. This approach attempts to make a continuous U.S. presence financially advantageous for local communities, thus muting potentially hostile public opinion.

In the post-World War II period, the United States wrote spending agreements into its treaties

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<sup>6</sup>Cooley and Nexon (2013) refer to these approaches as “binding” and “pivoting” respectively.



with base-host countries such as Denmark and the Philippines. These agreements stipulated that the United States would purchase goods and services locally in exchange for basing access.<sup>7</sup> In the 21st century, procurement agreements have also taken the form of PTAs.<sup>8</sup>

Special procurement authorities are another format, as three recent U.S. policies illustrate. The first example occurred after blockages and closures of supply routes from Pakistan into Afghanistan led the United States to seek alternative routes. The solution devised in 2009 was the Northern Distribution Network, a network of air and ground supply routes traversing Central Asia, the South Caucasus, and Russia. To persuade countries to participate in the network, the FY 2010 National Defense Authorization Act (NDAA) authorized preferential procurement of products and services from Georgia, Kyrgyzstan, Pakistan, Armenia, Azerbaijan, Kazakhstan, Tajikistan, Uzbekistan, and Turkmenistan.<sup>9</sup>

Strategic spending in Africa began for similar reasons. Concerned that the United States needed to “take definitive steps to maintain its basing access and agreements with the Government of Djibouti,” the FY 2015 NDAA authorized preferential procurement from Djiboutian companies to support Camp Lemonnier.<sup>10</sup> Two years later, the FY 2017 NDAA extended the spending authority to any African country that “has signed a long-term agreement with the United States related to the basing or operational needs of the United States Armed Forces.”<sup>11</sup>

States can also induce hosts to deny military access to third parties, in a form of “commercial anti-access/area denial.” Offering lucrative financial deals to firms in access-providing countries may serve to forestall similar dealings with competitors. This was likely a factor in Djibouti, where Russia began negotiating for military access in 2012. The U.S. national security advisor went to Djibouti in person to prevent the deal. Within two years, the United States had signed a

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<sup>7</sup>For example, see Agreement Relating to the Employment of Philippine Nationals in the United States Military Bases in the Philippines, U.S.-Phi., December 28, 1968, 19 U.S.T. 5892.

<sup>8</sup>Of 14 countries and entities with whom the United States has PTAs (Congressional Budget Office, 2016: 6), six are known to host a U.S. military presence: Australia, Bahrain, Israel, Oman, Singapore, and South Korea.

<sup>9</sup>National Defense Authorization Act (NDAA) for FY 2010, Title VIII, Subtitle A, Sec. 801.

<sup>10</sup>NDAA for FY 2015, Title XII, Subtitle E, Sec. 1263.

<sup>11</sup>NDAA for FY 2017, Title X, Subtitle H, Sec. 899A.

renegotiated 20-year lease that nearly doubled the annual rent to \$63 million, along with \$1 billion in facility upgrades.<sup>12</sup> China's actions in the Northern Marianas Islands demonstrate a similar logic. In 2015, U.S. plans to expand its military presence and facilities on the islands of Tinian and Pagan drew controversy. Part of the reason was economic: a Chinese company that had pledged to construct a \$1.2 billion casino resort on Tinian warned they might pull the project if U.S. military expansion on the island moved forward.<sup>13</sup>

### 3.1.2 Counterinsurgency

The second set of objectives involve winning “hearts and minds” in counterinsurgency environments. Poor economic conditions are theorized to fuel insurgencies, with rebel groups using economic grievances to elicit popular support for the rebellion. Lack of jobs may also reduce the opportunity costs for joining the insurgency, thus providing a pipeline of recruits to the armed groups (Collier and Hoeffler, 2004; Humphreys and Weinstein, 2008).

Not all counterinsurgency models prioritize winning the support of the population (Byman, 2015). The U.S. model, however, emphasizes the role of economic development in creating security by providing jobs for young men who might otherwise fight the government and by strengthening the state's ability to deliver public goods (SIGAR, 2018: 6). Spending as a counterinsurgency strategy has a long historical precedent.<sup>14</sup> More recently, it became a major component of the U.S. counterinsurgency strategy in Iraq and Afghanistan, where it appeared in warfighting guidance under the term “Money as a Weapons System.” In this view, money was “one of the primary weapons... to achieve successful mission results in [counterinsurgency] and humanitarian opera-

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<sup>12</sup>Andrew Jacobs and Jane Perlez, “U.S. Wary of Its New Neighbor in Djibouti: A Chinese Naval Base,” *New York Times*, <https://nyti.ms/2IHemYf> (accessed June 20, 2017).

<sup>13</sup>Johnny Blades, “US military plans present difficult balancing act for Marianas,” *Radio New Zealand-News*, <https://www.radionz.co.nz/international/pacific-news/311582/us-military-plans-present-difficult-balancing-act-for-marianas> (accessed March 23, 2018).

<sup>14</sup>For example, policy during the Kennedy Administration was that: “In countries fighting active campaigns against internal subversion, we should encourage local forces to undertake civic action projects as indispensable means of strengthening their society's economic base and establishing a link between army and populace.” National Security Action Memorandum No. 119, December 18, 1961, *Foreign Relations of the United States (FRUS), 1961-1963*, Vol. VIII, National Security Policy, (Washington, DC: Government Printing Office [GPO], 1996) Doc. 65.

tions” (MNC-I CJ8, 2009: 1).

One of the earliest and best-known efforts was the Commander’s Emergency Response Program (CERP), which allowed military commanders in Iraq and Afghanistan to authorize small-scale humanitarian or reconstruction projects. Projects focused on public goods provision such as street cleaning, generator installation, jail and police station refurbishment, etc. To maximize its effectiveness as a counterinsurgency tool, the CERP provided private goods simultaneously by allowing projects to procure local parts and labor (Martins, 2004: 6-8). As the program matured, criteria for project selection were local hires, benefits, and visibility (MNC-I CJ8, 2009: 13).

A second format is special authorities similar to those used for power projection purposes. Two such policies, known as “Iraqi First” and “Afghan First” respectively, which were codified in the FY 2008 NDAA. They allowed for limited competition awards and preferential procurement of products and services from Iraqi and Afghan entities with an explicit goal of creating a “stable source of jobs.”<sup>15</sup> The Afghan First initiative was expanded in 2010, when all U.S. military personnel in Afghanistan were directed to: “Hire Afghans first, buy Afghan products, and build Afghan capacity.”<sup>16</sup> The U.S. Ambassador issued guidance to all civilian contracting agencies to follow suit (SIGAR, 2012: 2), and NATO issued its own policy for allies to emphasize “spending *in* Afghanistan rather than *on* Afghanistan” (NATO, 2011).

A third format is to create organizations that operate outside of the confines of regular bureaucratic processes. For example, the DoD created a Task Force for Business Stabilization Operations to support private sector development in Iraq and Afghanistan. The task force began in Iraq in 2006, with an early mission to find ways to shift lucrative support contracts to Iraqi firms. It quickly moved from preferential procurement to direct involvement in private sector development, adopting a mandate to revitalize formerly state-owned enterprises (Zimmerman, Egel, and Blum, 2016: 1). Its mission, first in Iraq and next in Afghanistan where it transitioned in 2010, was “to

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<sup>15</sup>NDAA for FY 2008, Title VIII, Subtitle H, Sec. 886.

<sup>16</sup>David Petraeus, “COMISAF’s Counterinsurgency (COIN) Contracting Guidance,” NATO/ISAF memo, <http://graphics8.nytimes.com/packages/pdf/PETRAEUSGUIDELINES.pdf> (accessed March 28, 2018).

leverage economic development... as a strategic and operational tool” (Sopko, 2015: 3).

### **3.1.3 Reconstruction and Development**

The third set of objectives involves post-conflict reconstruction and economic development. Spending is used to build local economic capacity in ways similar to the above, but occurs in environments that are not characterized by insurgency. The amount of resources at the military’s disposal often significantly overmatch other governmental actors, making military procurement an attractive tool for these environments as well.

By increasing demand for production and creating job opportunities, defense spending can help to stabilize post-conflict environments and jumpstart economic growth. For example, research suggests that peacekeeping improves local economies around bases indirectly through spending and job creation (Mvukiyehe and Samii, 2010). These economic benefits can also help to build local capacity in places where the military anticipates future operational or access needs.

U.S. military procurement in Japan illustrates these interests. Japan’s economy remained in dire straits from the end of World War II until the outbreak of the Korean War. In December 1950, President Truman declared a state of emergency that allowed the U.S. Army to sidestep normal, competitive procurement processes (Gough, 1987: 59). This gave rise to an “offshore procurement program” through which the U.S. military ultimately spent an estimated \$741 million in Japanese products and services for the Korean War (Lee and Sato, 1982: 5). The program was controversial because critics saw it as detracting from the U.S. military industrial base,<sup>17</sup> but the production demand it generated ultimately was credited with ending Japan’s economic recession. In 1954, the United States and Japan agreed to an ongoing arrangement to bolster Japanese defense industry production through preferential procurement; the terms were codified in an annex to the U.S.-Japan 1954 Mutual Defense Assistance Agreement.<sup>18</sup>

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<sup>17</sup>The Counselor of Mission in Japan (Waring) to the Deputy Director of the Office of Northeast Asian Affairs (McClurkin), March 18, 1952, *FRUS, 1952-1954, China and Japan*, Vol. XIV, Part 2, (Washington, DC: GPO, 1985), Doc. 540.

<sup>18</sup>For a discussion, see Memorandum by Alice L. Dunning of the Office of Northeast Asian Affairs to the Acting Director of That Office (McClurkin), March 1, 1954, *FRUS 1952-1954, China and Japan*, Vol. XIV, Part 2, (Washington,

Routine military spending also presents development opportunities outside of conflict and post-conflict environments. In areas with systemic gaps in infrastructure, militaries may use defense spending to build local capacity in anticipation of their future needs. For example, in 2009, the military command with responsibility for U.S. military activities in Africa developed an “Adaptive Logistics Network” that would leverage existing logistics capabilities on the continent to meet operational needs quickly and flexibly (Ward, 2009: 23). The concept called for “[d]eveloping the local economy and infrastructure,” using procurement to build capacity that would in turn reduce transportation time and costs (U.S. Africa Command, 2011: 7). By using commercial and, where possible, local sources, the military sought to “stimulate the African economy by providing business opportunities for the transportation sector” (Ulmer, 2009: 3).

#### **4 A Dataset of U.S. Overseas Procurement**

Our data on U.S. government spending come from the FPDS-NG, which replaced the Federal Procurement Data Center in 2003 as the official repository for government procurement data. All federal government agencies are required to report data to FPDS-NG on contracts with a value of \$3,500 or higher. All actions associated with those contracts, irrespective of individual value, are subsequently reported.

The unit of analysis is the contract-action, where each observation indicates either a new contract or a modification to an existing contract. The data for each contract include a wide variety of fields. For our purposes, the most important of these are the contract number (or Procurement Instrument Identifier, PIID), place of performance country (where the money was spent), information on the vendor who was awarded the contract (name, country of origin, etc.), the date the contract was signed (including day, month, and year), the amount obligated (in dollars), and the U.S. department (State, Defense, etc.) responsible for the contract.<sup>19</sup> Thus the contract data can

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DC: GPO, 1985), Doc. 742.

<sup>19</sup>The dollar figures that are reported are obligations, or amounts of money associated with financial transactions that the government is required to pay at a given point. The Code of Federal Regulations (2014) defines obligations as “orders placed for property and services, contracts and subawards made, and similar transactions during a given

Year	Total obligation value (billions USD)	Total contracts	Department (%)		
			Defense	State	USAID
2000	9.42	12,136	89.7	4.9	1.7
2005	38.24	74,106	82.8	9.9	4.9
2010	49.09	132,019	82.1	7.9	6.9
2015	23.27	116,000	67.3	15.9	10.8

Table 2: Proportion of U.S. overseas spending by department, for selected years, 2000-2015.

be easily collapsed to the country-year, country-month, or even the country-day level for use in cross-national data analysis.<sup>20</sup>

FPDS-NG contains data on contracts executed in the United States as well as those executed in foreign countries.<sup>21</sup> We only include the latter, as we are primarily interested in targeted defense spending as a foreign policy tool. Defense spending accounts for over 80% of U.S. overseas spending between 2000-2015, with the State Department and USAID being distant second and thirds, as Table 2 shows. Data are available for 252 countries and territories, with a temporal range that begins in the late 1970s and extends through the present.<sup>22</sup> Data are far more sparse prior to the 2000s, however, and thus should be treated with caution. We thus collect contracts from 2000-2015 for all countries and territories except for those performed in the United States. The total number of contract-actions during this period is 2,383,977, with 1,667,739 (or slightly more than two-thirds) of actions coming from the DoD.<sup>23</sup> The number of contracts, in turn, totals 1,038,605. Of these, 513,727 are Defense contracts.

## 5 Overview of Strategic Procurement

To demonstrate the potential of the government spending data, we conduct some preliminary analyses using data from the 2000-2015 period.<sup>24</sup> Since we primarily focus on military spending, we

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period that require payment.” This is distinct from disbursements, or outlays, which are the funds used to pay obligations. Funds can also be removed from a contract, or deobligated, which is also reflected in the contract data.

<sup>20</sup>The data and replication package will be made available on the Harvard Dataverse.

<sup>21</sup>A foreign place of performance is defined as “work produced, supplied, or performed primarily outside of the United States or its territories” (Schwartz and Ginsberg, 2013: 5).

<sup>22</sup>The first year for which we have evidence of contracts is 1978.

<sup>23</sup>Country-year level summary statistics can be found in Table A1 in the appendix.

<sup>24</sup>All amounts are in constant 2005 U.S. dollars.

subset the data to DoD contracts. We first provide data on country-level trends in U.S. defense spending by presenting figures on the top recipients of spending as well as the country-level correlates of spending. Next, we show the variation in U.S. defense spending across regions and over time. Third, we show that the United States is more likely to award contracts non-competitively in countries where it has explicit policies in place to limit competition. Finally, we provide two applications of the contract data by: (1) using content analysis of the data to identify the locations of U.S. military access in Africa, and (2) providing evidence on the effectiveness of procurement as an instrument of influence.

## **5.1 Country Trends**

The top targets of U.S. spending are shown in Table 3. The left half of the table shows the top 10 countries where U.S. contracts were spent by total dollar amount, while the right half shows the top 10 countries by U.S. spending as a percentage of the country's GDP. In terms of total amounts, the top recipients of U.S. spending include a number of formal U.S. allies—Germany, South Korea, the United Kingdom, and Japan—and Iraq and Afghanistan, where the United States has waged counterinsurgency campaigns. As a percentage of GDP, however, the countries which predominate (outside of Iraq and Afghanistan) are those in which the United States has military access but which—aside from Greenland, which is a Danish territory—do not enjoy U.S. security guarantees (Djibouti, Kyrgyzstan, Greenland, Bahrain, Kuwait, Bahamas, and the Marshall Islands).

Additionally, we provide preliminary evidence on the country-level correlates of U.S. spending. In particular, we test the association between spending and the motivations described above: namely, the desire to secure military access, facilitate counterinsurgency, and promote local economic development. To this end, we regress U.S. spending (logarithmized because the distribution of spending is skewed) on three main variables. First, in order to proxy for reconstruction efforts, we create a dummy variable to indicate whether the state has emerged from a civil war in the past five years, using data on civil wars from the Uppsala Conflict Data Program (UCDP). Second, we

<b>Country</b>	<b>Spending (billions USD)</b>	<b>Country</b>	<b>Spending (% GDP)</b>
Iraq	86.01	Kiribati	74.7%
Afghanistan	81.62	Afghanistan	51.1%
Kuwait	40.85	Djibouti	14.3%
Germany	34.15	Kyrgyzstan	8.9%
South Korea	22.36	Marshall Islands	8.7%
Japan	20.3	Iraq	5.3%
United Kingdom	16.16	Greenland	5.3%
Canada	12.17	Kuwait	2.6%
Switzerland	12.1	Bahrain	2.5%
United Arab Emirates	11.49	Bahamas	1.4%

Table 3: Countries and territories where the most U.S. defense spending took place, by total amount and as a percentage of GDP, 2000-2015.

capture U.S. counterinsurgency efforts by including dummy variables for Afghanistan in 2002-2014 and Iraq in 2003-2011. Third, we measure U.S. military access using a dummy variable that indicates whether a country is home to U.S. military “real property,” with data obtained from the DoD’s annual Basing Structure Reports.

We also control for a number of factors that capture recipient states’ economic and political characteristics. First, we control for states’ GDP, GDP per capita, and their composite Polity scores. Second, in order to control for alignment with the United States, we include two dummy variables indicating: (1) whether the state has a defense pact with the United States, and (2) whether the state is a “major non-NATO U.S. ally.”<sup>25</sup>

The correlation between each of these variables and U.S. spending can be found in Table 4. Table 5 contains multivariate regression outputs from ordinary least squares models.<sup>26</sup> Models 1-2 do not include the Polity score, as controlling for it reduces the available number of observations; Models 2 and 4 include region and year fixed effects in order to account for unobserved spatial and temporal heterogeneity. The results show that the United States spends more in larger, more

<sup>25</sup>GDP and GDP per capita come from the World Development Indicators, while the Polity score is from the Polity IV project (Marshall and Jaggers, 2011). Alliance data are from Version 4.1 of the Correlates of War’s Formal Alliances Dataset (Gibler, 2009).

<sup>26</sup>All covariates are lagged by one year.



Variables	Spending (log)	GDP (log)	GDPpc (log)	Polity	Civil war	US counterinsurgency	US real property
Spending (log)	1.000						
GDP (log)	0.557 (0.000)	1.000					
GDPpc (log)	0.338 (0.000)	0.464 (0.000)	1.000				
Polity	0.254 (0.000)	0.239 (0.000)	0.324 (0.000)	1.000			
Civil war	-0.019 (0.280)	-0.019 (0.311)	-0.240 (0.000)	-0.101 (0.000)	1.000		
US counterinsurgency	0.126 (0.000)	0.008 (0.671)	-0.079 (0.000)	-0.010 (0.609)	0.054 (0.002)	1.000	
US real property	0.407 (0.000)	0.396 (0.000)	0.405 (0.000)	0.138 (0.000)	-0.068 (0.000)	-0.036 (0.045)	1.000

Table 4: Correlation matrix, with p-values in parentheses.

democratic countries, as well as in countries where it is undertaking counterinsurgency campaigns. The United States also spends more in countries with which it is aligned.

## 5.2 Regional and Global Trends

Next, we use the data to assess trends in spending by region and over time. Figure 1 shows the amount of total U.S. spending accounted for by Europe, Africa, Asia, the Americas, and the Middle East in 2000, 2005, 2010, and 2015.<sup>27</sup> Three major trends emerge from these data. First, there has been a marked shift in spending away from Europe and toward Asia, the Middle East, and Africa over time. Second, the height of U.S. spending in the Middle East (2005) and Asia (2010) corresponds with the heights of the wars in Iraq and Afghanistan, respectively. Third, the proportion of U.S. spending in the Americas has remained quite steady from 2000-2015. Additionally, Figure 2 shows that U.S. military spending peaked globally during the 2005-2013 period, largely the result of counterinsurgency efforts in Afghanistan and Iraq. Nevertheless, even before and after these wars, U.S. overseas spending consistently ranges between \$10-20 billion a year.

<sup>27</sup>Our regional classifications follow those used by the Correlates of War Project. We exclude Oceania from these figures, which accounts for less than 1% of U.S. spending.

	(1)	(2)	(3)	(4)
	Spending (log)	Spending (log)	Spending (log)	Spending (log)
GDP (log)	1.263*** (0.050)	1.225*** (0.055)	0.999*** (0.068)	0.791*** (0.072)
GDPpc (log)	0.164 <sup>+</sup> (0.087)	-0.317** (0.107)	0.640*** (0.100)	0.302* (0.122)
Civil war	-0.298 (0.482)	-0.411 (0.474)	0.014 (0.481)	-0.085 (0.475)
US counterinsurgency	11.533*** (0.427)	10.243*** (0.417)	8.871*** (1.326)	7.218*** (1.036)
US defense pact	0.636** (0.229)	-0.294 (0.264)	0.182 (0.255)	-0.927** (0.290)
Major non-NATO US ally	3.372*** (0.327)	3.529*** (0.455)	3.488*** (0.355)	3.280*** (0.433)
US real property	3.719*** (0.212)	4.256*** (0.226)	2.895*** (0.230)	3.602*** (0.242)
Polity			0.099*** (0.023)	0.117*** (0.026)
Year FE	No	Yes	No	Yes
Region FE	No	Yes	No	Yes
N	2901	2901	2419	2419
R <sup>2</sup>	0.379	0.414	0.371	0.420

Robust standard errors in parentheses.

<sup>+</sup> $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table 5: Determinants of U.S. foreign spending, 2000-2015.

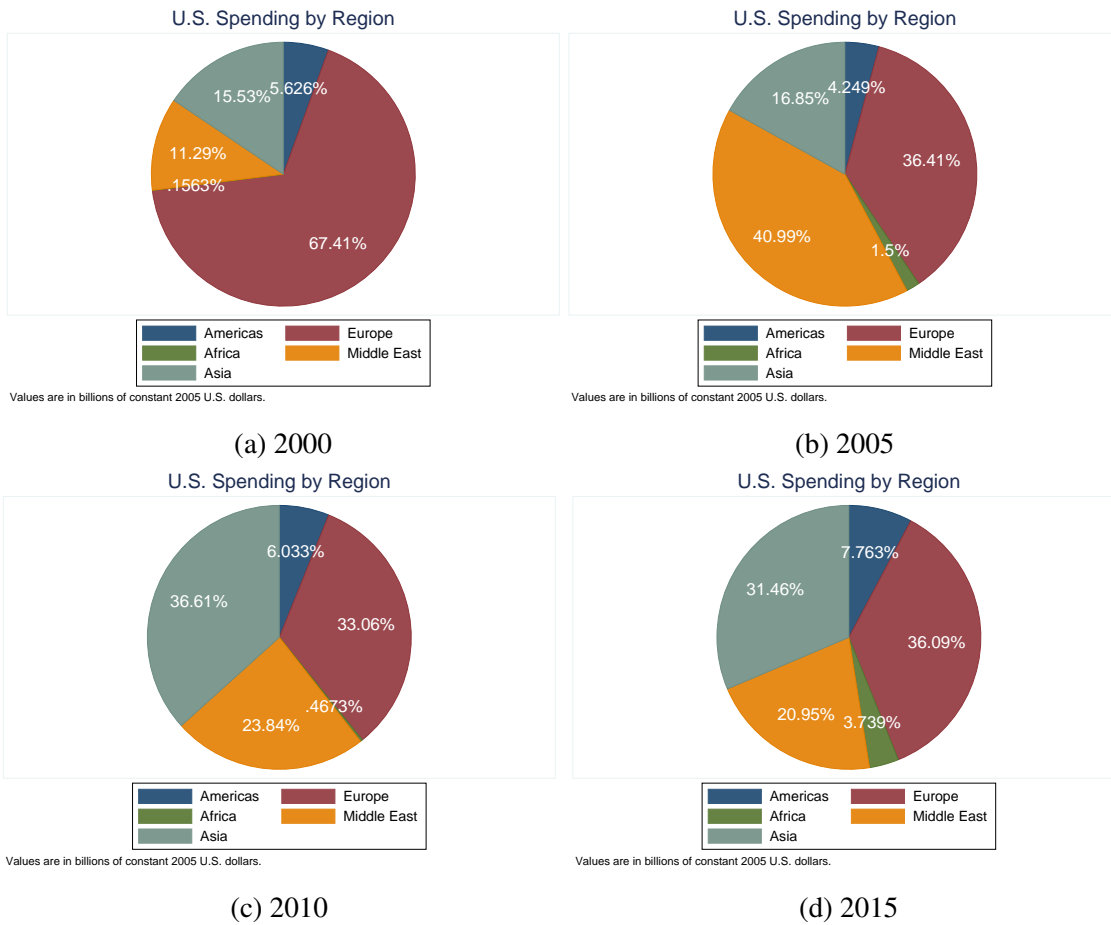


Figure 1: U.S. foreign spending by region, 2000-2015



Figure 2: U.S. foreign spending, 2000-2015.

### 5.3 Non-Competitive Spending

Third, as discussed above, the data allow us to limit our sample of contracts to those which were awarded non-competitively for strategic reasons. These contracts, which account for 20,398 of the total, are those awarded for reasons that are political and strategic rather than for reasons of necessity (e.g., because there was only one viable source). We would expect power projection and counterinsurgency needs to be positively related to the use of non-competitive spending. Additionally, we would expect an increase in non-competitive awards to follow the introduction of “host-nation first” preferential procurement policies.

Table 6 presents regression outputs when replicating Table 5 using non-competitive spending instead of all contract spending as the dependent variable. As we would expect, U.S. military access, counterinsurgency efforts, and preferential procurement policies are all strong predictors of non-competitive spending. Figure A1 in the appendix also shows the levels of non-competitive

	(1)	(2)	(3)	(4)
	Noncomp. spending (log)	Noncomp. spending (log)	Noncomp. spending (log)	Noncomp. spending (log)
GDP (log)	0.751*** (0.047)	0.548*** (0.057)	0.781*** (0.076)	0.596*** (0.081)
GDPpc (log)	0.401*** (0.066)	0.212** (0.081)	0.553*** (0.104)	0.425*** (0.113)
Civil war	-0.747* (0.331)	-0.769* (0.330)	-0.660* (0.333)	-0.764* (0.332)
US counterinsurgency	11.716*** (1.430)	11.472*** (1.426)	9.869*** (1.291)	9.763*** (1.343)
US defense pact	0.314 (0.240)	2.286*** (0.432)	0.303 (0.318)	2.255*** (0.488)
Major non-NATO US ally	5.524*** (0.644)	5.692*** (0.683)	5.395*** (0.663)	6.005*** (0.628)
US real property	5.268*** (0.362)	5.113*** (0.377)	4.884*** (0.394)	4.633*** (0.408)
Host-Nation First policy	3.323** (1.066)	2.551* (1.100)	3.238** (1.152)	2.371* (1.204)
Polity			-0.016 (0.022)	-0.015 (0.023)
Year FE	No	Yes	No	Yes
Region FE	No	Yes	No	Yes
N	2931	2931	2440	2440
R <sup>2</sup>	0.398	0.425	0.383	0.421

Robust standard errors in parentheses.

+ $p < 0.10$ , \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$

Table 6: Correlates of non-competitive U.S. foreign spending, 2000-2015.

spending in the 12 countries that have been the target of preferential procurement policies during the period for which we have data: Afghanistan, Armenia, Azerbaijan, Djibouti, Georgia, Iraq, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

#### 5.4 Application: Spending as an Indicator of Access

The overseas contracting data also provide a solution to an empirical challenge that has vexed U.S. foreign policy scholars since the end of the Cold War: namely, the issue of how to measure U.S. military presence overseas. Since the 2004 Global Defense Posture Review (GDPR), the United States has moved away from using large, Cold War-style main operating bases, shifting instead toward a larger number of “small-footprint” bases such as forward operating sites (FOSs) and cooperative security locations (CSLs) (Pettyjohn, 2012: 83-96). A number of scholars have lamented the challenge of finding reliable information on U.S. military facilities in regions such as Africa and Latin America—especially for any reasonable length of time—where the United

States has increasingly sought to project power by relying on FOSs, CSLs, and ad hoc contingency locations (Turse, 2015; Vine, 2015).<sup>28</sup> At best, scholars have been able to identify incomplete lists of U.S. bases in these regions for limited cross-sections of time, using media reports that are often ambiguous as to the location and start dates of these facilities.<sup>29</sup>

We illustrate the value of the contract data for identifying U.S. military facilities abroad by focusing on Africa, which has seen an explosion of U.S. military facilities since the 2004 GDPR. The contract data provide insight into where the United States has spent money to build the infrastructure needed to host U.S. troops, equipment, and intelligence, surveillance, and reconnaissance (ISR) capabilities. In order to code the data to identify U.S. military facilities by country-year, we conducted a qualitative content analysis of the contract descriptions for all DoD contracts performed in Africa in 2014 and 2015. This qualitative check identified 46 keywords that are often associated with U.S. military facilities.<sup>30</sup>

With these keywords, we devised a set of criteria for larger-scale quantitative coding of contracts between 2000 and 2015, as well as for turning the coding of these contracts into country-year coding. In particular, we used the following two criteria for coding contract descriptions:

1. The contract description must include at least one of our keywords for military facilities.
2. The contract Product and Service Code (PSC) must be one of the following seven types: Purchase of Structures/Facilities; Transportation/Travel/Relocation; Lease of Equipment; Lease of Structures/Facilities; Construction of Structures/Facilities; Maintenance, Repair, Alteration of Structures/Facilities; Non-Alcoholic Beverages<sup>31</sup>; Technical Representative<sup>32</sup>.

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<sup>28</sup>These smaller facilities are not considered real property and thus not subject to the same reporting requirements. Some contingency locations may also be secret.

<sup>29</sup>For example: Turse (2015); Vine (2015); Moore and Walker (2016).

<sup>30</sup>A full list of the keywords can be found in the appendix.

<sup>31</sup>Our inductive analysis indicated that such contracts are heavily concentrated in countries where the United States had military access. Because of DoD and FDA water standards, military personnel deployed in developing countries often have to procure potable water in bulk from approved sources.

<sup>32</sup>Our inductive analysis indicated that such contracts are heavily associated with those pertaining to U.S. ISR capabilities, and over 30 out of 41 contract-actions were conducted in Djibouti.

A brief example illustrates: a 2015 contract action contained the following description: “Base or life support services for Agadez, Niger.” These services were listed under PSC Category W035 – Lease/Rental of Equipment. Both the keywords and PSC meet our criteria, so our content analysis codes this entry as indicating access. Thus the data capture evidence of military access a full two years before media reports identified Agadezas as the site of a U.S. military base for unmanned aerial vehicles in 2017.<sup>33</sup>

We then collapse the number of access-related contracts by country-year. For the purposes of analysis, we use these contracts to code a dummy variable indicating whether the United States had military access in a particular country-year. This dummy variable takes a value of 1 if a country-year met two additional criteria. First, the country must have contract actions at least two out of three years. This gives us greater confidence that we are picking up actual military facilities by restricting our coding to access-related contracts that happen consistently over time rather than sporadically. Furthermore, this ensures that our codings of military facilities are more continuous and stable over time, rather than fluctuating from year to year in each country (which would be unlikely to reflect the actual patterns of military access in a given country). Second, the country must have at least five contract actions during those three years. This restricts our coding of access to countries that have significant volume of access-related contracts.

All country-years meeting these four criteria are coded as hosting U.S. military access. For example, if a country has three contract actions in 2008 and two in 2010, it would be coded as having U.S. military access during the 2008-2010 period. Our coding of military access picks up all but one African country (Libya) confirmed by *Military Times* as having a U.S. presence as of late 2017.<sup>34</sup> Moreover, our coding picks up a number of additional countries: Benin; Burundi; Central African Republic; Côte d’Ivoire; Gabon; Ghana; Liberia; Mauritania; Morocco; Senegal;

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<sup>33</sup>Sudarsan Raghavan and Craig Whitlock, “A city in Niger worries a new U.S. drone base will make it a ‘magnet’ for terrorists,” *Washington Post*, November 24, 2017 (accessed May 3, 2018).

<sup>34</sup>Shawn Snow, “US troops lack support despite expanding mission in Africa,” *Military Times*, <https://www.militarytimes.com/flashpoints/2017/11/19/us-troops-lack-support-despite-expanding-mission-in-africa/> (accessed March 20, 2018).

Seychelles; Sierra Leone; Tanzania; and Togo (see Figure 3).<sup>35</sup>

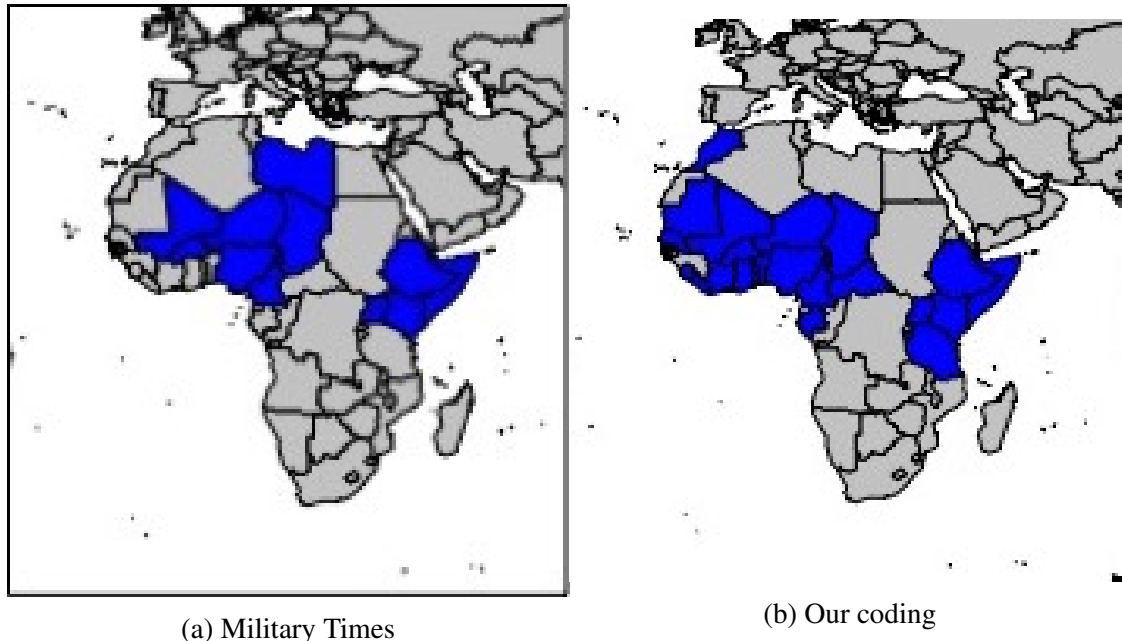


Figure 3: Comparison of *Military Times* data on U.S. military access in Africa to our coding.

Table 7 adds our indicator to the regression models from Table 5. The results show that our indicator of U.S. military access is a powerful predictor of spending. Indeed, Table A2 in the appendix shows that the correlation between access and spending (0.412) is even greater than that between GDP and spending in Africa (0.238). In substantive terms, the regression coefficients suggest that the United States spends between 35,681% (or more than 300 times) and 111,332% (or more than 1,000 times) more in countries where it has military access, depending on the model specification.<sup>36</sup>

<sup>35</sup>Additional research validates most of these sites. The United States has CSL agreements with Benin, Côte d’Ivoire, Gabon, Gambia, Ghana, and Senegal (Cooley, 2008: 242). Liberia and Sierra Leone hosted a U.S. military presence during Operation United Assurance to help combat the Ebola crisis (Joint and Coalition Operational Analysis, J7, 2016). The U.S. Air Force operates in the Seychelles (Davis et al., 2012: 26). Mauritania and Burundi have hosted contingency locations; see Nick Turse, “Secret US Military Documents Reveal a Constellation of American Military Bases Across Africa,” *The Nation*, <https://www.thenation.com/article/secret-us-military-documents-reveal-a-constellation-of-american-military-bases-across-africa/> (accessed May 1, 2018). Finally, Central African Republic has been the site of U.S. military operations against the Lord’s Resistance Army since 2011; see *Deutsche Welle*, “US forces to pull out of CAR amid ongoing hunt for Kony,” <http://www.dw.com/en/us-forces-to-pull-out-of-car-amid-ongoing-hunt-for-kony/a-38597986> (accessed May 1, 2018).

<sup>36</sup>In Table A3 in the appendix, we show that our results are robust to using non-competitively awarded spending instead



	(1)	(2)	(3)	(4)
	Spending (log)	Spending (log)	Spending (log)	Spending (log)
GDP (log)	0.565*** (0.154)	0.458** (0.151)	0.854*** (0.168)	0.751*** (0.168)
GDPpc (log)	0.301 (0.221)	0.000 (0.220)	0.096 (0.239)	-0.162 (0.246)
Civil war	-0.273 (0.655)	-0.703 (0.680)	-0.187 (0.642)	-0.528 (0.670)
US military facility (Africa)	7.016*** (0.399)	5.880*** (0.526)	6.874*** (0.425)	5.971*** (0.561)
US real property	4.102*** (0.707)	3.934*** (0.752)	3.005*** (0.879)	2.961** (0.901)
Polity			0.272*** (0.040)	0.242*** (0.040)
Year FE	No	Yes	No	Yes
Region FE	No	No	No	No
N	767	767	735	735
R <sup>2</sup>	0.204	0.269	0.262	0.312

Robust standard errors in parentheses.

<sup>+</sup> $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table 7: Correlates of U.S. foreign spending in Africa, 2000-2015.

## 5.5 Application: Spending as an Instrument of Influence

To further demonstrate the value of the spending data for testing questions of interest to scholars in political science and international relations, we explore spending as a tool of foreign policy influence. In particular, following a long line of scholarship that studies the relationship between U.S. foreign aid and recipients' United Nations voting patterns (e.g., Carter and Stone, 2015; Dreher, Nunnenkamp, and Thiele, 2008; Wang, 1999), we assess whether higher levels of U.S. spending are associated with a greater likelihood that recipients will vote with the United States in the UN.

In the literature on economic statecraft, foreign aid has received the lion's share of attention from scholars interested in the effectiveness of positive inducements as instruments of influencing other states' policies. Many studies argue that economic and military aid is used strategically as a means of buying political support, often in the form of UN votes (Carter and Stone, 2015; Lundborg, 1998; Wittkopf, 1973), or other policy concessions (Dreher et al., 2018; Sullivan, Tessman, and Li, 2011). Yet the efficacy of aid in securing concessions is debated. While some authors have found that foreign aid increases political support (Lundborg, 1998; Wang, 1999), others have found less support (Dreher, Nunnenkamp, and Thiele, 2008; Lai and Morey, 2006; Sullivan, Tessman, and Li, 2011). Our data provide us with a new means to test the classic question of whether international influence can be bought.

Following the convention in the literature on aid and UN voting, our dependent variable is the percentage of UN General Assembly votes in a given year in which a given state voted with the United States, with data obtained from Bailey, Strezhnev, and Voeten (2017).<sup>37</sup> For decades, scholars have treated UN votes as an attractive proxy for foreign policy influence, as it is both generalizable—that is, not limited to any one issue area—and easy to measure (Bailey, Strezhnev,

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of all spending as the dependent variable.

<sup>37</sup>Specifically, we used Bailey et al.'s Ideal Points data, which codes the percentage of votes each state has in common with the United States by coding as 1 votes where the two countries vote the same, as 0 votes where the two countries vote opposite, and as 0.5 votes where one country votes yes and the other abstains. Some studies limit their sample of votes to those labeled by the U.S. State Department as "important" (Wang, 1999), but empirical evidence suggests that doing so does not affect results (Dreher, Nunnenkamp, and Thiele, 2008; Wittkopf, 1973).

and Voeten, 2017; Flores-Macias and Kreps, 2013). With regards to foreign aid in particular, U.S. law since the 1980s has mandated that the State Department and USAID take UN voting into account for allocating aid (Carter and Stone, 2015; Kegley and Hook, 1991). In this way, focusing on UN votes provides a hard test for studying the influence of spending, particularly compared with aid.

The main independent variable we are interested in is the logarithmized value of U.S. defense spending in each country. We also include a number of variables that the literature has identified as relevant political and economic control variables, such as countries' size, economic development, and regime type (Dreher, Nunnenkamp, and Thiele, 2008; Wang, 1999), which we measure using GDP, GDP per capita, and the Polity score, respectively. Additionally, our previous analyses in Tables 5 and 7 showed that U.S. spending is driven to a substantial degree by states' security relationship with the United States—namely, whether they are a U.S. ally or host U.S. military facilities. We thus also control for these factors, as we might expect states' propensity to vote with the United States to be related to their relationship with it more broadly. All covariates are lagged by one year in order to mitigate the potential for simultaneity bias.

The results can be found in Table 8. Models 1-2 include our independent and control variables, as well as region and year fixed effects in order to account for spatial and temporal heterogeneity. These results show that spending has a robust, positive association with states' UN voting patterns. Moreover, Model 2 also controls for U.S. economic aid, and the results suggest that the effect of spending is similar in magnitude to that of economic aid—an already well-studied (indeed, canonical) tool of influence and economic statecraft. Models 3 and 4, in turn, replicate the results from Models 1-2 but include country fixed effects in place of region fixed effects. In these models we do not control for the covariates that exhibit little-to-no variation over time within countries (e.g., whether the state is a U.S. ally).

These results suggest that there is a robust relationship between U.S. spending and recipients' voting patterns in the UN, even after controlling for GDP, GDP per capita, regime type, alignment

	(1)	(2)	(3)	(4)
	Voting with US	Voting with US	Voting with US	Voting with US
Spending (log)	0.001** (0.000)	0.001** (0.000)	0.000+ (0.000)	0.001* (0.000)
GDP (log)	0.001 (0.001)	-0.000 (0.001)	-0.039*** (0.011)	-0.040*** (0.011)
GDPpc (log)	0.015*** (0.002)	0.019*** (0.003)	0.022* (0.010)	0.025* (0.010)
Polity	0.005*** (0.000)	0.005*** (0.000)	0.000 (0.000)	0.000 (0.000)
US counterinsurgency	-0.023* (0.010)	-0.028* (0.011)		
US defense pact	0.056*** (0.005)	0.058*** (0.005)		
Major non-NATO US ally	0.089*** (0.019)	0.086*** (0.019)		
US real property	-0.003 (0.006)	-0.002 (0.006)		
US economic aid (log)		0.002*** (0.000)		0.001*** (0.000)
Year FE	Yes	Yes	Yes	Yes
Region FE	Yes	Yes	No	No
Country FE	No	No	Yes	Yes
N	2408	2396	2408	2396
R <sup>2</sup>	0.683	0.685	0.915	0.916

Robust standard errors in parentheses.

+ $p < 0.10$ , \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$

Table 8: Results showing the relationship between U.S. spending and voting patterns in the UN, 2000-2015.

with the United States, and the level of economic aid, as well as including year, region, or country-fixed effects. Moreover, this relationship is similar in magnitude to that between U.S. economic aid and recipient UN votes. In both cases, a 100% increase in spending or aid increases allies' voting alignment by about .03%.<sup>38</sup>

## **6 Discussion: Procurement as a Research Agenda**

This article sought to accomplish three tasks. First, we drew attention to the role of strategic procurement of goods and services as an understudied form of economic statecraft, particularly in the context of the United States. Second, we introduced a new dataset of U.S. overseas procurement and provided descriptive statistics by country, region, and year. Third, we demonstrated two applications of the dataset by using the data to: (1) code U.S. military access in Africa, and (2) test a classic question in international relations: whether economic inducements can buy influence.

These applications only scratch the surface of the data's potential, however. Future research on the causes and consequences of directed spending could make use of our framework and these data in a number of ways. As discussed previously, the data provide a means for testing whether spending is a more or less effective as a tool for purchasing policy concessions than other levers such as aid and arms. Existing research on economic statecraft in the U.S. context is dominated by studies which seek to determine whether U.S. tools of inducement—for example, foreign aid and arms sales—translates into influence over recipient states' foreign policies (Bueno de Mesquita and Smith, 2007; Sullivan, Tessman, and Li, 2011). But targeted procurement is another historically common—and virtually unstudied—instrument of influence. Adding these data promises to address omitted variable bias that may otherwise affect quantitative analyses.

Second, further research should examine whether spending achieves its desired effects. For example, does local procurement effectively stimulate economic development? Indeed, anecdotal evidence suggests that spending may even have negative effects. Military spending can skew local

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<sup>38</sup>In Table A4 in the appendix, we show that our results are robust to using non-competitively awarded spending instead of all spending as the independent variable.

markets and create critical vulnerabilities when it is withdrawn. For example, initially significant economic gains in Afghanistan turned out to be unsustainable; the Afghan economy lost as many jobs between 2014-2016—500,000—as had been created between 2009-2012 (SIGAR, 2018: 2-8). As U.S. spending plummeted, unemployment hit 40% by 2013, “a disaster that the World Bank underestimated so drastically that donors hadn’t earmarked money for an emergency jobs program.”<sup>39</sup> Similarly, for scholars interested in power projection, these data could be used to test Cooley and Nexon’s (2013) claim that “pivoting” strategies—which entail directly injecting money into local economies—are superior to “binding” strategies that rely instead upon providing aid and arms to regimes in order to buy access.

We argue that the need for a research agenda on procurement policy is especially great because of its unique costs and benefits compared to other tools of economic inducement. On the one hand, procurement is an attractive tool because it directly injects resources into a local economy. This allows a “donor” state to bypass governments that might otherwise attempt to siphon off some of the resources for their own gain, a well-documented phenomenon in the foreign aid literature (Alesina and Weder, 2002; Burnside and Dollar, 2000). Moreover, in the context of power projection it allows the sending state to directly compensate the host population, thus mitigating anti-base sentiment and reducing the likelihood of eviction if the ruling government loses power (Cooley, 2008; Cooley and Nexon, 2013).

On the other hand, relying on private firms to carry out procurement policies essentially delegates diplomacy to private actors. This delegation can cause governments to risk involuntary defection in a variant of the principal-agent problem, which occurs when a “principal” state delegates a task to an “agent” firm. The principal-agent problem is based on a structural flaw: the principal does not have as much information as the agent and thus does not know how hard the agent is really working. When the agent has different interests, the potential for shirking emerges.<sup>40</sup>

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<sup>39</sup>George Packer, “Afghanistan’s Theorist-in-Chief,” *New Yorker*, <http://www.newyorker.com/magazine/2016/07/04/ashraf-ghani-afghanistans-theorist-in-chief> (accessed March 28, 2018).

<sup>40</sup>For a general discussion of principal-agent problems, see Sappington (1991).

In the procurement dilemma, information asymmetries can be steep. Governments with restrictive procurement laws may not be able to legally stipulate how contracts are sourced, and firms may not even realize that the intention was to fulfill a diplomatic obligation. This problem is particularly acute for the United States, where laws restrict procurement to U.S. firms, require open competition, or limit the government from stipulating how contractors fulfill the terms of the contract.<sup>41</sup> As a result, the U.S. government either hopes for the best or relies on special waivers or procurement authorities to untie its hands in terms of choosing its agents.

Recent controversies highlight this dilemma. Between 2013-2015, the U.S. military faced two crises over key U.S. military bases: Thule Air Base in Greenland and Camp Lemonnier in Djibouti. In each case, divergent preferences between the government and firms created a risk of defection, which was exacerbated by incomplete information as to the political considerations wrapped up in the spending arrangements. In the case of Thule, the U.S. Air Force inadvertently awarded the base support contract to a U.S. firm in 2015, despite an agreement dating back to 1951 which obliged the United States to favor Danish and Greenlandic firms.<sup>42</sup> Similarly, the U.S. company in charge of base support for Camp Lemonnier in 2013 created a crisis in U.S.-Djiboutian relations when it fired the local Djiboutian labor. The United States subsequently renegotiated the terms of its base agreement on terms more favorable to Djibouti—including a \$63 million annual rent and legally mandated preferential hiring for Djiboutians.<sup>43</sup>

While the types of preferential procurement policies that have been implemented in Central Asia, Iraq, Afghanistan, and Djibouti, may help to mitigate this dilemma, there is little evidence as to the effectiveness of these policies. Future research is thus needed to identify both how and under what conditions this dilemma can be solved, as well as when states elect to use targeted

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<sup>41</sup>See Federal Acquisition Regulation, 48 C.F.R., Chap. 1, Part 42, Subpart 42.5 (2017).

<sup>42</sup>Daniel Wilson, “Fed. Circ. Revives Exelis’ \$411M Air Force Base Contract,” *Law360*, <https://www.law360.com/articles/815940/fed-circ-revives-exelis-411m-air-force-base-contract> (accessed March 20, 2018).

<sup>43</sup>Eric Schmitt, “U.S. Signs New Lease to Keep Strategic Military Installation in the Horn of Africa,” *New York Times*, <https://nyti.ms/1usuMko> (accessed May 1, 2018).

procurement versus other forms of inducement.



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