DISCRETION AND CONSTRAINT
IN POST-9/11 U.S. FOREIGN POLICY

David T. Hsu

A DISSERTATION
PRESENTED TO THE FACULTY
OF PRINCETON UNIVERSITY
IN CANDIDACY FOR THE DEGREE
OF DOCTOR OF PHILOSOPHY

RECOMMENDED FOR ACCEPTANCE
BY THE DEPARTMENT OF POLITICS

Advisor: Helen V. Milner

SEPTEMBER 2012
Abstract

The September 11, 2001 terrorist attacks catalyzed powerful pressures for strategic reorientation across many channels of U.S. foreign policy. This dissertation explains why non-military policy patterns alternately withstood or conformed to post-9/11 demands for change. I argue that policies were a function of varied security rationales. The president pushed for increasingly discretionary authority in order to link foreign economic issues with shifting bilateral security goals. With respect to regulatory issues, the president wanted to impose constraints on prior discretion so that cross-border flows of funds, goods, and people might be more rigidly scrutinized. These security motivations interacted with existing political coalitions and economic interests, producing differential lines of resistance. I apply this argument to four issue-areas: (1) U.S. foreign aid allocation and (2) the administration of trade preferences for developing countries, both areas that involved status quo legislative constraints on executive authority; (3) visa issuance, in which organizational processes inhibited change from above; and (4) international anti-money laundering, in which organizations outside of the U.S. government wielded considerable authority. The empirical analysis employs new datasets, statistical methods, and in-depth case studies. Mirroring other periods of heightened security concern, the evidence cumulatively shows that increased presidential foreign policy authority reached well beyond conventional areas of security policy. Even so, a diverse range of state and private stakeholders contested issue linkages forged on the basis of national security priorities. The politics of responding optimally to terrorism has been tightly related to the political economy of globalization. My conclusion therefore stresses the enduring importance of synthesizing security-oriented and political economy perspectives for studying critical foreign policy junctures.
## Contents

*Abstract* iii  
*List of Figures* v  
*List of Tables* vi  
*List of Abbreviations* vii  
*Acknowledgements* viii  

1. Introduction: Discretion and Constraint 1  
2. Explaining Patterns of Post-9/11 U.S. Foreign Policy 21  
3. Shifting Paths of Foreign Aid Allocation 60  
4. Strategic Administration of Trade Preferences 97  
5. Dividing Authority over Visa Issuance 142  
6. Globalizing the Anti-Money Laundering Network 186  
7. Conclusion: Funds, Goods and People in Context 223  

*Appendix* 247  
*Bibliography* 248
List of Figures

1.1. U.S. Foreign Economic Assistance, USAID and State Department. 11
1.3. Total U.S. B-Class Travel and H-Class Work Visas Issued. 15
1.4. Cumulative Number of Countries with Standardized AML Laws. 17
2.1. Mean Bilateral Economic Aid Levels by Ally Group and Period. 24
3.2. U.S. Bilateral Economic Assistance, USAID and State Department. 75
3.3. Mean Bilateral Economic Aid Levels by Ally Group and Period. 79
3.4. Total U.S. Economic Assistance to Pakistan. 85
4.2. Mean GSP-Eligible Imports by Ally Group and Year. 109
4.3. Pakistan’s Eligible Imports under U.S. GSP. 132
4.4. The Philippines’ Eligible Imports under U.S. GSP. 134
4.5. Turkey’s Eligible Imports under U.S. GSP. 135
5.1. Total B-class Travel Visas issued by the United States, 1990 to 2010. 167
5.2. Total Student Visas and Work Visas Issued, 1990 to 2010. 168
5.3. Average B-class Travel Visas issued by Country “Risk” Group. 169
5.5. B-class Travel Visas issued to Applicants from Saudi Arabia. 171
5.6. Average Rate of Refusal for High Risk Country Group. 178
5.7. Travel Visas issued to High Risk Countries-of-Origin versus Trade. 183
6.1. Cumulative Number of Countries with Standard AML Law. 196
6.2. Cumulative Number of Countries with Standard CFT Law. 197
6.3. Cumulative Number of Countries with FIUs and Egmont FIUs. 198
6.4. Pattern of Standards Adoption, OECD verses non-OECD Countries. 220
List of Tables

1.1. Overview of Issue-Areas. 7
2.1. Selected Non-Military Channels of Post-9/11 U.S. Foreign Policy. 40
2.2. Summary of Dependent Variables. 43
2.3. Summary of Expectations by Issue-Area. 45
2.4. Hypotheses by Chapter. 59
3.1. Variables and Descriptive Statistics. 95
3.2. Results from Analysis of U.S. Foreign Aid Allocation. 96
3.3. Predicted Foreign Aid Allocation Levels. 82
4.2. Three Classes of Target States. 138
4.3. Countries in Sample and Period of Statutory Eligibility. 139
4.4. Variables and Descriptive Statistics. 140
4.5. Results from Analysis of U.S. Nonreciprocal Trade Preferences. 141
4.6. Predicted Trade Preference Eligibility Levels and Coverage Ratios. 126
5.1. U.S. Nonimmigrant Visas Issued in Major Categories. 182
5.2. Participants in the U.S. Visa Waiver Program. 182
5.3. Countries on the “Visa Condor” List. 182
5.4. Variables and Data Sources. 182
5.5. Regression Results, years 1997 to 2010. 184
5.6. Regression Results, years 2002 to 2010. 185
5.7. Predicted Visa Issuance Levels. 176
6.1. Compliance Codes for select FATF Recommendations. 206
6.2. Variables and Descriptive Statistics. 209
6.3. Hazard Analysis: Adoption of AML-CFT Standards, non-OECD countries. 221
6.4. Hazard Analysis: Adoption of AML-CFT Standards, all countries. 222
A.1. Partisan Composition of Congress, 2001 to 2013. 247
**List of Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AML</td>
<td>Anti-Money Laundering</td>
</tr>
<tr>
<td>CFT</td>
<td>Combating the Financing of Terrorism</td>
</tr>
<tr>
<td>CSF</td>
<td>Coalition Support Funds</td>
</tr>
<tr>
<td>DHS</td>
<td>Department of Homeland Security</td>
</tr>
<tr>
<td>ESF</td>
<td>Economic Support Fund</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FATF</td>
<td>Financial Action Task Force</td>
</tr>
<tr>
<td>FIU</td>
<td>Financial Intelligence Unit</td>
</tr>
<tr>
<td>FTO</td>
<td>Foreign Terrorist Organization</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GSP</td>
<td>Generalized System of Preferences</td>
</tr>
<tr>
<td>HTS</td>
<td>Harmonized Tariff Schedule</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>LDC</td>
<td>Least Developed Country</td>
</tr>
<tr>
<td>MCC</td>
<td>Millennium Challenge Corporation</td>
</tr>
<tr>
<td>MFN</td>
<td>Most Favored Nation</td>
</tr>
<tr>
<td>MNF-I</td>
<td>Multi-National Force – Iraq</td>
</tr>
<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OEF</td>
<td>Operation Enduring Freedom</td>
</tr>
<tr>
<td>PEPFAR</td>
<td>President’s Emergency Plan for AIDS Relief</td>
</tr>
<tr>
<td>PTA</td>
<td>Preferential Trade Agreement</td>
</tr>
<tr>
<td>QDDR</td>
<td>Quadrennial Diplomacy and Development Review</td>
</tr>
<tr>
<td>SDT</td>
<td>Special and Differential Treatment</td>
</tr>
<tr>
<td>TPA</td>
<td>Trade Promotion Authority</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Committee on Trade and Development</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>USTR</td>
<td>United States Trade Representative</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
Acknowledgements

I am hugely indebted to my advisors for their guidance in writing this dissertation. Robert Keohane has been an extraordinary mentor. His incisive feedback and timely encouragement helped me to transform this project from a magnified version of Chapter 4 to what it is now. Frankly, this transformation felt like climbing from a dunghill I couldn’t see beyond to a vista that he knew existed. Helen Milner has had a major influence on the way I think about international relations. As my committee chair, she consistently asked the hardest questions and pushed me meeting after meeting to keep making progress. I cannot thank her enough for teaching me how to get and stay on track. Christina Davis very generously read and responded to all of my inchoate papers, abstracts, and grant applications, often sprinkling in valuable bits of practical advice. Over the years, I’ve benefitted from many tough but always refining conversations with Andrew Moravcsik.

Support from the Princeton Institute for International and Regional Studies, the Bobst Center for Peace and Justice, the Department of Politics, and the Dean’s Fund for Scholarly Travel allowed me to focus on dissertation research and writing. Anne-Marie Slaughter was very gracious to participate as an examiner at my final public oral examination. For helpful comments on various chapters, I thank Joanne Gowa, Raymond Hicks, Brian Lai, Randall Newnham, Phil Potter, Chad Rector, and Kevin Young. My graduate student colleagues – especially Brookes Brown, Sarah Bush, Stephen Chaudoin, Rex Douglass, Sarah Goff, Andrea Everett, Kristen Harkness, Marina Henke, Christina Hultholm, Kris Johnson, Mareike Kleine, Alex Lanoszka, Michael McKoy, Alex Ovodenko, and Meredith Wilf – helped to sharpen my thinking and brought wonderful camaraderie to the process. Thanks also to my friends Sam Baker, Matthew and Nicole Escarra, Leslie Geddes, Gregory Johnsen, and Jeff Taylor. I couldn’t have done this without Peter Kurie, whose instincts to stir things up, redeem the “suboptimal,” and sing a song make each day special.

My deepest gratitude is to family. When my dad first arrived in the United States, he worked a few miles from Princeton’s campus yet never had the chance to see it during that time. Both he and my mom have worked hard to ensure that my brothers and I would have the opportunities they did not. Thank you for teaching me the most important lessons in life and, together with James and Jeff, for lifting my spirits every single step of the way.
CHAPTER ONE
Introduction: Discretion and Constraint

1.1. Motivating Puzzle

Shortly after the September 11, 2001 terrorist attacks, President George W. Bush announced before a joint session of Congress that the United States would “direct every resource at our command, every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence, and every necessary weapon of war to the disruption and to the defeat of the global terror network.”

Many scholars consider 9/11 a watershed, or critical juncture, that prompted major reorientation of U.S. foreign policy priorities and patterns. For example, Stephen Walt (2001) wrote that the “business-as-usual approach to foreign policy vanished on September 11,” John Ikenberry (2006) noted that the attacks “triggered the most far-reaching rethinking of American foreign policy since the early Cold War,” and Barry Eichengreen (2001) observed how the events of 9/11 “reshaped the debate over globalization.” Yet the empirical patterns that emerged in the aftermath of 9/11 are remarkably varied, reflecting both major policy changes and resilience. Such patterns are especially striking along the non-military channels of U.S. foreign policy. A few examples suffice.

Since 9/11, the overall level of foreign aid spending has surged dramatically under renewed pressures to “purchase influence” abroad, surpassed in the history of U.S. foreign assistance programs only by the Marshall Plan. Yet the U.S. Agency for International

---

2 Announcing the closing of 21 foreign aid country missions in 1993, the USAID Administrator explained, “We no longer have to use our aid programs to purchase influence. We are in a new era.” A.D. Horne, “U.S. to Close
Development’s share of total economic aid obligations has fallen from approximately 60 percent to 30 percent between the mid-1990s and 2008, according to government statistics. The Bush administration also began to fortify a branch of U.S. trade policy that was originally designed to accord “special and differential treatment” for developing countries by reducing tariffs on a nonreciprocal basis. Neglected by both the White House and Congress, the Generalized System of Preferences had fallen again and again into statutory expiration throughout the 1990s. These preferences subsequently became a recurring theme in U.S. bilateral talks with Pakistan, the Philippines, and Turkey, among others. As if pulled from the gutters, the aggregate value of U.S. imports from developing countries receiving preferential treatment surged after 9/11, yet in several high-profile cases, the trade outcomes were decidedly underwhelming.

Varied patterns similarly manifested in channels beyond foreign economic policy. For example, under heightened homeland security concerns, the overall number of visas issued to people seeking to temporarily enter the United States as employees, students, and travelers plummeted – by 80 percent in the extreme case of Saudi Arabia – yet there is considerable variation. Contrary to expectations, patterns of visa issuance and corresponding refusal rates show that certain countries-of-origin, along with certain visa categories, have been relatively insulated from the post-9/11 tide toward closure. U.S. strategic priorities also implicated governments’ policy choices across many jurisdictions. Intensified international pressures to mend the sieve-like regulatory environment prompted one government after another to adopt standardized anti-money laundering laws

---


3 This figure is based on the U.S. Agency for International Development’s U.S. Overseas Loans and Grants, Obligations and Loan Authorizations July 1, 1945 – September 30, 2008 (“USAID Greenbook”) database, which records foreign assistance statistics across 29 U.S. Government organizations.

4 Table A.1 in the Appendix summarizes the renewal history of the U.S. Generalized System of Preferences.

5 Based on data from the U.S. Department of State Bureau of Consular Affairs (“Visa Office”).
and set-up “Financial Intelligence Units” designed to scrutinize cross-border transactions and flows of funds.\(^6\) Certain governments, such as offshore financial centers, rushed to adopt these policy standards while others resisted them.

The empirical patterns are striking even at a glance, and they beg for deeper analysis. What patterns of policy change did the 9/11 attacks catalyze? How did the president seek to mobilize the full range of resources, and under what conditions did \emph{status quo} policies pertaining to economic diplomacy, homeland security, and financial regulation give way to major change? Addressing these questions can help to correct distorted interpretations of how far presidential authority reached over foreign policy choices at this critical moment of flux. Moreover, diverse patterns of empirical variation, observed both across and within issue-areas, point to a larger theoretical puzzle: How and why did issue linkages forged because of security concerns systematically transform policy outcomes in some channels and have uneven or limited effects in others?

\subsection*{1.2. The Argument in Brief}

The central argument of this dissertation is that post-9/11 policy patterns are best explained through a combination of two key causal mechanisms. The first causal mechanism (alternately labeled “functionalist” or “security”) follows a simple functionalist logic: Overall, the president’s authority to change policies expanded after 9/11, but differentiated security motivations explain how policy patterns varied. Along issue-areas where \emph{status quo} political constraints are significant and generally hamper security, the president demands increasingly discretionary policy authority. Conversely, the president demands authority to impose increasingly rigid constraints on policies along issue-areas where high \emph{status quo} levels of discretion undermine security. This distinction explains

\footnote{Based on data from the Financial Action Task Force and the Egmont Group of Financial Intelligence Units.}
why post-9/11 policy patterns from one issue-area to the next shifted toward either increasingly or decreasingly discretionary policies. Within a given issue-area, the functionalist mechanism anticipates that leaders will rationally seek to concentrate policy resources (e.g., budget, scrutiny, negotiations) to optimize potential security benefits.

Applying this functionalist mechanism to non-military channels of post-9/11 strategy helps to explain why the president pushed for greater policy discretion in many areas of foreign economic policy. The president did this in order to flexibly link the mix of bilateral economic inducements, including foreign aid and trade preferences, to shifting security priorities (e.g., global collaboration in counterterrorism and counterinsurgency operations). Within these economic channels of post-9/11 U.S. linkage strategy, the functionalist mechanism fosters expectations that the president will rationally use increased foreign economic policy discretion vis-à-vis allies and security partners. In contrast, in regulatory policy issue-areas directly linked to terrorist activity, we observe that the president wanted to place restrictions on policy discretion, rather than expand it. Specifically, the president imposed rigid policies that tightened scrutiny over flows of funds, goods, and people across borders. Within these regulatory channels of post-9/11 U.S. linkage strategy, the functionalist mechanism anticipates that the president will rationally seek to reduce security risks (e.g., terrorism-financing, weapons transport, terrorist entry) in a targeted manner, focusing on jurisdictions, entry-points, and applicants that pose higher threats.

The functionalist mechanism offers a relatively straightforward approach to interpreting post-9/11 policies, yet it leaves much empirical variation unexplained. A second mechanism based upon political economy theories is necessary. The political economy mechanism stresses that, within functionalist background conditions, policy outcomes should depend on the degree to which stakeholders’ preferences in a given issue-area align in favor of, or against, the president’s security-motivated demands. When
preferences among key political stakeholders overlap substantially, the president can harness powerful coalitions in reorienting policies, sometimes well beyond the scope and depth anticipated by the functionalist mechanism. However, the countervailing preferences of legislators, private interest groups, parts of the federal bureaucracy, and foreign governments can severely limit the president's room for maneuver. As a result, the president is compelled to make tradeoffs between different domestic and international goals, short and long term priorities, and public and private interests. The president cannot craft a purely functional response. In contrast to systemic theories in which "statesmen are assumed to be able to mobilize whatever domestic resources...are necessary to achieve vital foreign-policy objectives," the political economy mechanism accounts for varied mobilization capacity across, and within, issue-areas (Moravcsik 1993, 10).

Put differently, the unitary state assumption that underlies many statist analyses, especially in the realm of security, is plausible only under specific conditions. Under conditions of polyarchy, when domestic actors hold different preferences over an issue and power-sharing arrangements divide control over an issue among them, the unitary state assumption is not appropriate (Milner 1997, 10-14). The effect of the aforementioned functionalist mechanism is therefore conditioned by the configuration of stakeholder preferences and the level of political resistance to the president's demands in any given channel. If the political economy mechanism is accurate, we should expect the president's strategy in a given channel of post-9/11 foreign policy to either anticipate or adjust to differential lines of resistance.

---

7 Some scholars argue that the state behave as a unitary actor during crisis situations, when heightened security concerns cause interests to converge, thus magnifying the executive's prerogatives to pursue a given strategy. Descriptions of a statist approach can be found in Krasner 1978, 20-20; Ikenberry, Lake and Mastanduno 1998, 9-14; Wolfers 1962, 13-16; Hinckley 1993: for a skeptical view, see Howell & Pevehouse 2007.

8 See Lake & Powell 1999. Policy strategies and outcomes relate to constraints in a variety of ways. For example, if resistance remains higher in one channel relative to a related one, patterns of policy change might
1.3. Plan of the Dissertation

Chapter 2 elaborates on the argument that security and political economy mechanisms are jointly necessary to explain post-9/11 foreign policy patterns. It develops a framework for translating the following abstract propositions about the relationship among security-motivated demands, political economy constraints, and resulting policy patterns, into issue-specific hypotheses.

- **Functionalist / Security Expectations**: Varied policy outcomes are a function of the president’s differentiated demands for security. In the issue-areas where *status quo* constraints hamper security-motivated policy changes, we should expect policy patterns to reflect an overall shift toward increased discretion. Conversely, in the issue-areas where *status quo* discretion hampers security-motivated policy changes, we should expect policy patterns to reflect an overall shift toward increased constraints.

- **Political Economy Expectations**: Varied policy outcomes depend on the degree of consensus among multiple stakeholders and existing coalitions in a given channel. Interest groups, agencies, and lawmakers have greater incentives to resist the president’s policy demands when they anticipate or suffer negative externalities as a result. Under such conditions, we should expect policy patterns to exhibit either resilience or else change in the direction opposite functionalist predictions.

The core of this dissertation, Chapters 3 through 6, applies this dualistic theoretical framework to explain why non-military channels of U.S. foreign policy alternately resist or acquiesce to the president’s security prescriptions after 9/11.
1.4. The Empirical Evidence at a Glance

I study four policy issues – each pertaining to a global flow of funds, goods, or people – which became channels of post-9/11 linkage strategy. Table 1.1 below provides an overview of the four issue-areas under examination. All four issue-areas demonstrate how the president’s authority expanded after the 9/11 shock, but policy patterns from one channel to the next varied according to the functionalist mechanism. Along the foreign economic policy channels, the president sought authority to use foreign economic policy instruments in an increasingly discretionary manner so as to bolster U.S. relationships with an expanding roster of allies and informal security partners. I hypothesize that we should expect U.S. allies to benefit disproportionately from foreign assistance programs and preferential market access. Along the regulatory policy channels, the president sought authority to tighten scrutiny over cross-border flows of people and money, which were linked to the risk of terrorism. I hypothesize that we should expect visa restrictions and anti-money laundering efforts to disproportionately influence higher-risk applicant groups and higher-risk jurisdictions, respectively.

Table 1.1. Overview of Issue-Areas.

<table>
<thead>
<tr>
<th>Issue-Area</th>
<th>Dependent Variable</th>
<th>Target of Demands</th>
<th>Source of Resistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Foreign Aid (funds)</td>
<td>Bilateral aid allocation.</td>
<td>U.S. allies and security partners.</td>
<td>Legislative constraints on USAID.</td>
</tr>
<tr>
<td>• Trade Preferences (goods)</td>
<td>GSP-eligible trade.</td>
<td>U.S. allies and security partners.</td>
<td>Import-competing industries.</td>
</tr>
<tr>
<td>• Visas (people)</td>
<td>Visa issuance levels.</td>
<td>High-risk countries-of-origin.</td>
<td>Business groups w/ pro-facilitation interest.</td>
</tr>
<tr>
<td>• Anti-Money Laundering (funds)</td>
<td>Foreign adoption of AML standards.</td>
<td>High-risk jurisdictions.</td>
<td>Select financial sector groups within OFCs.</td>
</tr>
</tbody>
</table>
The president’s security-motivated policy demands have had a significant but uneven effect on non-military policy patterns because political resistance was considerable along many channels. The key theme that emerges out of post-9/11 U.S. foreign policy patterns is one of tension between countervailing priorities. Tensions manifested in three related ways: First, in many issue-areas, decision-makers within the state pursued different policy goals. This is most apparent in the case of trade, where legislators representing districts dominated by import-competing industry strongly opposed the president’s efforts to use trade preferences as a “carrot” vis-à-vis U.S. allies. The president responded principally to bilateral goals, while opposing legislators responded to their constituents’ local interests. Second, tensions manifested between the state’s security objectives and the economic interests of private actors. For example, powerful business groups like the U.S. Chamber of Commerce urged policymakers to consider commercial impact as they were drafting and implementing the PATRIOT Act (2001) and the Homeland Security Act (2002). In areas such as visa policy and financial monitoring, in which private actors anticipated shouldering the burden of post-9/11 changes, policymakers came under intense pressure to respond decisively to the attacks, but also to craft a measured response. Third, tensions manifested between short and long-term policy priorities. As the security rationales and the resources for giving foreign aid surged following the attacks, the question of how to allocate aid internationally became deeply enmeshed with heated debate about how to divide authority and dollars domestically among agents with shorter and longer-term priorities.

To examine these tensions, my research incorporates both quantitative and qualitative methods. For each issue-area, I specify a dependent variable that defines the policy outcome to be explained: bilateral aid allocation; the level and proportion of
GSP-eligible trade; the level and proportion of visa issuance; and the foreign adoption of anti-money laundering standards. Since these quantities can be observed for every country-year unit, the hypotheses can be tested on a larger sample of observations. Regression analysis is appropriate for estimating relationships among variables across a large number of theoretically relevant observations while also “controlling” for potentially confounding covariates. Whenever my argument generates observable implications about the relationship between two variables, I design statistical tests. These tests employ data from as much of the decade before and after 9/11 as permitted, because this helps to clarify temporary and cross-sectional patterns.

Since the utility of regression techniques for examining causal mechanisms is extremely limited, I rely on case studies to craft a qualitative account of how the causal mechanisms interactively shape policy decisions. For example, in the two channels of foreign economic policy under examination, I use case studies to contrast U.S. aid and trade policies toward Pakistan. In the former case, legislative attempts to limit the president’s significant discretionary powers have been strikingly unsuccessful, whereas in the latter case, domestic opposition from affected industries and their representatives severely dulled trade preferences as a foreign policy tool. These case studies, which synthesize a variety of primary and secondary sources, highlight what the statistical results cannot: the domestic political dynamics in each channel culminate in a very problematic bilateral strategy.

In the next several pages, I briefly summarize the core empirical chapters, which are organized by issue-area. Each chapter applies the theoretical framework in order to generate testable implications, illustrates patterns of policy variation, and presents a combination of statistical and qualitative case study evidence.
Chapter 3 explains shifting patterns of U.S. bilateral foreign aid allocation. Foreign aid has been a channel of post-9/11 linkage strategy because the president wanted more discretion to link foreign aid allocation with bilateral security goals. Relative to the 1990s, aid became increasingly perceived during the “War on Terror” as a tool to foster congenial relationships with an expanding roster of formal allies and informal security partners. However, the principal aid allocation process under the U.S. Agency for International Development (USAID) was heavily constrained by legislative restrictions and standardized bureaucratic procedures. Facing deepening conflict between the need to allocate aid flexibly in response to shifting security motivations and the status quo rigidity of USAID, the president chose to adapt the structure of foreign aid policy by delegating greater authority to both the Department of State and the Department of Defense. This structural change had major consequences, substantially widening new pathways for discretionary aid allocation.

As Figure 1.1 below shows, by 2008 the State Department’s share of total economic aid had more than tripled since the mid-1990s, as the aid budget surged, while USAID’s share was halved in that period. This reality buttresses expectations that we should find evidence of two distinct patterns in U.S. aid allocation. In general, in the increasingly

---

9 Namely, as the scope of global counter-terrorism and counterinsurgency efforts evolved, the United States would have to rely on a diverse set of informal security partnerships. See Byman 2006.
10 When the Cold War ended, however, the 1990s saw “the loss of a major rationale for foreign aid.” Lancaster 2006, 83. As the Administrator of the U.S. Agency for International Development explained at the time, “We no longer have to use our aid programs to purchase influence. We are in a new era.” See A.D. Horne, “U.S. to Close 21 Foreign Aid Missions: Cut in Nations Getting Assistance Would be First Since Truman Era,” The Washington Post, 20 November 1993.
11 This assessment echoes the observation that “every dollar is determined” in USAID’s budget well in advance so that “when something happens quickly, mission directors don’t have the flexibility and the resources to move.” See Remarks by Steven Radelet, “USAID in the 21st Century,” Hearing Before the Subcommittee on International Development and Foreign Assistance, Economic Affairs, and International Environmental Protection of the Committee on Foreign Relations, United States Senate, One Hundred Eleventh Congress, 1 April 2009, Washington, DC: U.S. Government Printing Office, 37.
12 Data from the U.S. Overseas Loans and Grants online database. See Chapter 3. I did not have access to reliable data on bilateral economic aid allocated by the Department of Defense at the time of writing.
discretionary allocation channels, we should observe a stronger emphasis on U.S. post-9/11 security rationales for giving aid relative to more constrained allocation channels, which should exhibit a relatively stable emphasis on the recipient’s development needs and institutional characteristics. Analyzing panel data on bilateral economic aid allocation patterns, I find that on average U.S. informal allies are associated with higher aid levels compared with other recipients under non-USAID funding channels, a pattern that does not hold with respect to USAID’s allocation behavior.\textsuperscript{13} The changing structure of U.S. foreign aid policy holds implications for specific bilateral relationships. I show in a case study that Pakistan has been the principal beneficiary of enhanced discretion in the foreign aid channel. Moreover, despite repeated attempts by Congress to place conditions on aid packages to Pakistan, both the Bush and Obama administrations have vigorously defended an unrestricted approach vis-à-vis this key ally.

\textbf{Figure 1.1.} \textit{U.S. Foreign Economic Assistance, USAID and State Department.}

\textsuperscript{13} This analysis introduces a novel measure of informal alliance relationships based on executive branch perceptions rather than treaty instruments.
Chapter 4 examines patterns of trade preference administration. Like foreign aid, preferential trade has been a channel of post-9/11 linkage strategy because the president wanted more discretion to link the scope of eligibility for preferential trade with bilateral security goals. Besides a handful of security-motivated reciprocal preferential trade agreements, the U.S. targeted the expansion of nonreciprocal trade preferences at a wide range of allies.\textsuperscript{14} This strategy of linkage diplomacy provoked severe backlash from U.S. import-competing industries, which legislative critics portrayed as “pawns” in the Bush Administration’s efforts to build an international coalition.\textsuperscript{15} Lacking domestic consensus, the president was routinely forced to bargain for nonreciprocal trade concessions in a piecemeal fashion at home before they could be extended, often threadbare, abroad.

The puzzle, therefore, is how these two sets of interests interacted. On the one hand, we know that the “political process leading to (preferential trade) decisions is heavily influenced by protectionist domestic interest groups in the U.S.”\textsuperscript{16} Yet, after 9/11, the Bush administration, in conjunction with a coalition of domestic importers and foreign beneficiaries, wanted to enhance market access for friendly developing countries.\textsuperscript{17} I thus hypothesize that, while we should expect the expansion of trade preferences to disproportionately benefit countries that are formally or informally allied with the United States, these benefits are likely to remain shallow where domestic opposition is most


\textsuperscript{15} “Trade concessions during terrorism war could harm some U.S. industries,” \textit{Associated Press}, November 4, 2001. I borrow the term “linkage diplomacy” from Davis 2009. Industries that oppose GSP eligibility usually have a lower ratio of industry export to imports, because industries that can export are not as sensitive to losses from increasing import penetration.

\textsuperscript{16} Ozden and Reinhardt 2003, 21-22.

\textsuperscript{17} Earlier work on trade and influence includes Hirschman 1969; Gowa 1994; Biglaiser & DeRouen 2009.
severe. In other words, the president needed to craft trade concessions with an eye on domestic constraints. Overall, this strategy coincided with a striking trend. Figure 1.2 below shows that from 1993 to 2001, the total value of U.S imports accorded nonreciprocal treatment under the Generalized System of Preferences declined an average of 2 percent each year, while it increased an average of 16 percent each year from 2002 to 2006.\footnote{These figures are based on International Trade Commission data for total U.S. imports accorded GSP treatment.}

![Figure 1.2. Total U.S. Imports accorded GSP treatment, 1993 to 2008.](image)

My analysis of an original panel dataset on trade covered by GSP supports the claim that security motivations and political economy constraints have had countervailing effects on preferential trade patterns. Controlling for a host of other factors, the U.S. on average imports more under GSP vis-à-vis its allies, and these allies tend to have a greater share of their exports covered by GSP, compared to other beneficiaries. However, economic side payments remain relatively shallow where import-competing pressures are strong, as in the textiles and clothing industry. In a pair of illustrative case studies, I trace the two-level bargaining dynamic that ultimately inhibited U.S. efforts to accord trade concessions for two key allies, Pakistan and the Philippines.
Dividing Authority over Visa Issuance

Chapter 5 explains patterns of nonimmigrant visa issuance. Although U.S. visa policy responded predominantly to facilitation pressures throughout the 1990s, the visa issuance function has since become a channel of post-9/11 linkage strategy because the president wanted to enhance national security by systematically tightening scrutiny of visa applicants who were perceived as posing risks.\textsuperscript{19} Thus, unlike the two cases of foreign economic policy, in this case the problem from a security standpoint was that \textit{status quo} visa issuance procedures afforded too much room for discretion.\textsuperscript{20} As calls for prioritizing visa security grew, a coalition of commercial, educational, and diplomatic stakeholders lobbied policymakers for balance. This coalition wanted to preserve an open visa system that would continue to accommodate legitimate travelers, students, and workers.

I show in a case study that these countervailing pressures for enhanced security and facilitation caused the president and Congress to seek a legislative compromise over the structure of a Department of Homeland Security (DHS). Specifically, Congress and the president responded to highly charged calls for security by delegating more visa policy oversight to DHS, while also allowing the Department of State to retain direct control of the consular bureaucracy, thereby allaying fears that such a transfer would overwhelm non-security goals of visa issuance. This institutional division of labor structured dual tendencies of the post-9/11 visa regime. On the one hand, perceptions of security risk should be negatively related to visa issuance levels, by country-of-origin and year, while the

\textsuperscript{19} The goal of visa facilitation is “the processing of ever more visas more expeditiously without a commensurate increase in resources.” Yale-Loehr, et al. 2006, 9.

\textsuperscript{20} One year after the attacks, on report concluded, “The post-September 11 era should have witnessed immediate and dramatic changes in [Consular Affair’s] direction of the visa process. This has not happened. A fundamental readjustment by Department leadership regarding visa issuance and denial has not taken place. The Department still does not fully appreciate the consular function as part of a coordinated national effort to manage border security.” See Office of Inspector General, United States Department of State. 2002. “Review of Nonimmigrant Visa Issuance Policy and Procedures.” \textit{Memorandum Report} ISP-I-03-26, December 2002. Unclassified.
strength of commercial and diplomatic ties should correlate positively with visa issuance levels. Descriptively, Figure 1.3 below shows that between 2000 and 2005, the total number of U.S. B-class travel visas issued declined by approximately 50 percent, whereas the total number of U.S. H-class temporary work visas issued declined by approximately 10 percent; both visa categories eventually rebounded.

![Figure 1.3](image)

**Figure 1.3.** Total U.S. B-Class Travel (left) and H-Class Work (right) Visas Issued.

Cross-sectional variation is also important. Analyzing panel data on nonimmigrant visa issuance, this chapter proceeds to show that “higher-risk” countries-of-origin targeted by an increasingly restrictive set of visa policies have indeed been associated with lower visa issuance levels, while close trading partners targeted by a more accommodating set of visa policies have been associated with higher visa issuance levels.\(^{21}\) Moreover, in support of the claim that security motivations and political economy constraints have differential effects, I find evidence that H-class work visas, which attract extensive lobbying efforts, have been more systematically insulated from security pressures than B-class travel visas and F-class student visas.

---

\(^{21}\) The high-risk group is based on Visa Condor, a program introduced in 2002 that targeted passport-holders from 26 countries in which Al Qaeda or other Islamic terrorist groups had a presence: Afghanistan, Algeria, Bahrain, Djibouti, Egypt, Eritrea, Indonesia, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Malaysia, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, Turkey, United Arab Emirates, and Yemen.
Chapter 6 examines the pattern by which countries have adopted international anti-money laundering standards. Paralleling the case of visa policy, anti-money laundering became a channel of post-9/11 linkage strategy because the ability to move money illicitly across borders is commonly exploited to finance terrorism.\textsuperscript{22} Motivated by this linkage, as well as the “weakest link” character of the money laundering problem, the Bush administration demanded more stringent transnational scrutiny of financial transactions.\textsuperscript{23} For example, the USA PATRIOT Act of 2001 empowered the executive branch to actively promote the observance of global “Anti-Money Laundering and Combating the Financing of Terrorism” (AML-CFT) standards abroad, with a particular focus on getting high risk jurisdictions like offshore financial centers (OFCs) to step up enforcement.\textsuperscript{24}

A key pillar of U.S. AML-CFT strategy after 9/11 was to enlist the International Monetary Fund and World Bank in monitoring country-level observance of standards promulgated by the global network of Financial Action Task Force regulators. Since this strategy was principally designed to widen the scope of pressure on regulatory laggards and stimulate regulatory convergence, I hypothesize that OFCs and drug-producing countries should have been associated with a higher likelihood of adopting global AML-CFT standards. Figure 1.4 below depicts a striking trend: the cumulative number of countries that have adopted standardized AML legislation has doubled between 2000 and 2010.\textsuperscript{25}

\textsuperscript{22} Money laundering is defined as “the process by which proceeds from a criminal activity are disguised to conceal their illicit origins.” See IMF/World Bank (Schott). 2006. \textit{Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism.} Washington, DC: World Bank / International Monetary Fund.
\textsuperscript{23} On international regulatory harmonization, see Drezner 2008, and the role of government networks, Slaughter 2004. Vicary & Sandler 2002 describe weak-link problems in which regulatory laggards in one jurisdiction can undermine the efforts of highly regulated jurisdictions.
\textsuperscript{24} See the United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001, P.L. 107-56 (October 26, 2001).
\textsuperscript{25} These figures are based on the author’s own coding of AML-CFT compliance reports; see Chapter 6. The data also shows that the cumulative number of countries that have adopted standard “combating the financing of terrorism” (CFT) legislation has increased nearly ten-fold between 2000 and 2010. Finally, the total number of
Apart from international pressures, states face varying levels of domestic resistance from interest groups and differential costs of compliance, which are obscured by aggregate trends of standards adoption. These factors might cause the very targets of the U.S.-led AML regime to withstand international pressure. Using an original event history dataset (which distinguishes among the adoption of legal standards for anti-money laundering, legal standards for combatting terrorism financing, and the creation of an independent Financial Intelligence Unit), I show that the likelihood of adopting AML-CFT standards has been positively associated with both the level of offshore financial activity and a state’s level of economic development. I draw on country case studies to illustrate how magnifying international pressures since 9/11 have caused historically resistant governments such as certain OFCs to rush toward compliance, even while formidable capacity constraints in many jurisdictions bring a problematic sieve-like quality to global AML enforcement.

---

operational Financial Intelligence Units (FIUs), which are defined as “a central, national agency responsible for receiving (and as permitted, requesting), analyzing, and disseminating to the competent authorities, disclosures of financial information (i) concerning suspected proceeds of crime, or (ii) required by national legislation or regulation, in order to counter money laundering,” has nearly tripled from 2000 to 2010. See The Egmont Group, 1996. “Information Paper on Financial Intelligence Units and the Egmont Group.”

1.5. Significance of the Study

This study makes three main contributions. First, it improves general knowledge about the politics of policy change by developing a simple theoretical framework that can be applied to different issue-areas. In the wake of the 9/11 attacks, the president moved to reshape policies across numerous policy channels, encountering resistance from Congress and within the executive branch. My research views the 9/11 shock as a catalyst of shifting policy patterns that should be studied under a common framework. I therefore treated the channels of post-9/11 policy change as comparable opportunities to study the conditions under which non-military policy patterns alternately withstood or conformed to the president’s demands. Varied security motivations explain why the president’s expanded authority after 9/11 fostered increasingly discretionary patterns of foreign economic policy and decreasingly discretionary patterns of regulatory policy. Yet the functionalist explanation only goes so far. Post-9/11 demands for strategic reorientation interacted with differential lines of political resistance, both domestically and internationally. Resulting levels of consensus or conflict in a given issue-area – between the president and Congress, industry groups, and within the executive branch – have been a critical determinant of empirical patterns of policy change. As Gourevitch (1986, 9) notes, “History has its points of critical choice, moments of flux when several things might happen but only one actually does.” For students of foreign policy, this study’s findings about the post-9/11 moment of flux go a long way to underscore that security developments and political economy often need to be studied together (Gowa 1994).

Secondly, this study contributes to important policy debates. The specific debates center on why the institutional structure of foreign aid policy matters for allocation patterns; how extensively leaders can use market access for developing countries as a geopolitical tool; and whether the benefits from scrutinizing cross-border flows of people
and funds outweigh significant spillover costs. While this study stops short of issuing detailed policy prescriptions, it does use a rich array of evidence to distill trade-offs that emerged in the post-9/11 context. Stepping back from the specifics of any given issue-area, we are left with a panoramic view of political tensions that have influenced post-9/11 U.S. foreign policy linkages – tensions between flexibility and rigidity, bilateral strategy and private interests, security and openness. Against this backdrop, Chapter 7 concludes by engaging proposals for a “smart” foreign policy strategy, one that integrates the hard and soft tools of power.27 This dissertation shows that the obstacles leaders face when they seek to change policies and mobilize resources remain unevenly distributed from one channel to the next. Complex problems such as global terrorism surely call for the full policy toolkit, yet most of the time, multiple political actors beyond the president approach a single policy tool with different interests. The image of a policy principal seeking to maximize security in a frictionless system does not hold up. Pursuing a smarter foreign policy entails distinguishing among different political obstacles. Certain obstacles can be dismantled through administrative reforms. Other obstacles arise from much deeper, enduring conflict among groups with opposing interests. Finally, policy-makers face real obstacles to anticipating the optimal mix of solutions to complicated policy problems. Increased executive discretion may be desirable along one set of policy paths while powerful constraints on the executive are necessary in other contexts.

Thirdly, this study adds to specific knowledge across a variety of empirical settings. To conduct the analysis, I use both original datasets, based on my own extensive data collection and coding efforts, and existing data sources that other researchers have not fully explored. These datasets represent a rich source of information for other researchers

27 The core idea is that governments should be able to coordinate and flexibly draw upon a broad range of policy instruments, civil and military, public and private, national and multilateral. See Nye 2004; Nossell 2004.
examining non-military policy patterns. Two of the channels, foreign aid and preferential trade, are subjects of extensive research, yet I make new inroads. In the foreign aid chapter, I examine a critical but often neglected change in the structure of U.S. foreign aid policy after 9/11: how delegation of discretionary allocation authority shifted among executive agents. As security rationales for giving foreign assistance heightened, the rigid structure of the foreign aid bureaucracy gave way to widening paths for giving aid flexibly.\textsuperscript{28} I extend the study of economic statecraft to the strategic administration of nonreciprocal trade preferences. The trade chapter shows that nonreciprocal preferences have functioned as a moderately malleable source of “positive sanctions” vis-à-vis U.S. allies, so long as the president steers clear of sensitive domestic industries.\textsuperscript{29} The other two issue-areas are not commonly researched, but this study suggests that they are fertile contexts in which to study cross-border regulatory politics.\textsuperscript{30} In the visa chapter, I examine countervailing coalitions motivated by national security, on the one hand, and openness on the other. Post-9/11 visa issuance patterns clearly embody the former priority, but the strategic decision to divide control over visa policy within the executive branch has been an important legacy to protect more accommodating features of the U.S. visa regime. Finally, in the anti-money laundering chapter, I present striking evidence of a globalized regulatory network at work. Jurisdictions that once passed muster as regulatory laggards faced intensified pressures after 9/11 to adopt standardized policies and practices for scrutinizing financial activity. These individual contributions to the study of funds, goods, and people cumulatively offer an original multi-faceted interpretation of post-9/11 U.S. foreign policy.

\textsuperscript{28} I find that this shift accounts for two distinct patterns of aid allocation since 9/11. My research thus reconciles seemingly contradictory assessments of post-9/11 U.S. foreign aid allocation. See Moss, et al. 2005; Fleck & Kilby 2010.

\textsuperscript{29} On positive sanctions, see Baldwin 1971. My finding provides a key reason why developed countries have perpetuated this potentially “perverse” means of special and differential treatment. Ozden & Reinhardt 2005 argues that nonreciprocal trade preferences have a “perverse” effect because they help developing countries delay reciprocal liberalization.

\textsuperscript{30} Drezner 2008.
CHAPTER TWO
Explaining Patterns of Post-9/11 U.S. Foreign Policy

2.1. Introduction

The central argument of this dissertation is that patterns of post-9/11 U.S. foreign policy can best be explained according to the interaction between the president’s security-motivated demands for either increased or decreased policy discretion in a given issue-area, as well as the degree to which these demands generated negative externalities, and thus resistance, among a wider set of stakeholders. Applied to four non-military issue-areas, this argument helps to synthesize evidence of overlap between post-9/11 security goals and the preferences of existing coalitions in certain channels with evidence from other channels that post-9/11 security goals clashed with powerful political interests. The 9/11 attacks are rightly seen as a major catalytic event, but their policy effects have been far from uniform. Why were the obstacles to adapting the non-military tools of foreign policy so severe in some cases and strikingly spare in others?

This chapter presents a theoretical framework to explain such variation. The framework centers on two complementary causal mechanisms. One causal mechanism follows a simple functionalist approach that explains policy variation in terms of the president’s security-motivated demands following the 9/11 terrorist attacks. Specifically, the president’s post-9/11 responses differentiated between channels in which the pre-9/11 status quo had been characterized by a high degree of policy discretion and channels in which the pre-9/11 status quo had been characterized by a low degree of policy discretion. In channels, such as those entailing regulation of cross-border flows, where the president linked inordinate discretion to terrorism risks, policies shifted in the other direction toward less discretion. In channels, such as foreign economic policy, where insufficient discretion
hindered U.S. efforts to bolster international support for counterterrorism and counterinsurgency goals, policies shifted instead toward greater discretion.

While the functionalist approach accounts for contextually salient patterns of policy variation, it constitutes only half of the theoretical framework. Policies did not respond uniformly to the president’s demands because consensus was not automatically forthcoming. The second causal mechanism thus builds on political economy theories to identify the conditions under which the president’s security-motivated demands met resistance among a wider set of stakeholders: within the executive branch, in Congress, among private interest groups, and foreign governments. The chapter proceeds to answer four potential objections related to individual-level explanations, partisan agendas, skepticism about the catalytic role of the 9/11 attacks, and securitization theory. Patterns of post-9/11 foreign policy, I argue, cannot be reduced to these lines of reasoning.

Finally, I explain how the theoretical framework’s observable implications may be tested empirically across four issue-areas pertaining to cross-border flows of funds, goods, and people. The research design centers on three methodological choices: the selection of issue-areas, the disaggregation of each issue-area to multiply observations, and the reliance on both quantitative and qualitative methodology. Two of these issue-areas, foreign aid allocation and the administration of trade preferences, were linked to post-9/11 counterterrorism strategy because they could be used to foster bilateral support for U.S. security goals. The other two issue-areas, visa issuance and international anti-money laundering, were linked to post-9/11 counterterrorism strategy because they could be used to inhibit the capacity for terrorism. Applying the dualistic theoretical framework to each of these issue-areas helps to distill how the president’s security-motivated demands influenced policy patterns and the conditions under which these demands met political resistance from legislators, agencies, private interest groups, and foreign governments.
2.2. A Multi-Causal Framework

Thus far, the study of U.S. foreign policy responses to 9/11 has largely remained within the purview of security studies due to renewed focus on military (counter)terrorism and (counter)insurgency topics (Brown, et al. 2010). Yet, post-9/11 pressures to reorient strategic priorities extended to numerous non-military channels of U.S. foreign policy, including foreign economic relations, international organizations, and cross-border regulatory enforcement. This section uses brief empirical illustrations in order to establish that policy patterns exhibit temporal and cross-sectional variation within a given issue-area. Indeed, these patterns of variation may be fruitfully studied as a single class of phenomena whereby the 9/11 shock catalyzed security-related pressures to reorient policies. I then describe the pair of casual mechanisms that guides my disaggregated analysis of post-9/11 U.S. foreign policy.

Two dimensions of descriptive variation are relevant to my theory. Obviously, if shifting security concerns since 9/11 have had an effect on non-military policy patterns, we should observe striking temporal variation. In addition, shifting security concerns since 9/11 should manifest in cross-sectional variation, because country-specific outcomes will neither have been uniformly subject to pressures for policy change nor uniformly likely to adjust under them.

Variation in the foreign aid channel, for example, suggests that in the post-9/11 period the president has had increased discretionary authority to use foreign aid as a linkage tool vis-à-vis U.S. allies, coalition members, and informal security partners, both in the context of the “War on Terror” and the Iraq war (Byman 2006a; 2006b). Figure 2.1 below shows that the average amount of aid received by a U.S. ally has increased substantially during the post-9/11 period. Of course, this figure also confirms that allies tended to receive more foreign aid from the U.S. in previous decades as well (Meernik, et al.
The question raised by this allocation pattern concerns the interaction between two pressures shaping the political economy of foreign aid. On the one hand, legislators have a strong interest in foreign aid policy, both because of their constituents’ interests and partisan ideology (Milner & Tingley 2010). Over time, especially since the end of the Cold War, foreign aid resources became increasingly tied down by statutory constraints, including “earmarks” that specify in advance how funds are to be used and reporting requirements that bring a high degree of rigidity to foreign aid spending (Lindsay 1994). On the other hand, the president maintains a strong interest in the flexibility of foreign aid policy, because foreign aid can be used as either a “carrot” or “stick” in the attempt to influence another state (Lancaster 2006). If the president managed to secure increased discretionary control over foreign aid allocation after 9/11 as Figure 2.1 suggests, by what means did this happen? That is, how did security-motivated demands for discretionary foreign aid policy interact with domestic political constraints in this channel?

**Figure 2.1. Mean Bilateral Economic Aid Levels by Ally Group and Period.**
Post-9/11 national security concerns also manifested in the case of visa policy, albeit in the opposite direction. Throughout the 1990s discretionary nonimmigrant visa policies accommodated a wide range of stakeholders, travelers for business or pleasure, foreign students, and people seeking employment in the United States (Alden 2008). However, policymakers then linked *status quo* discretion in the visa channel with U.S. vulnerability to another terrorist attack once it became widely known that nineteen of the 9/11 hijackers obtained visas with remarkable ease (9/11 Commission 2004b). Figure 2.2 below illustrates one consequence of this linkage. Between 2000 and 2005, B-class nonimmigrant travel visa issuance levels declined by an average of 50 percent for countries-of-origin considered “high-risk,” while they increased by an average of 20 percent for other countries in the same time period; H-class temporary work visa issuance levels also declined, although not as severely. As with foreign aid allocation patterns, security-motivated demands have clearly shaped visa issuance patterns. Yet, these patterns beg the question: To what extent did the proponents of discretionary facilitation policies in the visa channel mobilize to shape policy outcomes in their own interests, or did they ultimately defer to the president’s demands for a tightly supervised homeland security regime?

**Figure 2.2.** Avg. Percent Change in Travel (L) and Work (R) Visas Issued, 2000 – 2005.
Foreign aid allocation and visa issuance patterns are just two contexts, belonging to a larger class of policy channels, in which we can examine the core puzzle: Why did post-9/11 security motivations catalyze dramatic policy changes within certain issue-areas and limited or uneven policy changes in other issue-areas? That is, how can we best explain the varying effects of the 9/11 shock on non-military foreign policy patterns? Next, I discuss two causal mechanisms that jointly explain patterns of post-9/11 U.S. foreign policy.

**The Functionalist Mechanism: Security Motivations and Differentiated Policy Demands**

Following a functionalist logic, the first causal mechanism explains patterns of policy variation in terms of the president’s security motivations in a given issue-area, which correspond with differentiated policy demands.¹ In certain issue-areas, policy patterns shift because the president seeks *increased* policy discretion relative to prior conditions as a means for linking security and non-military policies. In other issue-areas, policy patterns shift because the president seeks *decreased* policy discretion relative to the prior conditions as a means for linking security and non-military policies. This basic distinction accounts for why foreign economic policy issues linked to post-9/11 counterterrorism goals, such as foreign aid and trade, fell under demands for enhanced executive authority that mirrored demands aimed at regulatory issue-areas linked to post-9/11 counterterrorism goals, such as visas and anti-money laundering.

In developing this claim, I isolate the president as the centralized foreign policy decision-maker. This is a simplifying assumption common among studies that adopt a statist, or unitary state, framework.² It makes the most sense to treat the state as a unitary actor when preferences among domestic groups overlap substantially or if one actor

---

¹ Functionalist explanations generally “account for causes in terms of their effects.” Keohane 1984, 80.
² Descriptions of a “statist” approach can be found in Krasner 1978, 10-20; Ikenberry, Lake & Mastanduno 1988, 9-14.
controls decision-making. Indeed, some scholars argue that the unitary state actor assumption is appropriate for studying crisis situations, because actors’ preferences are more likely to coincide and struggles for control temporarily cease under heightened security concerns, thereby expanding the president’s prerogative. I thus temporarily focus on the president’s demands for the purpose of specifying functionalist expectations. Only later do I integrate the condition of polyarchy, under which other bureaucratic agents within the executive branch, Congress, private interest groups, as well as foreign governments posed obstacles to, and thus endogenously influence, the president’s demands (Dahl 1972).

According to the functionalist mechanism, the president’s strategic response to an exogenous security shock like the 9/11 attacks depends on issue-specific rationales for demanding policy change. Two status quo situations furnish these rationales. In one situation, absent any policy change, the president experiences considerable difficulty in adjusting policies to changing circumstances because he lacks sufficient discretionary authority. Instead, Congress restricts the executive branch’s flexibility by specifying “in excruciating detail, precisely what the agency is to do and how it is to do it, leaving as little as possible to the discretionary judgment of bureaucrats – and thus as little as possible for future authorities to exercise control over, short of passing new legislation” (Moe 1990, 228). The rational response to this problem is for the president to demand increased discretion, defined as the ability to make policy decisions that other political coalitions cannot (easily) overturn (McCubbins, et al. 1989). The other situation is the mirror image. Agencies within the executive branch enjoy a high degree of flexibility and the challenge for

---

3 Milner 1997, 10-14.
4 Wolfers 1962, 13-16; Hinckley 1993; Meernik 1994. With “one stroke,” one author notes, the attack on Pearl Harbor “cut the whole ground from under the inflexible position which Republican congressional leaders had taken” regarding interventionist policies.” See Westerfield 1955, 135.
5 On the topic of discretionary authority, see especially Epstein and O’Halloran 1994.
the president is to find ways to restrict prior discretion for the sake of national security.

Beyond the abstract, these dual situations help to disaggregate the pathway by which post-9/11 pressures for policy change affected non-military issue-areas. As the American foreign policy literature extensively documents, the 9/11 attacks dramatically elevated counterterrorism and counterinsurgency goals among the Bush Administration’s strategic priorities (Brown 2010; Posen 2001; Tenet 2004; Walt 2001; White House 2002). Many core goals persisted into the Obama Administration (Goldsmith 2012).

Counterterrorism and counterinsurgency goals were then strategically linked to non-military policy channels. Certain non-military policy channels were directly linked to post-9/11 security goals. Since cross-border flows of funds, goods, and people were increasingly associated with the risk of terrorism (eg. negative security externalities), the president took a greater interest in tightening regulatory scrutiny relative to the existing level of scrutiny. Policies pertaining to money laundering, ports and shipping, and immigration policy were thus increasingly subject to security measures intended to reduce the capacity for terrorism. If the functionalist mechanism holds, we should expect policy patterns in the regulatory channels of post-9/11 linkage strategy to exhibit an overall shift toward reduced policy discretion relative to the status quo.

Other non-military policy channels were indirectly linked to post-9/11 security goals. Foreign economic policies were increasingly seen as tools that could be used to bolster support for U.S. counterterrorism and counterinsurgency goals among developing countries. For example, by directing bilateral flows of foreign assistance funds to friendly states and importing goods on a preferential basis from them, the U.S. might benefit from more stable international collaboration (eg. positive security externalities). Eichengreen (2001) thus anticipated that U.S. foreign economic policy after September 11th would probably involve “some kind of ‘New Marshall Plan,’” authority to “reward friendly countries with enhanced
access to the U.S. market,” and use of the International Monetary Fund as an instrument to assist “front-line” and “geopolitically important” countries in the fight against terrorism. The president would need to seek greater flexibility to make policy adjustments in channels of foreign economic policy. If the functionalist mechanism holds, we should expect policy patterns in these channels to exhibit an overall shift toward increased policy discretion relative to the pre-9/11 status quo. In sum, the main observable implication of the functionalist mechanism for post-9/11 foreign policy patterns is as follows:

**Functionalist Hypothesis:** In the foreign economic policy channels, we should expect to observe policy patterns consistent with security-motivated demands for increasing policy discretion, whereas in the regulatory channels, we should expect to observe policy patterns consistent with security-motivated demands for reduced policy discretion.

In order to empirically test this hypothesis, we need to specify what would count as evidence of increased or decreased policy discretion in a given issue-area. With respect to the foreign economic policy issue-areas, the functionalist logic suggests that the president will disproportionately seek to adjust foreign economic policies on a bilateral basis vis-à-vis countries that present opportunities for security collaboration. This includes alliance relationships, whether formal or informal, coalition members, and other security partnerships. With respect to the regulatory channels of post-9/11 linkage strategy, the functionalist logic suggests that the president will disproportionately seek to adjust regulatory policies when foreign jurisdictions are associated with a higher degree of terrorism-related security risks. In other words, perceived risks should guide the pattern of growing constraints on prior discretion – such as mandatory monitoring procedures, standardized reporting mechanisms, and tightened enforcement.
Although the functionalist mechanism offers a parsimonious explanation of how the 9/11 attacks catalyzed different patterns of policy change, it does not account for the conditions under which security-motivated demands met resistance. We should expect variation in the strength of resistance to influence policy patterns in one of two ways. Either the president anticipates resistance and tailors policy demands in advance to strategically avoid backlash, in which case we think of resistance as endogenous to demands for change, or, failing to anticipate resistance, the president’s policy agenda runs into obstacles. The former situation is consistent with strictly rationalist expectations, whereas the latter situation relaxes rationalist assumptions. Importantly, both scenarios can lead to outcomes that diverge from simple functionalist expectations. Thus, the theoretical framework incorporates a political economy mechanism that seeks to identify the domestic (or international) lines of resistance that are most likely to shape post-9/11 policy patterns in a given channel.

This is a familiar analytical move. Under conditions of polyarchy, when domestic actors’ preferences over an issue differ and power-sharing arrangements divide control over an issue among them, the unitary actor assumption is not appropriate (Milner 1997). The political economy mechanism thus relaxes the strict unitary state assumption. As Krasner (1978) notes, “Any economic decision is likely to affect groups within the society differentially, creating the potential for societal conflict. For this reason it is questionable to assume that policy can be understood solely by examining the motivations and perceptions of central decision-makers” (70). To fully understand the conditions under which policies changed after 9/11, we need to account for variation in the degree to which actors capable of influencing policy choice shared overlapping preferences. The president’s security-motivated demands for policy change should have a conditional effect on outcomes.
When the level of consensus among a wider range of stakeholders is high, we should find that outcomes will basically reflect the president’s preferences. If consensus is not forthcoming, however, we are likely to find evidence of uneven policy change, deep in areas where resistance is low and shallow in areas where resistance remains high.

Potential resistance arises from four main domestic sources. First, conflict may arise within the executive branch between various departments and agencies. The functionalist mechanism discussed above treats the executive branch, referring to the president in this case, as being a unitary actor. Yet, this is obviously a simplifying assumption. In reality, policy patterns may diverge from functionalist predictions because of intra-branch competition for resources among agents with different mandates and goals (Allison & Zelikow 1999). Thus, agents rationally oppose change when they anticipate losing control over resources as a result of the president’s security-related demands. Second, the legislature may oppose the president’s demands. As Olson (1993) notes, politicians who represent a more encompassing constituency tend to be more concerned with national outcomes relative to politicians who are focused more on outcomes for local constituencies. As such, legislators should rationally seek to influence, or even oppose, the president’s post-9/11 policy demands when they anticipate losses among their constituencies. Third, resistance can come from interest groups, such as industry associations, who anticipate bearing the costs of policy adjustment (Milner 1987). Finally, in many of the issue-areas under examination, domestic actors are not the only ones with preferences and influence over policy choices. Foreign governments and interest groups also have a stake in the way U.S. policies change. In a given issue-area, it is often helpful to assume that the preferences of actors among these domestic and international groups

---

can be reduced to a single dimension, such as from closure to openness in trade or immigration policy, low to high levels of standardization in regulatory channels, or rigidity to flexibility with respect to foreign aid allocation. This allows us to make clearer propositions about actors’ preferences relative to the president’s security-related demands.

In general, as the degree to which the president’s security-motivated demands generates negative externalities for any of these groups grows, the more likely they should be to resist. On the other hand, the president’s security-motivated demands may also generate positive externalities for actors within the executive branch, legislature, among interest groups, or foreign governments. The degree of positive or negative externalities for will vary by issue-area, and we can draw on a range of issue-specific political economy theories in order to sharpen expectations. For example, the extensive literature on the endogenous theory of trade underscores that the industry-level trade policy preferences will depend in large part on the extent of international ties, such that industries with a higher level of foreign exports and multinational activity will be more likely to support trade liberalization compared with domestically oriented industries that are more likely to seek protection. Thus, we would expect the president’s efforts to lower tariffs on a preferential, nonreciprocal basis (eg. using the Generalized System of Preferences to accord better-than-“Most Favored Nation” treatment) to run into a predictable source of resistance from so-called domestically oriented import-competing industries. Whereas the functionalist mechanism identifies U.S. allies as the target of such efforts during the post-9/11 period, an expectation bolstered by theories based upon the security externalities of trade such as Gowa (1994), the expectation stemming from the political economy mechanism is that the strategic administration of trade preferences responds not only to international linkages but variation in the severity of domestic opposition. Presidents must trade-off between these goals (Moravcsik 1993, 10). We can thus test the following observable implication:
**Political Economy Hypothesis:** *The more the president’s security-motivated demands generate negative (positive) externalities among key stakeholders, the more (less) we should observe substantial resistance to them.*

The argument that post-9/11 security motivations interacted with differential lines of resistance implies that we should observe two related phenomena: Varying state capacity to mobilize resources and varying degrees of path-dependent behavior. The state’s capacity to mobilize domestic resources in response to the 9/11 shock cannot be assumed as a constant but should instead vary with the level of political resistance. “In pure systemic theory, statesmen are assumed to be able to mobilize whatever domestic resources, institutional or material, are necessary to achieve vital foreign-policy objectives. In relaxing the assumption, however, variations in domestic circumstances become part of the specification of bargaining capability” (Moravcsik 1993, 10). This dynamic can lead to striking contrasts. For example, the president may be able to mobilize significant military resources while simultaneously remaining unable to lower tariffs as an economic “carrot” for key allies when domestic industries resist.

According to my argument, path-dependent behavior among policy agents should also vary. Pierson (2000, 252) defines path dependence in terms of an “increasing returns process,” wherein “the probability of further steps along the same path increases with each move down that path…because the relative benefits of the current activity compared with other possible options increase over time.” For example, policy organizations that have developed standardized rules and procedures, which then undergird their reputation for specialization, are sometimes associated with path dependent behavior in the presence of an environmental (eg. external) shock. Indeed, one of the core purposes of organizations is to survive shocks (March & Olsen 1989). When a shock catalyzes policy pressures that
create negative externalities for a specialized policy organization, the organization is more likely to resist adaptation. This dynamic is significant within the federal bureaucracy because agencies capable of responding flexibly to exigencies may be disproportionately likely to gain authority and resources. However, standardized rules and procedures can also facilitate adaptation. When a policy organization has existing “assets” for addressing new problems, the costs of organizational adaptation will be minimal (Wallander 2000).

For example, the IMF and World Bank decided in 2002 to adopt anti-money laundering and combatting the financial of terrorism (AML-CFT) standards into its formal country monitoring procedures. These organizations explicitly reasoned that they already had the standardized monitoring capacity, experience, and global legitimacy to address the issue, thereby resembling a “mix of solutions looking for problems.” The costs of institutional adaptation associated with a particular channel of policy making thus feed into leaders’ strategic calculations.

In sum, the theoretical framework presented here synthesizes a functionalist approach focused on security-motivated demands for policy change with a political economy approach focused on identifying the conditions under which we should expect such demands to encounter resistance. Given such an emphasis on the push for security after 9/11 and the likelihood of pushback, this framework provides a basic dialectical structure with which to analyze policy patterns in a given issue-area. It also opens a path for assessing post-9/11 foreign policy patterns in a way that more closely engages “mid-range” theories concerning the state’s power in mobilizing domestic resources (Krasner 1978; Baldwin 1985; Evans, et al. 1993; Ikenberry, et al. 1998). Next, I answer four potential criticisms pertaining to individual-level explanations, partisan agendas, skepticism about the catalytic role of 9/11, and securitization theory.

---

8 Cohen, March & Olsen 1972, 16.
2.3. Answering Potential Objections

One potential criticism of this framework is that it downplays determinants of post-9/11 policy patterns stemming from the idiosyncrasies of George W. Bush’s beliefs and strategic motivations. The counterfactual claim here is that different policy patterns would have taken hold had another person occupied the presidency.\(^9\) I cannot altogether discount this claim, but my argument suggests that a myriad of structural factors beyond individual characteristics – namely, the interaction between functional security-motivated policy demands and the configuration of political constraints – influenced the president’s strategic choices. For example, the fact that nineteen of the 9/11 hijackers obtained U.S. visas with such ease fueled perceptions that the State Department had failed to prioritize national security. As a result, the White House and Congress came under extraordinary pressure to react and their strategic proposals, as I show in Chapter 5, shaped the choice to delegate authority over visa policy to a new Department of Homeland Security. This choice was not principally a manifestation of President Bush’s isolated preferences. In fact, President Bush had initially resisted the idea of creating a Department of Homeland Security, arguing that a large-scale government organization would not be prudent; only as legislative skepticism grew did he change course.\(^10\) In addition to identifying non-individual determinants of policy patterns, one can also draw on comparisons. For example, U.S. efforts to use nonreciprocal trade preferences as a “carrot” vis-à-vis its allies like Pakistan were not unique to the Bush Administration; the European Union did so on its own accord with much greater success.\(^11\) Moreover, if individual-level factors were

---

\(^9\) Harvey 2011 employs counterfactual analysis to explore the 2003 U.S. decision to invade Iraq.
\(^10\) Likewise, both the national security environment and interest groups pressured the president to pursue a dual approach to visa issuance: security-motivated policies designed to scrutinize visa applicants from high-risk countries-of-origin as well as diplomatically-motivated policies designed to accommodate visa applicants from countries with close commercial ties. See Chapter 5.
fundamental, we might expect policy patterns to change more than they did after Bush left office. In this vein, Goldsmith (2012) argues that the Obama Administration’s counterterrorism policies have been shaped by “forces bigger than the president,” including “inside information about terrorist threats, the intense responsibilities of the presidency, the virtues of some Bush-era policies, the irreversible consequences of others, Washington’s tight-knit national security culture, and executive branch outlook and precedent” (23, 29). Thus, insofar as policy patterns respond to the preferences of multiple actors beyond the president, institutional constraints, and exogenous changes in the strategic setting, the analysis cannot be reduced to individual-level explanation (Lake & Powell 1999).

A second potential objection to this study’s framework is that it does not focus principally on the way partisan motivations influenced post-9/11 foreign policy patterns. There is considerable evidence that the president must craft foreign policies that respond not only to international goals but also partisan lines of resistance. For example, recent research by Milner and Tingley (2011) underscores this dynamic in the realm of foreign economic policy, while work by Howell and Pevehouse (2007) shows how the partisan composition of Congress influences the president’s decisions to use force. “During the first six years of his presidency,” of course, “[George W.] Bush benefited mightily from the disciplined control that his party wielded in Congress” (Howell & Pevehouse 2007, 229). As the political economy mechanism implies, if Bush had confronted a Democrat-controlled Congress, the pattern of post-9/11 policy variation would probably have looked different. My research design does not permit a broad historical test of hypotheses – falling under the “two presidencies” thesis – about the relative influence of the executive and legislative branch over foreign policy (Canes-Wrone, et al. 2008). However, the theoretical argument I develop stresses that both the president’s security-motivated demands and the lines of

---

12 Table A.1 in the Appendix summarizes the partisan composition of Congress.
resistance vary in ways that are not simply a manifestation of partisan preferences or an extension of single-party government. For example, House Republicans had initially opposed the incorporation of Title III (International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001) of the USA PATRIOT Act, instead arguing for stand-alone anti-money laundering legislation, “which would have met substantial resistance in the House” (Reuter & Truman 2004, 74). However, given post-9/11 security linkages, the Bush administration along with Senate leaders on both sides of the aisle pushed for a much stronger anti-money laundering regime. The functionalist mechanism helps to account for such demands that seemingly contravene ordinary partisan lines of resistance. Likewise, legislators from right-leaning districts tend to be skeptical (supportive) of economic (military) aid relative to legislators from left-leaning districts (Milner and Tingley 2011). Yet under the Bush administration and a Republican-controlled Congress, we observed an extraordinary post-9/11 surge in funding for foreign economic aid; in the case of Pakistan, economic aid figures nearly tripled under the Obama administration. One is hard-pressed to explain these fluctuations on the basis of partisan motivations in isolation.

Third, critics might make a different counterfactual claim, that the policy patterns we observe since 9/11 would have looked much the same absent the terrorist attacks. To be clear, the framework guiding this study advances two causal mechanisms that collectively explain how security-motivated demands interacted with existing preferences and coalitions. Thus, policy outcomes were endogenously determined. Nevertheless, the empirical chapters still show in a disaggregated manner that the 9/11 shock had a catalytic role. For example, pressures to shift the structure of foreign aid allocation have been a perennial feature of domestic political debate over U.S. foreign aid policy, and I note that several pre-9/11 decisions made it easier for the State Department in particular to assume authority over the allocation process following the attacks. Yet, without the way in which
the 9/11 attacks augmented the scope and depth of U.S. bilateral security partnerships with developing countries, demands for increased discretion over allocation would not have manifested as it did. The strength of my framework is that it seeks to explain both sources of change and continuity in policy patterns. It deliberately interrogates the assumption that policy patterns can somehow be reduced to the exogenous effect of the 9/11 attacks without accounting for existing preferences and historical processes.

A fourth line of criticism comes out of securitization theory. Buzan, et al. (1998) understand securitization as an “extreme version of politicization” in which an issue is first presented and later accepted by the relevant audience “as an existential threat, requiring emergency measures and justifying actions outside the normal bounds of political procedure” (24-25). The “distinguishing feature of securitization is a specific rhetorical structure” or “speech act” that enables leaders to present an issue as part of a necessary response to existential threat; securitization theorists thus favor discourse analysis as a tool of inquiry (26). Instead of focusing on rhetorical framing as a core causal mechanism driving patterns of securitization, my framework focuses on the interaction between the president’s security motivations and political constraints. This framework provides a more systematic explanation for why the president’s post-9/11 demands did not necessarily lift security issues “above politics.” Rhetoric may proceed one way, but the process of linking issues to security fundamentally responds to, and is constrained by, existing political coalitions and lines of resistance. At the same time, there is much overlap between this study and the goals of securitization theory. For example, Buzan, et al. (1998) hope that a securitization framework for analysis will help to “dissolve the unhelpful boundary between security studies and the international political economy” (195), or the tendency to define security solely in terms of the military sector. Methodologically, the securitization lens also emphasizes the advantages of disaggregation by sector (eg. military, environmental,
economic, societal, political), so that new non-military sectors are opened up to study. The following chapters put these productive impulses into practice.

In sum, the multi-causal framework I advance explains post-9/11 policy patterns in terms of a functionalist mechanism focused on security-motivated policy demands and a political economy mechanism that identifies differential lines of resistance to those demands. This framework resists reducing causal explanation down to individual-level variables, the pursuit of partisan agendas, processes that would have taken place irrespective of the 9/11 attacks, or the rhetorical structure of a securitization process. Next, I discuss three research design choices that, along with the theoretical framework, structure the empirical inquiry.

2.4. Research Design

The most basic research design choice shaping this study is to disaggregate post-9/11 policy patterns by issue-area. This choice follows from both of the causal mechanisms. The functionalist mechanism stresses that the president’s demands for increased or decreased policy discretion differentiated among various channels of post-9/11 strategy. The political economy mechanism likewise identifies differential lines of resistance from one channel to the next, whether it comes from within the executive or legislative branch, private interest groups, or foreign jurisdictions. Accordingly, any policy channel in which the 9/11 attacks could potentially have catalyzed security-motivated demands should be considered within the class of phenomena in question, and thus an opportunity for testing the theory’s observable implications. In other words, I seek to increase the number of observations within the realm of this particular shock rather than expanding the class of phenomena to

---

include other shocks. To limit the study’s empirical scope, I selected four issue-areas guided by both theoretical concerns and a methodological concern for unit homogeneity (King, Keohane & Verba 1994, 119-121). Potentially, a larger number of issue-areas could be included in this study. For example, issue-areas like military counterterrorism or intelligence have obviously been major pillars of post-9/11 security strategy, while issue-areas like antitrust enforcement or environmental protection have been practically irrelevant to the problem of terrorism. However, the theory’s functionalist mechanism offers most leverage for explaining those issue-areas falling along the middle of the spectrum, in which we expect the president to make security-motivated demands but also expect contestation. I focus on these “mixed” issue-areas.

Table 2.1 below provides a heuristic for thinking about the four issue-areas I selected – foreign aid allocation, the administration of trade preferences, visa issuance, and international anti-money laundering.

<table>
<thead>
<tr>
<th>Cross-Border Regulatory Policies</th>
<th>Foreign Economic Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Funds</strong></td>
<td>Anti-money laundering</td>
</tr>
<tr>
<td><strong>Goods</strong></td>
<td>Port / container security</td>
</tr>
<tr>
<td><strong>People</strong></td>
<td>Visas issuance</td>
</tr>
</tbody>
</table>

Under my framework, the aim of regulatory channels of post-9/11 linkage strategy was to inhibit the ability to engage in terrorist acts. Anti-money laundering and visa issuance were such regulatory channels, because the U.S. conceived of them as tools for combatting terrorism financing and terrorist access. Although these issue-areas are less

---

14 If an event is considered to be an extreme “outlier,” it may be less appropriate to examine it as a member of an expanded class of events. Ibid. However, it could still be instructive to compare strategic policy responses across security shocks. Zelikow 2011, 104.
commonly researched, they should be seen as complementary efforts to regulate cross-border flows (Slaughter 1993; Simmons 2001; Drezner 2008). Moreover, each has gained special policy significance ever since the attacks. For example, beyond its main report, the 9/11 Commission published only two separate staff reports, one focusing on terrorist travel and the other focusing on terrorism financing. The visa case, concerning the regulation of people flows into the U.S., naturally complements work on flows of funds and goods. The anti-money laundering case provides an opportunity for extending the framework to explain the policy choices of other countries, because in this case U.S. strategy focused on achieving regulatory convergence across jurisdictions.

In contrast, the aim of foreign economic policy channels was to foster support for U.S. counterterrorism goals abroad. Foreign aid allocation and the administration of trade preferences were channels of post-9/11 linkage strategy, because the U.S. conceived of them as tools for fostering bilateral security collaboration and economic development in support of U.S. counterterrorism goals. Both foreign aid and trade feature prominently in the literature on economic statecraft.15 The post-9/11 period is in many ways an ideal context in which to examine patterns of security and economic “linkage diplomacy” (Davis 2009). Studying these four non-military channels under the same analytical framework enriches knowledge about the scope of post-9/11 strategy and might inform debates about the optimal balance between military and non-military foreign policy tools.16

Stronger tests of the theory’s implications become possible not only with multiple issue-areas but also when we can meaningfully disaggregate the outcome of interest within

---

16 “Arguably the most important military component in the War on Terror is not the fighting we do ourselves, but how well we enable and empower our partners to defend and govern themselves...But these new threats also require our government to operate as a whole differently – to act with unity, agility, and creativity. And they will require considerably more resources devoted to America’s non-military instruments of power.” Robert M. Gates, U.S. Secretary of Defense, Landon Lecture, Kansas State University, November 26, 2007.
a given issue-area. The second research design choice is that I define the dependent variable in each of the four issue-areas to permit analysis over similar units of time and space, in effect multiplying the number of observations against which to assess the theory (King, Keohane & Verba 1994, 35-38). Since the theory concerns policy patterns, the dependent variables all measure policy outcomes.

Table 2.2 below summarizes the dependent variables. In the case of anti-money laundering, a concrete manifestation of heightened post-9/11 efforts to combat international money laundering (and the financing of terrorism) is the pattern by which countries adopted standardized anti-money laundering policies, so the dependent variable measures this outcome.\(^\text{17}\) In the case of visas, the dependent variable captures different levels of bilateral visa issuance, because post-9/11 security concerns pushed policy makers to alter visa policies pertaining to certain countries-of-origin more than others.\(^\text{18}\) In the case of foreign aid, I examine variation in the likelihood and level of bilateral aid allocation because shifting foreign policy rationales for using aid to “buy influence” and promote “strategic development” should influence U.S. allocation patterns.\(^\text{19}\) Finally, in the case of trade preferences, I examine variation in the administration of trade preference programs – the level as well as the overall ratio of U.S. imports from a given developing country eligible for preferential treatment – because shifting foreign policy rationales should similarly manifest in the way policy makers manipulate such programs.

\begin{table}
\centering
\begin{tabular}{|c|c|c|}
\hline
\textbf{Cross-border Regulatory Policies} & \textbf{Foreign Economic Policies} \\
\hline
\end{tabular}
\end{table}

\(^{17}\) Anti-money laundering (“AML”) was closely linked to combating the financing of terrorism (“CFT”). See The USA PATRIOT Act of 2001; World Bank/IMF 2006; Biersteker & Eckert 2008.


\(^{19}\) These terms are from Stone 2010 (working) and Bermeo 2010 (working), respectively.
The third research design choice is to combine research methods, namely case studies and regression analysis, to explain how non-military policy patterns change or fail to change as a result of post-9/11 demands for security. In this study, quantitative methods are useful for studying variation within a given issue-area. Specifically, regression analysis is an appropriate tool for estimating relationships between variables across a large number of theoretically relevant observations and for “controlling” potentially confounding covariates. I thus design statistical tests to test the argument’s observable implications about the relationship between two variables. In every issue-specific application, the statistical tests allow me to examine variation in the data before and after 9/11, as well as across country units. However, because of data limitations, measurement error, and the demanding assumptions that many statistical models involve, the utility of regression techniques for examining complex causal processes is limited. Isolating correlative patterns can yield evidence consistent with a causal pathway.

I rely principally on process-tracing and illustrative case studies to craft a qualitative narrative; this narrative synthesizes evidence of actors’ preferences, constraints, and their strategic choices at different intervals, thereby demonstrating how the causal mechanisms apply to a specific context. For example, in the foreign aid and trade
preference chapters, I focus on the case of Pakistan: if we observe domestic resistance to a strategy of using aid and trade as a foreign policy tool vis-à-vis such a prominent post-9/11 ally, this should increase our confidence in both of the causal mechanisms. In the visa issuance chapter, I focus not on a country case but instead on the case of delegation to the Department of Homeland Security, because it is important to establish that domestic debates about visa issuance were caught between arguments for prioritizing national security, on the one hand, and facilitation on the other. Given their respective strengths and weaknesses, neither the quantitative nor the qualitative elements are enough in isolation. The empirical chapters that follow demonstrate how these methods can be combined to complement one another and to bolster confidence in the overall theoretical argument. Next, I provide an overview of how the theoretical framework and research design approach are applied to each of the four empirical issue-areas.

2.5. Applying the Framework

Table 2.3 below summarizes my expectations for each issue-area.\(^{20}\) In the regulatory channels, visa issuance and international anti-money laundering, security-motivated policy demands focused on increasing constraints on prior discretion in order to minimize risks associated with terrorism. Accordingly, functionalist expectations center on high-risk countries-of-origin in the visa case and high-risk jurisdictions in the anti-money laundering case. In the foreign economic policy channels, foreign aid and the administration of trade preferences, security-motivated policy demands focused on increasing discretion in order to bolster bilateral support for U.S. counterterrorism and counterinsurgency goals. Here, functionalist expectations center on U.S. allies. I briefly

\(^{20}\) Table 2.4 at the end of this chapter previews all of the issue-specific hypotheses.
elaborate my expectations below, particularly with respect to anticipated lines of resistance in a given issue-area.

Table 2.3. Summary of Expectations by Issue-Area.

<table>
<thead>
<tr>
<th>Regulatory Policies</th>
<th>Foreign Economic Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visa Issuance</td>
<td>Foreign Aid</td>
</tr>
<tr>
<td>Anti-Money Laundering</td>
<td>USAID allocation.</td>
</tr>
<tr>
<td>Commercial stakes.</td>
<td>High-Risk Countries.</td>
</tr>
<tr>
<td>AML-CFT Laws: Most developing countries.</td>
<td>Non-USAID allocation.</td>
</tr>
<tr>
<td>High Resistance</td>
<td>Low Resistance</td>
</tr>
<tr>
<td>Low Resistance</td>
<td></td>
</tr>
</tbody>
</table>

Explaining Patterns of Foreign Aid Allocation

We know from an extensive literature on the politics of foreign aid that donor interests play an important role in shaping patterns of aid allocation.21 During the Cold War, for example, major donors like the United States were prone to using aid as a geopolitical tool.22 When the Cold War ended, however, the 1990s saw “the loss of a major rationale for foreign aid.”23 As the Administrator of the U.S. Agency for International Development explained at the time, “We no longer have to use our aid programs to purchase influence. We are in a new era.”24 Yet, the evidence underscores that donors continue to allocate aid, including development aid intended for sector-based projects, in line with their strategic interests abroad.25

22 Stone 2010 (working).
23 Lancaster 2006, 83.
The 9/11 attacks have rekindled the debate over aid allocation. Empirically, the question is whether the determinants of aid have shifted during the post-9/11 period or whether they have basically remained stable. The literature reflects opposing theoretical views. Hewing closely to the view that a donor’s foreign policy priorities drive patterns of aid allocation, some researchers argue and find evidence that resurgent geopolitical interests increasingly shaped U.S. bilateral aid allocation after 9/11, while the importance of recipients’ political and economic development needs has systematically diminished compared to the post-Cold War trajectory. To the contrary, others have argued that responsiveness to recipients’ needs and adherence to “good governance” criteria have become even more entrenched features of U.S. foreign aid policy since 9/11. Except for a few major outliers (Afghanistan, Iraq, Pakistan), aid patterns have mostly remained stable due to rigid legislative constraints and bureaucratic agents’ path-dependent behavior.

Both of these assessments ignore the way 9/11 interacted with domestic constraints to catalyze a major shift in the institutional structure of U.S. foreign aid policy making. My central argument is that after 9/11, we should expect a loosening of constraints on agent discretion in this policy channel. Specifically, 9/11 elevated the strategic priority for using foreign aid to engage security partners and states at risk in the “War on Terror.” In order to align aid allocation patterns with this strategic reorientation, the executive shifted delegation of allocation authority from an agent (USAID) heavily constrained by rules and political pressures toward an agent with greater capacity for discretionary allocation.

---

28 Namely, as the scope of global counter-terrorism efforts evolved, the United States would have to rely on a diverse set of informal security partnerships. See Byman 2006a; Byman 2006b; Boutton & Carter 2010 (working).
29 In particular, USAID’s budget was constrained by a thick accretion of legislative ear-marks and the agency itself had developed an internal system of standard operating procedures for allocating aid. This assessment echoes the observation that “every dollar is determined” in USAID’s budget well in advance so that “when something happens quickly, mission directors don’t have the flexibility and the resources to move.” See
executive's requests for a surging aid budget after 9/11 thus coincided with the strategic choice to increase other agents' (State and Defense Departments) discretionary control over aid allocation, a choice that was met with little resistance in Congress.\textsuperscript{30}

Empirically, the core implication is shifting control over aid allocation. The descriptive evidence shows that, compared with the mid-1990s, the Department of State’s share of total bilateral economic aid more than tripled during the post-9/11 period, whereas USAID’s share was halved.\textsuperscript{31} Moreover, the State Department has gained control over the strategic planning and budgeting functions that shape aid allocation. This reality buttresses expectations that we should find evidence of two distinct patterns in U.S. aid allocation. First, we should find that U.S. demands for bilateral security collaboration (e.g. alliances) will be positively associated with aid allocation levels. For example, this relationship should describe allocation patterns along non-USAID funding pathways that have expanded since 9/11. Second, since legislative interests disproportionately constrain USAID’s allocation behavior, aid levels should principally respond to the recipient’s development need and institutional characteristics, which had become stable features of post-Cold War foreign aid policy, rather than demands for bilateral security collaboration.

Results from the analysis in Chapter 3, which examines variation in the allocation of U.S. bilateral economic aid, across developing country recipients before and after 9/11, are broadly consistent with these expectations. Looking at USAID allocation patterns, we find that development need and institutional quality have persisted as stable determinants of

\textsuperscript{30} We know that “Presidents must construct aid policy so they can garner majority support for aid in Congress.” Milner & Tingley 2010, 228. In addition to a Republican majority in Congress, heightened national security concerns gave the Bush Administration substantial room to adapt aid policies. See Meernik 1993; Hinckley 1994.

\textsuperscript{31} See Chapter 3, Figure 3.2. These figures hold when we exclude outliers. I did not have access to reliable data on bilateral economic aid allocated by the Department of Defense at the time of writing.
aid allocation, even in the presence of increasingly salient post-9/11 security motivations. However, the results suggest that U.S. informal allies have not been associated with higher levels of aid allocation under USAID. In contrast, under the State Department, we find evidence that aid allocation responds positively to security motivations: U.S. informal allies are statistically more likely to receive aid, and more aid, during the post-9/11 period. Thus, my analysis provides both an institutional account of how the paths of foreign aid allocation have shifted and corresponding evidence showing the distinctive allocation behavior of each allocation agents. One path is highly responsive to security linkages and the other is relatively, though not entirely, insulated from them. This disaggregated view of foreign policy complicates the simplistic view that the development mission has become a “weak sister” to “short term political expediency.”

*Explaining Patterns of Preferential Trade*

As with foreign aid, trade preference programs were subject to strategic pressures because they provided a channel for bolstering relations with other states that could contribute to global anti-terrorism efforts. In Chapter 4, I examine the United States’ administration of nonreciprocal trade preferences. The descriptive evidence suggests that nonreciprocal trade preferences became an increasingly salient feature of U.S. “linkage diplomacy” after 9/11. For example, we observe multiple instances in which the executive exercised discretion in administering the centerpiece of U.S. nonreciprocal trade policy, the Generalized System of Preferences (GSP). The GSP is a program that allows the U.S. to grant better-than-MFN (“Most Favorite Nation”) tariff rates to developing countries on a

---

32 See “The Future of Foreign Aid,” Statement of J. Brian Atwood before the Committee on International Relations, United States House of Representatives, 9 May 1995, Washington, DC. See also “Testimony of J. Brian Atwood to the Committee on Foreign Affairs, U.S. House of Representatives,” June 25, 2008. “Resources have been allocated more to support the diplomatic mission, than the development mission. Decisions are being made centrally by a system that considers inputs and short-term impact rather than long-term, sustainable results.”

33 I borrow the term from Davis 2009.
nonreciprocal and, in principle, non-discriminatory basis. Both in the immediate wake of 9/11 and during subsequent years, the Bush Administration successively targeted country and product-level modifications to GSP eligibility at allies.\(^{34}\) Moreover, the total value of U.S. imports from developing countries that were accorded GSP treatment increased dramatically in the post-9/11 period, increasing on average by about 16.0 percent per year between 2002 and 2007, after a long period of decline averaging about -2.0 percent per year between 1993 and 2001.\(^{35}\)

Yet, research on nonreciprocal trade preferences overwhelmingly identifies domestic political opposition in the preference-granting state as a critical determinant of GSP policy.\(^{36}\) In the developed country, industries expecting a decline in profits as a result of some product or country being granted GSP eligibility may have an incentive to oppose eligibility. These “import-competing” industries (eg. textiles and apparel, footwear, radio and television, toys and sporting goods) are disproportionately threatened by preferential trade policies that will increase import penetration.\(^{37}\) As a result, “The political process leading to GSP decisions is heavily influenced by protectionist domestic interest groups in the U.S.”\(^{38}\)

The puzzle, therefore, is how these two sets of interests interacted. One set of actors

---


\(^{35}\) Congress renewed GSP for a longer than ordinary duration in conjunction with the renewal of Trade Promotion Authority and explicitly adapted the criteria to allow the executive to use the program in support of U.S. anti-terrorism efforts. On “fast track” authority, see Conconi, Facchini & Zanardi 2008. This relates to a wider debate on discretionary control over trade policy. See Bailey, Goldstein & Weingast 1997; Haggard 1998; Hiscox 1999.


\(^{37}\) Industries that oppose GSP eligibility usually have a lower ratio of industry export to imports, because industries that can export are not as sensitive to losses from increasing import penetration.

\(^{38}\) Ozden and Reinhardt 2003, 21-22. Protectionist demands exacerbate GSP’s “perverse” influence, since “the non-guaranteed nature of GSP preferences prevents the recipients from fully focusing on their export sectors.”
– the president, domestic importers, and foreign beneficiaries – pushed for the expansion of trade preferences for goods imported from select developing countries.\textsuperscript{39} I thus hypothesize that we should expect the scope of GSP eligibility to be positively associated with post-9/11 security rationales for economic engagement, namely alliance relationships. Another set of interests – import-competing industries and their representatives – pushed in the opposite direction, arguing that “Americans must not be made into pawns in efforts to build an international coalition.”\textsuperscript{40} I therefore expect that attempts to link the administration of trade preferences to security goals will encounter the greatest opposition when import-competing industries are threatened, leading to a negative relationship between the scope of GSP eligibility and the potential for such opposition. This is because the president should either avoid sensitive product areas altogether or drawback concessions in those areas. In short, my argument echoes arguments in previous work on economic statecraft, which stress that the executive’s incentives to link foreign economic policy with the state’s security interests will also depend on the severity of domestic constraints.\textsuperscript{41}

To test the argument’s observable implications, this chapter examines variation in the scope of GSP eligibility, measured as both the total amount of trade covered by GSP (eg. “GSP-eligible imports”) as well as the proportion of bilateral trade covered by GSP (eg. “GSP coverage ratio”). Previous research on GSP looks only at country-level eligibility, which glosses over most of the variation in the way GSP is administered at the product-level.\textsuperscript{42} I therefore introduce a new panel dataset on the scope of eligibility under the U.S. Generalized System of Preferences (GSP), developed using product-level information from

\textsuperscript{39} The idea that trade is used as a tool of influence is found in Hirschman 1969; Biglaiser & DeRouen 2009. On the sources of domestic preferences, see Milner & Tingley 2011.
\textsuperscript{41} See especially Davis 2009.
\textsuperscript{42} Ozden and Reinhardt 2005, 7. Other research on the political economy of U.S. reciprocal and nonreciprocal trade preferences include Feinberg 2003; Lawrence 2006; DeVault 2005.
the Harmonized Tariff Schedule for every country and year. I find substantial support for
the first hypothesis that alliance relationships vary positively with the level of GSP-eligible
imports and negatively with GSP coverage ratios. Like foreign aid allocation, the U.S.
administers nonreciprocal trade preferences as a strategic linkage tool.\textsuperscript{43} I find only
partial support for the second hypothesis about domestic political opposition. However,
using a case study of U.S. trade policy vis-à-vis Pakistan, I illustrate how efforts to expand
GSP eligibility for Pakistan’s textiles industry provoked severe backlash, thereby
constraining the Bush Administration’s policy discretion. Differential lines of political
resistance thus accounts for why foreign aid plays such an outsized role relative to trade
preferences in U.S. bilateral strategy toward Pakistan.

Explaining Patterns of Visa Issuance

Chapters 3 and 4 examine the adaptation of U.S. foreign economic policies in ways
that enhanced the executive’s diplomatic toolkit of positive sanctions vis-à-vis strategically
important countries. Chapter 5 and 6 extend the analysis to a different class of policy
changes whereby U.S. policies were adapted to minimize negative security externalities
posed by cross-border flows of funds and people.

In Chapter 6, I study the domestic and international pressures that shaped the
pattern of change in U.S. nonimmigrant visa policies following 9/11. Two sets of
countervailing interests were salient in the midst of heightened national security concerns.
Not surprisingly, government actors possessing a security mandate viewed \textit{status quo} visa
policies as a source of vulnerability. As the 9/11 Commission painstakingly documents, the
9/11 hijackers “easily penetrated” U.S. borders by legally obtaining nonimmigrant visas.\textsuperscript{44}
The perception that visa policies “failed” to perform a critical screening function generated

\textsuperscript{43} Related, see Biglaiser & DeRouen 2009.
\textsuperscript{44} 9/11 Commission 2004b, 11.
extraordinary demands for policies that would make it harder for terrorists to exploit the visa process. Of course, any such policy change would inevitably implicate the much larger population of legitimate visa applicants. The entire visa process had been organized over the course of several decades to foster openness, efficiency, and reciprocity. Thus, a large coalition consisting of domestic industries, universities, foreign governments, and U.S. government actors with a mandate to facilitate commerce and ensure smooth diplomatic relations, resisted changes to visa policies that they considered to be more costly than beneficial. What policies ultimately took hold, under what conditions, and why?

If the functionalist logic explains the post-9/11 pattern of policy change, we should expect to observe a shift toward policies designed to increase scrutiny of visa applicants and visa holders, particularly those who fall into classes perceived as being associated with higher security risks. On the surface, many core (and controversial) visa policy initiatives introduced after 9/11 accord with this expectation: mandatory periodic registration of male visa holders already in the United States who originate from certain countries; additional security checks on visa applicants whose scholarly or professional activities in the United States put them in contact with technologies relevant to national security; and comprehensive security checks on all visa applicants who are citizens or nationals of 26 designated countries.

Against these security-motivated policies, the political economy mechanism anticipates resistance from a coalition of pro-facilitation business groups, universities, foreign governments, as well as the State Department’s large consular bureaucracy. This

45 “Prior to September 11, although it was not mandatory, nonimmigrant visas were issued ‘incorporating the most liberal provisions possible with respect to validity period and fees on the basis of reciprocity, that is, the treatment accorded by the applicant’s country to U.S. citizens.” 9/11 Commission 2004b, 73.


52
coalition counterbalanced post-9/11 pressures to shift control over visa policy away from the State Department to the (newly created) Department of Homeland Security (DHS). In deciding how to delegate authority over visa policy, Members of Congress confronted dual concerns: “Some have expressed the view that [the Department of State] retains too much power and control over visa issuances... consular officers are too concerned about facilitating tourism and trade to scrutinize visa applicants thoroughly. Some argue that visa issuance is the real ‘front line’ of homeland security against terrorists and that the principal responsibility should be in [the Department of Homeland Security], which does not have competing priorities of diplomatic relations and reciprocity with foreign governments.”

The resulting compromise was a division of authority. Formally, DHS gained visa policy oversight, but DHS and the State Department agreed through a Memorandum of Understanding that the consular bureaucracy would continue to be operated under the Secretary of State’s authority. This outcome structured patterns of visa issuance by making procedures accountable to different sets of interests. On the one hand, as the functionalist mechanism suggests, visa issuance levels should be negatively related to the perceived level of risk. Higher-risk countries-of-origin should be associated with lower visa issuance levels. On the other hand, as the political economy mechanism suggests, visa issuance levels should be positively related to pro-facilitation goals. Commercially or

---


diplomatically important countries-of-origin should be associated with higher visa issuance levels.

Chapter 5 tests these hypotheses by analyzing U.S. nonimmigrant visa issuance levels, varying over time, countries-of-origin, and visa categories. Controlling for a wide range of other explanatory variables, I find robust evidence that countries posing relatively higher security risks have been systematically associated with lower visa issuance levels. In contrast, countries that trade intensively with the U.S. have been associated with a higher level of visa issuance. In summary, this chapter provides a theoretically-informed account of the way “ordinary” political economy pressures and extraordinary security concerns interactively shaped U.S. nonimmigrant visa issuance patterns.50

Explaining Patterns of International Anti-Money Laundering

Chapter 6 examines efforts to reduce negative security externalities stemming from cross-border flows of funds. Title III (“International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001”) of the USA PATRIOT Act of 2001 frames the problem this way: “Money launderers subvert legitimate financial mechanisms and banking relationships by using them as protective covering for the movement of criminal proceeds and the financing of crime and terrorism, and, by so doing, can threaten the safety of United States citizens and undermine the integrity of United States financial institutions and of the global financial and trading systems.”51

Crafting an effective policy response to the problem of money laundering is a challenge because anti-money laundering resembles a “weakest link” public good, in which

51 Sec. 302(a)(3), Title III, The USA PATRIOT Act of 2001, P.L. 107-56, 26 October 2001. The problem also attracted special attention from the 9/11 Commission Report, which devoted one of its two staff reports to terrorist financing (the other on terrorist travel).
“the overall level of the public good equals the smallest of the individual provision amounts.”

For example, although the United States’ own supervisory apparatus has become more robust, the persistent lack of oversight in many foreign jurisdictions limits the overall efficacy of attempts to curb international money laundering. Thus, more than the other channels in this study, pressures for policy change in the anti-money laundering channel have a critical multilateral dimension.

This chapter assesses strategic efforts to adapt standardized anti-money laundering (AML) policies following 9/11 and to push for their adoption on a multilateral basis. The basic architecture of the global AML regime was set in 1990, when the Financial Action Task Force began to promulgate a set of 40 Recommendations on Money Laundering (largely in response to the problem of drug trafficking), and in 1995, when the Egmont Group of Financial Intelligence Units was created, but the regime as a whole functioned as a networked “club” whose reach beyond the OECD was limited. The 9/11 attacks substantially increased domestic and international pressures to draw the rest of the world in.

Specifically, the PATRIOT Act provided the executive branch with a powerful legal mandate to use national, bilateral and multilateral tools to expand scrutiny over financial transactions and institutions operating beyond U.S. jurisdiction. This mandate was designed to transform two functional aspects of AML policy. First, it deepened the connection between domestic capacity to enforce AML policy and international capacity. Second, it tightened the linkage between the crime of money laundering (concealing funds

---

52 Vicary & Sandler 2002, 1502. I thank Chad Rector for suggesting this.
53 On interdependence, see Keohane & Nye 1977.
54 There are specific dimensions of AML and CFT (“Combating the Financing of Terrorism”), such as efforts to freeze terrorist assets, that I do not explicitly assess in this chapter.
57 A classic discussion of functional explanations is Keohane 1984, 80-81.
from illicit activities) and the crime of financing terrorism (channeling any funds to an illicit activity).

The descriptive evidence suggests that the new functional mandate did indeed shape post-9/11 policy initiatives, making international AML a major regulatory channel of anti-terrorism strategy. As such, we should expect to observe an overall increase in constraints on policy discretion in this issue-area. Not only did the U.S. press numerous developing countries to adopt the Financial Action Task Force’s global AML standards, it also persuaded the International Monetary Fund and the World Bank to monitor the implementation of global AML standards as part of its core evaluation activities. Moreover, the U.S. promulgated separate “CFT” (combating the financing of terrorism) provisions, which were attached to existing global AML standards.

If the functionalist mechanism explains the shifting regulatory mandate, we should also expect to observe a positive relationship between international demands for regulation and the pattern by which countries actually adopted AML and CFT policy standards. Specifically, “high-risk” jurisdictions such as offshore financial centers (OFCs) and drug-producing countries should be associated with a higher likelihood of adopting global AML and CFT standards in any given year. Other explanations, which highlight general power asymmetries (eg. some countries are disproportionately subject to U.S or IMF/World Bank pressures), capacity constraints, and conflicting domestic preferences support different empirical predictions.58 For example, if the banking sector in a given jurisdiction depends largely on flows of assets from foreign sources, the level of domestic resistance to global AML standards may be high enough to withstand international pressures. Contrary to the

---

functionalist mechanism, this view anticipates that offshore financial centers will be associated with a lower overall likelihood of adopting global AML standards.

To discriminate among these explanations, I analyze country-level adoption of global AML standards in three areas, measured as the year in which a government: (1) adopts comprehensive standard AML legislation; (2) makes a Financial Intelligence Unit operational; (3) adopts stand-alone CFT legislation. This analysis employs an event history approach and draws on an original dataset, spanning all countries from 1990 to 2010, derived from AML-CFT compliance reports. Controlling for a range of potentially confounding factors, I find support for two patterns. On the one hand, high-risk countries have been associated with a greater likelihood of adopting AML legislation but they have not been significantly more likely to create the Financial Intelligence Units that are signals of “deeper” implementation. On the other hand, developing countries that were regulatory laggards but not necessarily deemed high-risk have generally improved along both fronts, suggesting that sources of potential domestic opposition may have acquiesced in the presence of intensified international pressures. I also illustrate how these dynamics influenced the adoption of AML-CFT standards in the case of an offshore financial center. Although there are undoubtedly problems that continue to give the global AML regime a sieve-like quality, this chapter highlights the heightened role that the U.S.-led regulatory network, in parallel with multilateral institutions, has played since 9/11 to mend gaps in the regime.

2.6. Conclusion

The analytical framework outlined in this chapter provides a simple yet powerful approach to explaining why non-military policy patterns alternately withstood or conformed to post-9/11 pressures for change. The functionalist mechanism, applicable to variation
within and across issue-areas, distinguishes among the president’s security motivations for demanding either increased or decreased policy discretion relative to the status quo in a given channel. In order to pursue a flexible bilateral strategy of “linkage diplomacy” vis-à-vis U.S. allies and security partners, the president wanted increased discretion over the tools of foreign economic policy. The president sought to limit discretion over regulatory policies so that cross-border flows of funds and people, which posed potential risks for U.S. national security, might be more rigidly scrutinized. The political economy mechanism maintains that post-9/11 efforts to forge issue-linkages between security goals and non-military policy channels encountered differential lines of resistance. Policy patterns should therefore depend on the way in which security motivations interacted with existing coalitions in Congress and among interest groups, as well as countervailing interests within the executive branch itself.

The following chapters use this framework to structure the empirical analysis across four issue-areas: foreign aid allocation, the administration of trade preferences, visa issuance, and international anti-money laundering. Studying these issue-areas under a common framework helps to provide a panoramic view of non-military U.S. foreign policy since 9/11. At the same time, my research strategy disaggregates policy patterns according to temporal and cross-sectional variation within a single issue-area, thereby generating a larger number of observations with which to test the argument’s implications. Table 2.4 below summarizes the main hypotheses to be tested in each chapter.
Table 2.4. Hypotheses by Chapter.

3.1: U.S. bilateral economic aid allocation levels should be positively related to the executive branch’s demand for security collaboration in a given relationship.

3.2: Bilateral economic aid allocation levels aggregated across all U.S. funding agencies should be positively associated with alliance relationships but not under USAID.

4.1: There should be a positive relationship between the presence of a formal or informal alliance relationship with the United States and the amount of U.S. imports eligible for GSP across developing countries.

4.2: A developing country’s scope of eligibility for U.S. trade preferences should be negatively related to the severity of import competition in the preference granting country.

5.1: The severity of perceived security risks associated with a given country-of-origin should be negatively related to yearly visa issuance levels.

5.2: The strength of U.S. bilateral commercial and diplomatic ties should be positively related to visa issuance levels.

6.1: Countries that pose a relatively higher regulatory risk, which are disproportionately targeted by the regulatory core, should be associated with an increased likelihood of adopting AML and CFT standards.

6.2: The likelihood of adopting global regulatory standards should be positively related to the level of domestic checks and domestic regulatory capacity.
CHAPTER THREE
Shifting Paths of Foreign Aid Allocation

3.1. Introduction

As the scope of U.S. counterterrorism and counterinsurgency operations widened after the 9/11 attacks, so too did the security rationales for giving foreign aid. In promoting development and democracy abroad, the U.S. would increasingly seek to use foreign aid as a strategic side payment for the purpose of tightening its relationships with various allies, security partners, and coalition members. Following the functionalist mechanism, this chapter argues that post-9/11 foreign aid allocation patterns can be explained in terms of the president’s overall demands for greater policy discretion. Greater discretion allowed the president to forge linkages between changing security conditions and bilateral foreign aid policies. At the same time, the political economy mechanism stresses that these demands interacted with differential lines of resistance. Specifically, allocation patterns along relatively flexible paths of foreign aid allocation, which have assumed heightened significance since 9/11, should be positively associated with shifting bilateral security rationales for giving aid in a manner distinct from allocation patterns in paths of foreign aid allocation subject to rigid legislative constraints.

Empirically, it is critical to disaggregate the analysis of U.S. foreign aid flows. Under the U.S. Agency for International Development (USAID), one expert noted, “Every dollar is determined, how it’s going to be spent, long in advance. So, when something happens quickly, mission directors don’t have the flexibility and the resources to move.”

Thus, as the aid budget surged after 9/11, both the Department of State and the Department of Defense have captured a growing share of total foreign aid resources. Previous research tends to gloss over this basic but significant change in the institutional structure of U.S. foreign aid policy. By opening up new paths of foreign aid allocation, the president could respond effectively to countervailing pressures, on the one hand satisfying domestic stakeholders who were interested in preserving the allocation equilibrium under USAID while on the other hand responding to shifting foreign policy priorities along other more flexible paths for aid allocation.

Results from a panel analysis of U.S. bilateral economic aid allocation data support this interpretation. If we examine aid allocation across all U.S. funding agencies, or exclude USAID from the sample, we find evidence that U.S. allies have been positively associated with higher levels of aid allocation. However, this pattern strikingly does not hold when we examine USAID funding patterns in isolation. Moreover, while development need appears to play an even greater role in explaining USAID’s post-9/11 allocation behavior, the corresponding evidence is less clear in the broader sample. In short, the shifting institutional structure of U.S. foreign aid policy means that certain allocation agents have been highly responsive to the president’s discretionary demands throughout the post-9/11 period while other agents remain relatively insulated from them.

To illustrate the international implications of U.S. foreign aid policy’s domestic dynamic, I take a closer look at the way the Bush and Obama administrations, Congress, and the primary allocation agencies have exerted influence over bilateral aid flows to Pakistan. Given Pakistan’s extraordinary importance as a U.S. ally, this serves as a most

likely case for observing executive discretion over foreign aid. Indeed, I show that the executive branch has enjoyed substantial discretion over the disbursement of bilateral economic aid to Pakistan despite successive attempts by Congress to cut or condition aid packages. In contrast, as I show in Chapter Four, the Bush Administration’s concerted efforts to expand Pakistan’s eligibility for U.S. trade preferences ran into opposition from the textiles and clothing industry, compelling the president to accept trade concessions more shallow than initially proposed. Different domestic cleavages of resistance to foreign economic engagement thus help to explain why officials on both sides find themselves in the frustrating position of wanting to complement aid flows with improved market access but not being able to achieve this balance in reality.2

The specific empirical puzzle, how to explain the pattern of U.S. foreign economic engagement in the context of post-9/11 security pressures, relates to the broader theoretical debate about the politics of foreign economic policy (Krasner 1978; Ikenberry, et al. 1988). Much of the previous research maintains that the president has strategic advantages in controlling foreign policy. Informational advantages enable the president to mobilize pressure in favor of a preferred policy agenda with greater knowledge of strategic imperatives and alternative relative to legislators.3 In tandem with the ability to exercise unilateral powers (via executive order, memorandum, and other directives), presidents are in a “unique position to lead” at “the front-end of the policy-making process.”4 This reasoning justifies an analytical focus on the president’s strategic motivations for

---


3 Canes-Wrone, Howell & Lewis. See also Dahl 1950, 63.

4 Howell & Pevehouse 2007, 8, 7.
manipulating foreign economic policies.

However, a growing body of research demonstrates that the president’s prerogative over foreign economic policy remains conditional upon domestic support. As Krasner (1978) explains, “Any economic decision is likely to affect groups within the society differentially, creating the potential for societal conflict. For this reason it is questionable to assume that policy can be understood solely by examining the motivations and perceptions of central decision-makers.” Indeed, recent research by Milner and Tingley (2011) demonstrates that political economy factors and ideology systematically shape the way legislators vote on foreign aid and trade. Since Congress is capable of constraining the executive, presidents must craft foreign policies that respond not only to external pressures but also to domestic resistance.

When security concerns heighten, members of Congress who might otherwise oppose the president’s agenda are more likely to defer, shifting the executive-legislative balance in the president’s favor (Meernik 1993). For example, Westerfield (1955) notes that the “legislative record in 1941 demonstrated that [the Republican party] was till the day of Pearl Harbor committed to opposing each successive interventionist proposal” coming from the White House,” but the attacks with “one stroke...cut the whole ground from under the inflexible position which Republican congressional leaders had taken.” Students of the presidency have similarly observed that extraordinary national security pressures during the War on Terror have had the ability, at least in the short-term, to “tie congressional and presidential interests together.”

Thus, the literature contains two main explanations of variation in foreign economic

---

5 Krasner 1978, 70.
6 Westerfield 1955, 134-135.
7 Lewis 2003, 166.
policy, one that stresses the executive’s ability to control the foreign policy agenda, particularly when security concerns can be invoked, and one that stresses domestic constraints on the executive. The challenge for empirical research is to demonstrate how these countervailing pressures interactively shape the strategic pattern of foreign economic engagement. As Davis (2009), explains, “security interests motivate states to offer side payments to an ally,” but “variation in the willingness of a state to offer such payments will be a function of the costs to the ruling party and the level of executive autonomy.”

However, previous empirical research largely fails to specify the extent to which the executive has been able to align foreign economic policies with security interests. For example, recent work by Fleck and Kilby (2010), which analyzes U.S. bilateral aid from 1955 to 2006, finds evidence that “since the start of the War on Terror, the weight given to need has trended down rapidly,” reversing a longstanding trend that increasingly prioritized development need in the aid allocation process. However, this article neither models the relationship between aid allocation and security rationales for giving aid explicitly nor explains how the aid allocation process changed. In contrast, Moss, et al. (2005), analyzing differences between pre- and post-9/11 USAID budget allocation patterns, contend that concerns over a “large and systematic diversion of U.S. foreign aid from fighting poverty to fighting the [Global War on Terror] do not appear to have been realized.” Thus, there are remaining tensions in the empirical literature on U.S. foreign aid allocation, particularly in the post-9/11 foreign policy context.

This chapter proceeds as follows. Section 3.2 applies the theoretical framework and

---

9 Fleck & Kilby 2010, 186.
10 Moss, Roodman & Standley 2005, 14; Woods 2005. A related area of research focuses on the link between terrorist activities and aid allocation. See Dreher & Fuchs (forthcoming); Boutton & Carter (working) argue that the United States uses economic aid as a “carrot” to delegate counterterrorism efforts internationally.
specifies core hypotheses. Section 3.3 offers descriptive evidence in support of the argument, focusing both on historical patterns and the specific ways in which executive discretion increased. Section 3.4 describes the data and variables for the statistical analysis and interprets the results. Section 3.5 fleshes out the argument’s strategic implications using the case of Pakistan. Section 3.6 concludes.

3.2. Argument and Hypotheses

Foreign aid allocation patterns should vary according to the president’s security-motivated demands for increased discretion. In the post-9/11 context, the U.S. has had to rely on a wide range of informal allies to support its counterterrorism and counterinsurgency aims. As such, I argue that we should expect foreign aid allocation patterns to be positively associated with bilateral U.S. demands for security collaboration. Second, I argue that we should expect varied levels of domestic resistance to affect the pattern of foreign economic engagement. The literature associates both security shocks and single-party government with weakened domestic constraints. This explains why the executive’s policy discretion expands and contracts over time. However, constraints do not weakened uniformly because Congress and private actors retains disproportionate influence over certain aspects of foreign economic policy. With respect to foreign aid, my theory anticipates that the executive should have more room to inject security priorities into the allocation process when administrative agents face less legislative oversight.

The Functionalist Mechanism: Security Motivations to Demand Policy Discretion

According to the functionalist mechanism, the executive should be more likely to demand increased discretionary authority over the tools of foreign economic policy when national security concerns are salient. One principal function of enhanced discretionary
authority is that it permits the executive to make side payments in short or long-term attempts to influence another state’s behavior.\textsuperscript{11} As Baldwin (1985) notes, “In any given influence attempt, states may – and usually do—pursue more than one goal with respect to more than one target.”\textsuperscript{12} The higher the degree of uncertainty about how the scope of targets and goals will evolve, the stronger the executive’s interests in exercising flexible control over foreign economic policy levers.

Strategic uncertainty about targets and goals of statecraft undoubtedly characterized the immediate post-9/11 period.\textsuperscript{13} Demand for bilateral security cooperation became an integral part of the U.S. strategy to “defeat terrorist organizations of global reach,” “deny [them] further sponsorship, support, and sanctuary,” and to “diminish the underlying conditions that terrorists seek to exploit” (White House 2002, 2003). Moreover, given the link between Al Qaeda and large Islamist insurgent movements, demand for counterterrorism cooperation overlapped with demand counterinsurgency cooperation.

Specifically, demands for bilateral security cooperation fell into three categories of states. First, the U.S. needed to partner intensively with a range of “frontline” states, countries in which Al Qaeda and its affiliates operated or countries in which ongoing Islamist insurgent movements were thought to be supported by Al Qaeda.\textsuperscript{14} Second, the U.S. had to collaborate with a broader range of “geo-strategic” states, typically countries with close proximity to the frontline states, enabling them to support U.S. basing, troop

\begin{footnotesize}
\begin{enumerate}
\item\textsuperscript{11} According to Mastanduno 1999, “structural linkage” involves an effort to use a steady stream of economic benefits to reconfigure the balance of political interests within a target country, whereas “tactical linkage” involves the provision or promise of a well-specified economic concession in an effort to alter specific foreign or domestic policies of the target government.
\item\textsuperscript{12} Baldwin 1985, 17.
\item\textsuperscript{13} See especially Zelikow 2011; 9/11 Commission 2004.
\item\textsuperscript{14} Byman 2006b. Frontline states include Afghanistan, Algeria, Egypt, Indonesia, Iraq, Jordan, Libya, Morocco, Pakistan, Philippines, Saudi Arabia, Somalia, Yemen.
\end{enumerate}
\end{footnotesize}
deployment and passage.\textsuperscript{15} Third, U.S. operations were both materially and symbolically
supported by “contributing” states, whose troops participated in the four subordinate
operations of Operation Enduring Freedom\textsuperscript{16} and the Multinational Force in Iraq.\textsuperscript{17}

Although the exact logic of side payment varies across these countries, the striking
feature of U.S. security collaboration after 9/11 was the degree to which it involved informal
alliance relationships.\textsuperscript{18} The goal of tightening linkages between foreign economic
engagement and the security dimensions in these relationships was to increase the
likelihood of mutual agreement.\textsuperscript{19} In the modal case, the U.S. disproportionately values the
security-related functions of the alliance, whereas asymmetric economic gains accrue to the
developing country “target.” If this logic is accurate, we should expect the executive’s
discretionary adaptation of foreign economic policies, and the resulting pattern of aid
allocation in this case, to reflect disproportionate investment in alliance relationships. This
leads to the following observable implication:

\textsuperscript{15} In the Middle East and Central Asia alone, (not counting countries that are also frontline states) the U.S. has
or had military bases in Bahrain, Djibouti, Kuwait, Kyrgyzstan, Oman, Qatar, Saudi Arabia, Tajikistan,
Turkey, the United Arab Emirates, and Uzbekistan.

\textsuperscript{16} OEF in Afghanistan, Philippines, Horn of Africa, and Trans Sahara. \textit{OEF contributing states include}
Djibouti, Ethiopia, Georgia, Kyrgyzstan, New Zealand, Pakistan, Philippines, Russia, Somalia, South Korea,
Ukraine.

\textsuperscript{17} Including the occupation. \textit{MNF-I contributing states included} Albania, Australia, Armenia, Azerbaijan,
Bosnia-Herzegovina, Bulgaria, Czech Republic, Denmark, Dominican Republic, El Salvador, Estonia, Georgia,
Honduras, Hungary, Italy, Japan, Jordan, Kazakhstan, Latvia, Lithuania, Macedonia, Moldova, Mongolia,
Netherlands, New Zealand, Nicaragua, Norway, Philippines, Poland, Portugal, South Korea, Romania,
Singapore, Slovakia, Spain, Thailand, Ukraine, United Kingdom. The war in Iraq is included because it became
linked to leaders’ perceptions of strategically important states. While Iraq was repeatedly framed by Bush
administration officials as being a central front in the “War on Terror,” the 9/11 Commission found “no credible
evidence” of an operational link between Al Qaeda and Iraq before the 2003 invasion.

\textsuperscript{18} Walt 1997, 157 defines alliances broadly as “a formal or informal commitment for security cooperation
between two or more states.” See also Byman 2006b, 796-798. On the challenge for NATO in the post-9/11
period, see Axelrod & Borzutzky 2006.

\textsuperscript{19} See especially Davis 2009, 2004; Wagner 1988; Tollison & Willett 1979. On asymmetric interdependence, see
Hypothesis 1: The level of U.S. bilateral foreign aid allocation should be positively related to the executive branch’s demand for security collaboration in a given relationship.

This hypothesis sets a baseline functionalist expectation for how U.S. foreign aid allocation will vary over time and across countries. Yet, we know that, apart from security exigencies, foreign aid policy in the United States tends to be heavily constrained. The second part of the argument identifies where these sources of domestic resistance are strongest.

The Political Economy Mechanism: Differential Lines of Resistance

In the foreign aid channel, the executive’s discretion is constrained principally because of Congress’ tendency to use the appropriations process as a means for controlling the funding agents’ allocation behavior. It is well known that committees and individual legislators have the ability to “earmark” the foreign assistance budget for specific projects and countries. They can also issue mandates that require administrative agents to justify their spending ex ante and ex post. Since the end of the Cold War, legislators have increasingly used the appropriations process to make demands on the foreign aid program, which has led USAID’s allocation behavior to exhibit substantial rigidity. As one observer noted, provisions attached to the Foreign Assistance Act have greatly restricted USAID’s flexibility, because “every dollar is determined, how it’s going to be spent, long in

---

20 See especially Lindsay 1994. On legislative control of administrative agents, see McCubbins, Noll & Weingast 1998; McCubbins & Schwartz 1984. Pastor 1980, 281 notes, “The less often the Executive has to return to Congress, the less power Congress has over the direction of the [foreign aid] program and the less influence Congress can have over U.S. foreign policy.”
advance." When organizational choice involves a minimal amount of discretion (eg. they are highly programmed), the organization’s task structure is rigid (Perrow 1967). USAID’s institutional rigidity should constrain the executive’s discretionary capacity to graft security priorities onto bilateral aid policy.

Partisan conflict exacerbates this dynamic. As previous research shows, legislators from left-leaning (eg. more liberal) districts tend to be more favorable toward economic aid than legislators from right-leaning (eg. more conservative) districts. Thus, Democratic legislators have historically defended foreign aid programs against Republican proposals to cut foreign aid spending or abolish USAID as an independent funding agency altogether. In response to these intense legislative pressures, USAID’s allocation behavior has developed a strong organizational incentive to maintain a development mission distinct from the State Department’s diplomatic mission. This also limits the degree to which the president can control USAID’s allocation behavior.

In light of these factors, we should expect USAID’s allocation behavior to exhibit a greater degree of insulation from short-term geopolitical pressures relative to U.S. foreign aid policy as a whole. On the one hand, USAID’s post-Cold War emphasis on development

22 Milner & Tingley 2010a, 227.
23 See Pastor 1980, chapter 9; Lancaster 2006, 81.
25 In contrast, as the evidence below suggests, executive branch channels beyond USAID provide needed flexibility. For example, the Department of Defense’s security assistance portfolio received funding of over $50 billion between FY 2002 and FY 2009. As Adams and Williams 2010, 86 note, “These new authorities and activities were created in large part because DOD viewed the traditional portfolio of security assistance programs as inadequate to meet emerging security needs in the dynamic environment of counterterror and complex contingency operations. FMF and ESF were seen as excessively earmarked and legislatively constrained, leaving such key countries as Pakistan ineligible for assistance. The State Department was seen...
need should continue to characterize its post-9/11 allocation behavior. In contrast, emphasis on giving aid to allies that drives the broader pattern of U.S. economic aid allocation, encompassing all funding agencies, is less likely to be a systematic determinant of USAID’s allocation behavior. This leads to the following observable implication:

**Hypothesis 2:** Bilateral economic aid allocation levels aggregated across all U.S. funding agencies should be positively associated with alliance relationships but not under USAID.

In summary, the theoretical argument identifies the conditions under which the executive has incentives to demand discretionary foreign aid allocation and the conditions under which these demands are most likely to encounter resistance. Two empirical claims follow from this argument. First, since security rationales drive the executive’s economic linkage strategy, this implies that we should observe a positive relationship between demand for bilateral security collaboration (e.g., informal alliances) and the level of U.S. foreign economic engagement. I expect this relationship to describe the pattern of bilateral aid flows and preferential trade. Second, since legislative constraints on the executive’s capacity to inject discretionary aims into the aid allocation process differ across administrative agents, the expected relationship between aid allocation and allies is not likely to apply to USAID. The remainder of the chapter describes how the executive gained increased discretion during the post-9/11 period and evaluates the empirical claims using a combination of statistical tests and qualitative evidence.

---

as incapable of raising adequate resources or providing a flexible and agile response to emerging security assistance needs.” (86) in Adams and Williams
3.3. Descriptive Evidence

The empirical analysis draws on three strands of evidence. First, I describe historical patterns of foreign aid allocation and shifting demands for discretionary allocation authority. Second, I use data on U.S. bilateral aid allocation to test the argument’s observable implications. The statistical method is appropriate for systematically testing propositions about the relationship between clearly specified variables, but it is of limited utility for illuminating the strategic dynamics that characterize the bargaining process. Third, I take a closer look at the U.S.-Pakistan case in order to illustrate how pressures to align foreign economic assistance with shifting security priorities interacted with domestic constraints.

The historical trend of U.S. foreign aid exhibits the contours of foreign policy interests. Figure 3.1 below shows that U.S. bilateral aid peaked during several critical periods, including the European Recovery Program (eg. Marshall Plan), the Vietnam War, and after 9/11. The level of aid spending dropped to historically low levels when the Cold War ended, “and, with it, the loss of a major rationale for foreign aid.” Announcing the closing of 21 foreign aid country missions in 1993, the USAID Administrator explained, “We no longer have to use our aid programs to purchase influence. We are in a new era.” Many foreign aid scholars associate the 1990s with the rising importance of selectivity in donors’ allocation strategies, which reflected multiple goals, including the promotion of

---

27 This type of case study “aims to illustrate a theoretical idea” and “puts concrete flesh on the bare bones of an abstract idea.” Odell 2001, 63. On case studies methods, see George & Bennett 2004.
28 Lancaster 2006, 83.
economic development, “good governance,” and the selective maintenance of alliances and colonial ties.\textsuperscript{30}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.png}
\caption{Aggregate U.S. Bilateral Assistance, 1947 – 2008.}
\end{figure}

Yet, at least in the U.S. case, the end of the Cold War diminished the executive branch’s ability to defend foreign aid programs against intensifying attacks from Republican members of Congress. For example, Clinton vetoed a bill (HR 1561) that proposed to abolish USAID as an independent agency. Vice President Gore (during the National Performance Review) rejected a similar State Department proposal to subsume USAID. Predictably, USAID voiced concerns that “a development assistance program submerged into the Department of State will find development overwhelmed and downgraded by the compelling political crises which will remain the core mission for the

Facing Republican majorities in both the House and Senate, President Clinton compromised; the Foreign Relations Authorization Act of 1998 preserved USAID as an independent agency on paper, but it codified a House proposal that placed it under the direct authority and policy guidance of the Secretary of State. This shift laid the groundwork for subsequent moves to gain control over the aid allocation process.

Early in 2001, prior to the attacks, Secretary of State Colin Powell, together with the Office of Budget and Management (OMB), mandated that USAID’s budget first be submitted to the State Department, where it could be altered and submitted to OMB as a single budget. According to three former USAID Administrators, this procedural change meant that “USAID lost staff, programmatic flexibility, and influence with Congress, other government departments, other aid donors, and recipient nations.”

The 1990s turned out to be something of an “interregnum” for U.S. foreign aid policy between the Cold War and the War on Terror. As security rationales for giving aid grew in salience, the Bush Administration moved again to exert control over foreign aid resources, culminating in the creation of the State Department Bureau of Foreign Assistance (Delegation of Authority 293) in 2006. Secretary Rice explained that the reorganization was intended “to better align our foreign assistance programs with our foreign policy goals.” The allocation process under USAID was widely viewed as an obstacle, such that, “when something

---


32 Atwood, McPherson & Natsios 2008, p. 125. Given the vagueness and lack of citations in the Foreign Affairs article, I confirmed details of this change in written communications with Andrew Natsios, former USAID Administrator 2001 to 2005.

33 Stone 2010/working, 27.

happens quickly, mission directors don’t have the flexibility and the resources to move.”

The “F process,” as it is known, gave the State Department direct control of USAID’s budget and ostensibly moved USAID even closer to becoming an implementing agency with limited independent authority.

One concrete way to observe changing control over foreign aid allocation is to compare the amount of aid disbursed by different agents. Figure 3.2 below graphs the total amount of economic aid disbursed by USAID and the Department of State from 1980 to 2008. The uppermost dashed-line represents foreign aid under USAID, while the dashed-line beneath it subtracts aid to the four country recipients that are extreme outliers (Afghanistan, Iraq, Egypt, Israel). The lower two lines represent foreign aid directly funded by the State Department. Around 1998, the Department of State’s role as an allocation agent began to grow. By 2008, it disbursed as much bilateral economic aid as USAID, outliers included. In other words, the State Department has been able to secure a larger share of total economic aid, more than tripling its share since the mid-1990s (less than 10 percent to 30 percent) as the aggregate aid purse has grown, while USAID’s share has been halved since the mid-1990s (60 to 30 percent).

---


36 A Senate Foreign Relations Committee report noted, “The initial implementation of the ‘F process,’ which was done hurriedly and could have been better thought through, reinforced the perception that it was a State Department grab for expenditures from foreign assistance coffers at the expense of USAID and State geographical bureaus running individual programs.” See “Embassies Grapple to Guide Foreign Aid: A Report to Members of the Committee on Foreign Relations, United States Senate, One Hundred Tenth Congress,” November 16, 2007, U.S. Government Printing Office, Washington, D.C.: 2007.
This striking shift in the structure of the foreign aid allocation process has two major implications. First, the executive’s discretionary capacity to forge linkages between geopolitical aims and aid allocation increased. Thus, as Hypothesis One suggests, we should expect to observe higher overall aid levels where the executive’s demands for security collaboration were most salient (eg. in alliance relationships). However, since this delegation shift was a response to the status quo institutional rigidity of the incumbent administrative agent, we should expect to find evidence of USAID’s distinctively stable allocation behavior. Development need should continue to drive allocation under USAID and, as Hypothesis Two suggests, USAID should remain relatively insulated from pressures to tie aid allocation with alliance relationships.

Figure 3.2. U.S. Bilateral Economic Assistance, USAID and State Department.
One possible objection to my discussion is that it focuses on security rationales for giving aid but neglects the simultaneous rise of major foreign aid programs under the Bush Administration, the President’s Emergency Plan for AIDS Relief (PEPFAR) in 2003 and the Millennium Challenge Corporation (MCC) in 2004. Given that both of these programs target qualifying developing and least-developed recipient countries, one might think that their emphasis on “objective needs” and selectivity counterbalances the rising importance of geopolitically-motivated aid allocation in the post-9/11 period. However, these programs have taken up a relatively small share of the aid budget. According to official data on U.S. aid obligations, total MCC and total PEPFAR-related aid from 2004 to 2008 have each accounted for less than 4 percent of total bilateral economic assistance.

3.4. Analysis of Foreign Aid Allocation

Data and Variables

To test these observable implications in a systematic manner, I analyze U.S. bilateral aid allocation across time and recipient countries. For the dependent variable, I use data on U.S. bilateral economic aid from the annual publication, “U.S. Overseas Loans and Grants, Obligations and Loan Authorizations,” commonly known as the “Greenbook.” This publication records U.S. foreign assistance obligations funded across 29 U.S. Government (USG) organizations. My argument stresses that certain executive agents are capable of exercising greater discretion over aid allocation than other agents (eg. USAID), which are disproportionately constrained by legislative oversight. Thus, I assess allocation patterns separately for (1) total bilateral economic aid obligations, (2) aid obligations

funded under all USG organization excluding USAID, and (3) USAID obligations. In each case, I take the natural log of the constant 2008 dollar amount of U.S. bilateral foreign economic assistance obligations recorded for each country $i$ in year $t$. The period of analysis is 1980 to 2008. The sample includes all countries that the U.S. Department of State recognizes as an “independent state.” I excluded 29 OECD members that are classified by The World Bank as high-income countries. I also excluded four countries that are outliers – Egypt, Israel, Afghanistan, and Iraq – in order to avoid skewing the analysis.

Since most of the existing work on aid allocation concerns the responsiveness of allocation agents to development need, the first independent variable of interest is $GDP$, measured as the natural log of gross domestic product per capita. If development need is a stable determinant of aid allocation, the coefficient on $GDP$ should be negative and statistically significant. That is, countries at a higher level of economic development should be less likely to receive aid and, if they do, should receive less. I also a variable $GDP^{\text{post-9/11}}$ that is the interaction between GDP and a dummy variable coded “1” for all observations after 2001 in order to see whether the relationship between development need and foreign aid allocation depends on foreign policy context.

The next set of independent variables captures different security-related motivations for giving aid. The variable $Ally$ is a dichotomous variable coded “1” if a country is a formal or informal ally of the United States. Rather than relying on conventional alliance

---

38 I added 1 to all observations of the dependent variable in order to obtain the natural log for “0” observations.
40 Egypt and Israel received large aid packages across the period of analysis as a result of the Camp David Accords and are conventionally excluded from studies of U.S. foreign aid. Afghanistan and Iraq have also received exceptionally large aid packages due to U.S. military operations.
41 On the use of interaction models, see Brambor, Clark & Golder 2005.
datasets, which are based on formalized alliance relationships, I wanted to record foreign policymakers’ shifting perceptions about which security partnerships – many of which are informal – are salient at any given time. To do this, I relied on an annual report published by the State Department’s Bureau of Political and Military Affairs (“Foreign Military Training and Department of Defense Engagement Activities of Interest”), which contains a section describing “State Foreign Policy Objectives” by country. I coded a country as an informal ally of the United States if the report profiled a country as an “ally” or “security partner.”

42 For example, Ethiopia is called a “staunch ally in the war on terrorism,” “arguably the key to U.S. security interests in the Horn of Africa,” and “our most effective partner in the counter-terrorist fight within the region.”

43 Malaysia is called a “key counterterrorist partner.” There are some profiles that do not use the word “ally” but nonetheless stress a bilateral relationship’s security dimension and are thus coded as allies. For example, Djibouti “has played a strategic role in the War on Terror,” “is home to the only U.S. military base in Africa, the multi-national Combined Joint Task Force-Horn of Africa,” and is “in a very strategic position.”

44 The Philippines is a “key player in the War on Terror” in its fight against the Abu Sayyaf Group and the Jemaah Islamiyah organizations, both U.S.-designated foreign terrorist organizations.

Figure 3.3 below shows how mean bilateral economic aid levels vary with the dichotomous Ally variable

---

42 Countries that are coded as an informal ally for more than one year during the post-9/11 period include Afghanistan, Algeria, Azerbaijan, Bahrain, Chad, Colombia, Djibouti, Egypt, Ethiopia, India, Iraq, Jordan, Kenya, Kuwait, Libya, Malaysia, Morocco, Niger, Nigeria, Oman, Pakistan, the Philippines, Qatar, Russia, Saudi Arabia, Senegal, Singapore, Tanzania, Thailand, Tunisia, Turkey, Ukraine, United Arab Emirates, and Yemen.


44 Ibid., fn. 56

45 Ibid., fn. 56
across time periods. This figure provides descriptive evidence that the mean level of aid received by allies surged during the period between 2002 and 2008.

![Figure 3.3](image_url)

**Figure 3.3. Mean Bilateral Economic Aid Levels by Ally Group and Period.**

While this *Ally* variable has the advantage of picking up officials’ perceptions about informal security relationships, these perceptions are obviously subjective. Moreover, aid allocation might respond to certain narrowly defined security rationales but not others. Thus, I include several “objective” indicators that previous researchers single out. The variable *Military_Presence* is the natural log of the total number of U.S. military personnel stationed ashore in country $i$ for at least one month of year $t$. Some researchers argue that the U.S. uses not only military aid but also economic aid as a “carrot” to delegate counter-terrorism efforts to other states. I thus include the variable *Attack_Count*, which

---

46 See Meernik, Krueger & Poe 1998. For work on the relationship between troops and trade, see Biglaiser & DeRouen 2009. Data is from the updated “U.S. Troop Deployment Dataset, 1950 to 2009,” obtained directly from Dr. Tim Kane, Center for Data Analysis, The Heritage Foundation. The original data comes from the Statistical Information Analysis Division (SIAD) of the Directorate for Information Operations and Reports (DIOR) in the U.S. Department of Defense.

47 See Boutton & Carter 2010 (working), which uses a variable measured as the number of terrorist organizations within a country that attack U.S. interests.
is a continuous variable that measures the number of attacks by a U.S.-designated Foreign Terrorist Organization (FTO) on U.S. interests that occur in country $i$ in year $t$.\footnote{I created this variable based on data in the National Consortium for the Study of Terrorism and Responses to Terrorism's (START) Global Terrorism Database (GTD), based at the University of Maryland. I only have the U.S. lists from 1996 to 2009, so I make the assumption (very strong) that the 1996 list applies to previous years as well.} Finally, to account for the donor’s security-related incentives to channel aid toward chronically underdeveloped states with weak internal institutions, I include a variable $Weak_States$ coded “1” for states that rank in the top two quintiles (56 countries) of an index measuring state weakness in the developing world.\footnote{See the Brookings Institution, Index of State Weakness in the Developing World. Data on “government effectiveness” and the “rule of law” from the World Bank feed into this index.}

I control for several other factors that likely shape U.S. aid allocation, which are not central to this chapter’s claims. $Democracy$ is measured using inverted Freedom House indices, based on the average of a country’s civil liberties and political rights scores in a given year, which range from 1 (least democratic) to 7 (most democratic).\footnote{I use Freedom House rather than Polity because the data coverage is better.} $Trade$ is measured as the natural log of total U.S. exports to country $i$ and U.S. imports from country $i$ in year $t$.\footnote{IMF Direction of Trade Statistics.} $Population$ is the natural log of a country’s population in given year. To control for overall fluctuations in the level of economic aid from year to year, I include $Total_Aid$. Finally, I include two dummy variables to control for all $Cold_War$ observations in the sample, 1980 to 1990, and the $War_on_Terror$ observations, 2002 to 2008.

**Specification and Results**

Following previous research that models foreign aid selection (eg. whether or not a country is selected to receive aid) and allocation (eg. how much aid a country receives) as
distinct processes, I use a two-stage Heckman model. The first stage uses a probit model to estimate the selection of aid recipients, where the dependent variable is coded “1” if a country receives at least $1 million in aid in a given year and “0” otherwise. The second stage uses OLS to estimate allocation levels, conditional upon receiving aid. I estimated the second stage allocation equation with and without country fixed effects, since it is likely that the data contains unobserved country-specific heterogeneity. All independent variables, except the period indicators, are measured in one year earlier than the dependent variable.

Table 3.1 in the appendix records the results. Given the presence of interaction terms, the coefficients must be interpreted with care (Brambor, et al. 2005). The coefficient on the GDP variable is consistently negative and statistically significant across all equations and models, suggesting that development need is a good predictor of U.S. aid selection and allocation for the period 1980 to 2001 (eg. when the War_on_Terror variable equals zero). The coefficients on the GDP*post-9/11 interaction term are quite small for the allocation equation in Models 1 (all U.S. aid) and 2 (all U.S. aid excluding USAID funds), and does not attain conventional levels of statistical significance. This suggests that there is not a clear conditioning effect of the “War on Terror” on the role of development need. For Model 3 (only USAID), we see that the coefficient on the GDP interaction term is statistically significant for the allocation equation but not in the selection equation. However, the coefficients are larger in Model 3, suggesting that development has played a greater role in post-9/11 USAID allocation.

---

52 Other work on foreign aid allocation that employs this method includes Meernik, Krueger & Poe 1998; Drury, Olson & Van Belle 2005; Fleck & Kilby 2007; Stone 2010/working; Botton & Carter 2010/working.

53 In a multiplicative interaction model, such as \[ Y = b_0 + b_1X + b_2Z + b_3XZ + \varepsilon, \] the marginal effect of \( X \) is calculated as \( b_1 + b_3Z \). Thus, \( b_3 \) is interpreted as the conditioning effect of \( Z \) on the effect of a change in \( X \) on \( Y \). Brambor, Clark & Golder 2005, 11.
Turning now to the variables that capture the security rationales for giving aid, the most striking results stem from the \textit{Ally} variable. For the full and non-USAID samples, we see that while allies are not any more likely to receive U.S. economic aid than non-allies, the coefficient on \textit{Ally} is positive and statistically significant in the allocation equation, suggesting that allies are associated with higher allocation levels. However, the opposite is true for USAID, under which allies are more likely to receive aid but are \textit{not} associated with higher allocation levels. These results provide support for my argument that the executive branch has generally had greater discretion over aid policy when security motivations are salient but that aid agents subject to rigid allocation constraints, like USAID, have been relatively insulated from geopolitical demands. Table 3.3 below records the predicted substantive effects of the \textit{Ally} variable on aid allocation levels when all other variables are held at their sample mean. As the argument suggests, when we look at aid allocation patterns \textit{excluding} USAID, allies are associated with a larger percentage increase in aid than under USAID allocation patterns. Although allocation quantities are obviously much higher under USAID, the \textit{Ally} variable is not a statistically significant determinant of USAID allocation levels.

\begin{table}[h]
\centering
\begin{tabular}{lccc}
\hline
 & \textit{All Aid} & \textit{Excl. USAID} & \textit{Only USAID} \\
\hline
\textit{Ally} $\rightarrow$ 1 & +20\% & +31\% & +16\% \\
\textit{Ally} = 0 & $11.01$ M & $3.25$ M & $17.43$ M \\
\textit{Ally} = 1 & $13.26$ M & $4.26$ M & $20.25$ M \\
\hline
\end{tabular}
\caption{Predicted Foreign Aid Allocation Levels.}
\end{table}

The coefficients for \textit{Military_Presence} and \textit{Attack_Count} are mostly positive and statistically significant, albeit with occasional discrepancies in the allocation equations with and without fixed effects. Another interesting result is that state weakness is positively
associated with aid receipt on the whole but not under USAID. However, state weakness is positively associated with aid allocation levels under USAID. This may be because of “input” selection criteria based on the recipient’s internal institutions disproportionately constrain USAID.\textsuperscript{54}

I took several steps to verify the robustness of these results. First, I estimated the same models with additional variables measuring the occurrence of disasters, the severity of the HIV/AIDS epidemic, and the presence of formal alliances.\textsuperscript{55} These additions did not cause any fundamental changes in the interpretation of the results. Second, I estimated the models that include each of the variables for security motivations (allies, military presence, attacks, and weak states) separately rather than all at once. The results are robust to this more minimal specification. Third, using the same independent variables, I estimated aid allocation under the Department of State alone. The results yield an interpretation parallel with the model assessing aid across all U.S. funding agencies excluding USAID.

In summary, the statistical evidence provides support for my argument. Consistent with Hypothesis One, the results show that developing countries have received higher levels of U.S. bilateral economic aid where demand for security collaboration existed (eg. in alliance relationships). However, as Hypothesis Two anticipates, this pattern did not describe the allocation pattern under USAID. I interpret this as evidence that the executive has less discretionary capacity to inject security rationales into aid policymaking

\textsuperscript{54} The trend toward selectivity is discussed in Bermeo 2008 (working), 2010 (working).
\textsuperscript{55} The variable \textit{Disaster} is the natural log of the total number of deaths from a variety of complex natural disasters that may have caused a spike in U.S. humanitarian and emergency relief aid. See OFDA/CRED International Disaster Database. Due to the rising importance of HIV/AIDS relief in U.S. foreign aid policy, particularly under the George W. Bush Administration, I include the variable \textit{HIVAIDS} which is coded “1” when a country reports that at least 5 percent of the adult population is infected with HIV/AIDS in a given year. Data comes from The World Bank’s “World Development Indicators” database. Alliance data comes from the ATOP database. See Leeds, et al. 2002 (revised 2005).
channels where Congress has greater parochial interests, as it does with development assistance. Changes in the delegation of aid allocation authority, which fostered a division of labor in U.S. foreign aid policy, help to explain why allocation patterns do not respond uniformly to security pressures.

3.5. Case Study: U.S. Foreign Aid to Pakistan

Pakistan is widely considered to be a “pivotal ally” in U.S.-led counterterrorism efforts, making it a most likely case in which to observe the linkage between bilateral security dynamics and foreign aid allocation. Bilateral aid flows to Pakistan clearly parallel shifting security rationales for giving aid. Consistent with the functionalist mechanism, this case study demonstrates that the executive branch under both the Bush and Obama administrations has consistently argued for a high level of discretion over aid policy toward Pakistan. Yet, as the political economy mechanism anticipates, such demands are likely to encounter differential lines of resistance domestically, even within a single channel. Specifically, I show that Congress disproportionately seeks to constrain executive discretion over USAID’s mission in Pakistan, moderately vis-à-vis the Department of State’s foreign assistance budget, and only minimally vis-à-vis the Department of Defense’s security assistance programs.

The Overall Trend

Figure 3.4 below shows that the overall trend in U.S. bilateral aid to Pakistan parallels the “ups and downs” of diplomatic history. In April 1979, the U.S. suspended economic and military assistance programs to Pakistan due to its nascent nuclear program. When the Soviet Union invaded Afghanistan later that year, President Reagan evoked a

---

56 Hufbauer & Burki 2006, 2-5.
national security clause to waive the Symington Amendment, clearing the path for aid programs that lasted until Soviet withdrawal in 1989. Throughout the 1990s, the U.S. took a harder line on Pakistan’s nuclear program and suspended nearly all aid flows, leading to a decade of “abandonment.”

![Figure 3.4. Total U.S. Economic Assistance to Pakistan.](image)

As has been widely documented, U.S. aid to Pakistan surged following the 9/11 attacks, a trend that has “little to do with Pakistan’s objective needs” but rather reflects “Washington’s changing policy priorities.” Specifically, Pakistan’s strategic position bordering Afghanistan and President Musharraf’s willingness under substantial pressure from the Bush Administration to support U.S. military operations furnished the rationale for new aid programs. As Cohen and Chollet (2007) discuss, the U.S. depends on Pakistan’s cooperation in six areas: (1) Permission to fly sorties over Pakistani airspace,

---

58 Byman 2006a, 2006b; Fair 2004. See also C. Christine Fair, “U.S. Aid to Pakistan: Planning and Accountability,” Testimony presented before the House Subcommittee on National Security and Foreign Affairs, December 9, 2009.
which is crucial because of Iran’s refusal; (2) Permission to use several of its military bases; (3) Pakistani troops provide force protection for these bases and U.S. ships; (4) logistical support for U.S. war effort, including fuel and port access; (5) Pakistan’s military deployment to the western border to counter Taliban and Al Qaeda presence; (6) intelligence-sharing. Between 2002 and 2010, Pakistan received an estimated $6.5 billion in economic assistance, not counting more than $13 billion in military assistance during the same period.60

*Executive Demands for Discretion and Patterns of Legislative Pushback*

The core argument implies that we should find evidence of increased legislative pushback against the president’s foreign aid strategy corresponding with two sets of conditions. First, according to the functionalist mechanisms, legislative pushback should increase as the bilateral security rationales for giving aid to Pakistan diminish. Second, according to the political economy mechanism, legislative pushback should disproportionately constrain the way aid is allocated for economic development rather relative to aid that is explicitly categorized as security or military assistance.

Throughout most of the post-9/11 period, both the Bush and Obama administrations vigorously defended the level of foreign assistance resources and discretion to spend flexibly. For example, President Bush met with President Musharraf in June 2003 and promised to work with Congress on a five-year, $3 billion aid package for Pakistan. In the Intelligence Reform and Terrorism Prevention Act of 2004, Congress broadly endorsed the 9/11 Commission’s recommendation that U.S. aid to Pakistan be sustained at 2005 levels, when the annual installments were formally disbursed. In 2007, the House of

Representatives revisited U.S. aid strategy in Section 1442 of the Implementing the 9/11 Commission Recommendations Act of 2007, which included a requirement that the President report to Congress on long-term U.S. strategy for engaging Pakistan and threatened to end bilateral military aid unless the President certifies that Pakistan is “making all possible efforts” to support U.S. operations. Section 1442 was widely interpreted as a mechanism for Democratic-controlled Congress to exercise oversight of executive branch. Yet, the White House rebuffed calls for conditionality, arguing that their introduction would be strategically counterproductive. The Senate version of the bill dropped all Pakistan-specific language. Even so, as if to prove the White House’s concerns, the Pakistani National Assembly’s Defense Committee unanimously passed a resolution promising to end or restrict ongoing military cooperation with the U.S. if foreign aid flows came with conditions.⁶¹ Later that year, when President Musharraf imposed emergency rule and suspended the Constitution, U.S. officials reacted by canceling bilateral military talks and issuing strong statements urging Musharraf to promptly lift emergency rule in order to make way for free and fair elections. Secretary of State Rice said that foreign aid would be reviewed, but Bush made no mention of slashing aid to Pakistan.⁶² Congress inserted language into the Omnibus spending bill to withhold a mere 50 million in security-related foreign aid unless the Secretary of State certified that the Government of Pakistan had restored the Constitution.⁶³

Legislative oversight marginally increased as the Obama Administration moved to

---

secure a five-year tripling of economic aid to Pakistan under The Enhanced Partnership with Pakistan Act of 2009 (known as the “Kerry-Lugar-Berman” bill). The Obama Administration agreed to adopt formal conditions on aid, which required the Secretary of State to certify that the Government of Pakistan was cooperating with the U.S. in the areas of weapons-related controls, counterterrorism, counterinsurgency, and anti-money laundering.64 However, the conditions applied only to security-related assistance. The few times that the Department of State has had to certify Pakistan’s compliance with aid conditions, certification was “met with deep skepticism” and appeared “to be primarily driven by political considerations rather than realities on the ground.”65 This time, U.S. efforts to condition aid flows provoked significant backlash from the main opposition party (Pakistan Muslim League-Nawaz) and the Pakistani military establishment.66

Congressional scrutiny of U.S. foreign aid policy reached a highpoint when U.S. Special Forces killed Osama bin Laden in May 2001. Circumstances surrounding bin Laden’s killing raised suspicions that factions within Pakistan’s security forces may have kept knowledge about his location from U.S. counterparts, despite billions in aid dollars. Members of Congress including Senators Carl Levin (Democratic Chairman of the Armed Services Committee) and Joseph Lieberman (Democratic Chairman of the Homeland Security Committee) argued that U.S. aid to Pakistan should be sharply reduced.67 Levin stated, “The part that I’m most skeptical of is the economic part, the 5 year Kerry-Lugar plan.”68 Yet Republican Senator Richard Lugar noted that “Very little of the money has

65 Ibid. previous footnote, page 27.
been spent – only $179 million has been allocated from the $1.5 billion [in 2011] – largely because we never worked out the accountability of the money, who in Pakistan would spend, how we would audit what they are doing, nor have we agreed on the projects.”

Other Members urged that Pakistan’s foreign aid package be preserved. Republican Congressman John Boehner argued for “more engagement, not less.” Senator John Kerry, another sponsor of the original bill, argued that, “no matter what, we have to remember the big picture, the larger strategic interest, and the full nature of this relationship with Pakistan.”

Ultimately, bilateral economic aid to Pakistan authorized by the Kerry-Lugar bill ($1.5 billion annually) was sustained but, due to budgetary pressures, fell short of planned levels in both FY 2011 (by $414 million), 2012 (by $500 million), and in the 2013 request (by $428 million). In sum, these periodic episodes point to a pattern of heightened domestic backlash against executive discretion in the foreign aid channel when Members of Congress perceived diminishing security rationales for giving aid to Pakistan.

The argument also implies that the domestic lines of resistance vary according to the pathways of foreign aid allocation. We observe a striking pattern along this dimension. The mechanisms for legislative scrutiny of, and constraints on, foreign aid allocation tend to be most (least) robust along the smallest (largest) bureaucratic pathways. Most estimates suggest that the majority, approximately 57 percent, of U.S. foreign assistance to Pakistan is funded through the Department of Defense’s Coalition Support Funds (CSF), followed by approximately 18 percent security assistance, 16 percent direct budget support, and under 10 percent for development and humanitarian assistance (Cohen & Chollet 2007).

Subcommittees, argued the opposite: “We should cut off the military aid but not the economic development aid.” See “Congress preparing options to cut Pakistani aid,” Foreign Policy, May 5, 2011.

“Pakistan military aid safer than the economic aid,” Foreign Policy, May 11, 2011.


Development assistance remains the least flexible of these categories, and USAID’s mission in Pakistan is no exception. The Center for Global Development (2011) observed that “demands from Washington impose a heavy burden on field staff [in Pakistan]. In the first 18 months, the mission was buffeted by a constant stream of shifting and at times conflicting instructions...Burdensome oversight and reporting requirements continue to limit the ability of staff to make decisions, take risks, and innovate,” leading them to conclude that the USAID mission “has been placed in a position that makes success improbable.”

“The United States’ aid package is trapped in an impossible trinity: Congress and the administration demand local ownership, rigorous oversight, and speedy results. Under current constraints, the aid program can maximize two of these at one time, but not all three.” Senator Kerry lamented, “Moving this much money transparently through any bureaucracy is always a slow process.”

In stark contrast, The Defense Appropriations Act for Fiscal Year 2002 granted the Secretary of Defense wide discretionary authority to reimburse coalition partners for logistical and military support to U.S. military operations using funding that became known as the Coalition Support Funds (CSF). CSF disbursement followed a simple procedure. The government of Pakistan submits claims to the U.S. Embassy, which are endorsed and reviewed by U.S. Central Command for the required link to U.S. military operations. The Office of the Secretary of Defense Comptroller evaluates the claims, obtains concurrence from the Department of State, and provides Congress with a 15-day notification period before funds are released. From 2002 to 2008, the GAO reports,

---

73 Ibid., see previous footnote, 17.
“Congress continued to provide funding for Pakistan through Defense without requiring specific accountability controls until 2008.” Even when new reporting requirements were passed, “Congress has consistently left decision-making on the suitability of documentation to the discretion of the Secretary of Defense.” As a result, the GAO concluded that the Defense Department was unable to determine how much of the nearly $6 billion in CSF transferred to Pakistan since 2001 were actually incurred. The Department of Defense largely concurred with the GAO’s conclusions but stressed that CSF evolved in a context where Pakistan’s significant contribution to the Global War on Terror “required flexibility in guidance and processes for contingency environments.” Some members of Congress have noted that the CSF should be treated as a form of foreign assistance subject to greater legislative scrutiny. Senator Menendez complained that Congress’ attempt to understand the role of CSF, which constitutes nearly 60 percent of overall foreign aid to Pakistan, was “like trying to read a book when 60 percent of the lines in the text have been redacted.”

Patterns of U.S. foreign aid to Pakistan thus illustrate the dual mechanisms shaping post-9/11 U.S. foreign policy. The president’s discretionary capacity to give foreign aid to Pakistan has been a function of fluctuating security rationales in the bilateral relationship. When those security rationales were in question domestically, legislative backlash on the
whole intensified. This dynamic has had a more severe effect on development aid than on either budget-support, security-related assistance, or military aid. The diffusion of institutional pathways for allocating aid has thus been a crucial element of the president’s ability to use foreign aid as a flexible foreign policy tool.

3.6. Conclusion

Writing shortly after the September 11\textsuperscript{th} attacks, Barry Eichengreen vividly anticipated the scope of pressures across multiple channels of U.S. foreign economic policy, leading to something akin to a “New Marshall Plan” in foreign aid, enhanced U.S. market access “to reward friendly countries,” and intensified use of the International Monetary Fund as an “instrument” to secure loans and debt relief for “front-line countries.”\textsuperscript{79} At the same time, he noted that it was important “not to push the argument too far.”

This chapter shows how countervailing political demands shaped the pattern of U.S. foreign economic policy. Overall, the executive has had considerable discretionary power during the post-9/11 period to forge strategic linkages between bilateral economic engagement and shifting security aims. However, unlike systemic international relations theory, where “statesmen are assumed to be able to mobilize whatever domestic resources...are necessary to achieve vital foreign-policy objectives,” my argument also stresses that sources of domestic resistance differentially constrain the executive’s capacity to use foreign economic engagement as a bargaining tool.\textsuperscript{80} Strategic foreign economic policy essentially requires leaders to “make tradeoffs between domestic and international


\textsuperscript{80} My argument thus echoes Moravcsik 1993, 10.
goals.”

In the foreign aid channel, the executive had less room to prioritize security aims in parts of the appropriations process that fall disproportionately under legislative influence, as is the case with USAID resources earmarked for specific development projects. Thus, as post-9/11 economic aid levels surged, a growing share went to allocation agents that could respond flexibly to short-term foreign policy imperatives. The empirical pattern of bilateral economic aid allocation accords with this interpretation. Analyzing a sample that covers all U.S. funding agencies, we find that developing country allies are associated with higher levels of aid receipt, but this relationship does not hold for a sample that isolates aid obligations under USAID.

The next chapter moves beyond the foreign aid realm by analyzing the impact of foreign policy pressures and domestic constraints on the administration of nonreciprocal trade preferences. Contrary to portrayals of nonreciprocal trade preferences as being exclusively determined by import-competitive protectionism, my argument brings the president’s foreign policy agenda back into the equation. The empirical evidence suggests that the executive similarly invoked security rationales in order to justify targeted expansion of U.S. market access. Allies have been associated with higher absolute levels of GSP-eligible imports, controlling for a wide variety of factors. However, as the two-level bargaining dynamic between U.S. and Pakistan over trade concessions illustrates, domestic opposition did in fact limit the value of these concessions. When the costs of proposed concessions were concentrated in import-competitive industries, the president was compelled to compromise, resulting in curtailed trade benefits. Although this chapter does not conduct any direct test of arguments about foreign policy “substitutability” between aid and trade – based on “the idea that many individual foreign policies are applicable toward the

---

81 Ibid. previous footnote.
same goal” – the findings here echo previous research that casts doubt on the extent of substitutability.\textsuperscript{82} As Milner & Tingley (2011, 40) argue, “Presidents may have a hard time switching between different policies if their domestic consequences – and hence their domestic support groups – are distinct.”

This difficulty highlights a larger source of tension in proposals calling for “smart” use of the full foreign policy toolkit.\textsuperscript{83} On the one hand, there seems to be substantial consensus across the political spectrum that complex problems like transnational terrorism and chronic insurgencies require more than the military tools of foreign policy.\textsuperscript{84} Yet, when it comes to concrete choices about how to optimally align U.S. foreign economic policies with strategic policy priorities, preferences diverge. Within the executive, lawmakers and private actors hold conflicting preferences over how aid, trade, and other policy alternatives should be used as tools of foreign policy. Pressures for strategic reorientation, this chapter demonstrates, are tightly related to the “character of resistance to such pressures.”\textsuperscript{85}

\textsuperscript{82} Palmer, Wohlander & Morgan 2002.

\textsuperscript{83} The 9/11 Commission Report, for example, asserts that a balanced strategy demands the integrated use of “all elements of national power: diplomacy, intelligence, covert action, law enforcement, economic policy, foreign aid, public diplomacy, and homeland defense.” See the National Commission on Terrorist Attacks Upon the United States 2004, 363-364. Variations on such proposal include Nossel 2004 (“smart”), Mead 2004 (“sticky”), and to a lesser extent Nye 2004 (“soft). See also Robert M. Gates, U.S. Secretary of Defense, Landon Lecture, Kansas State University, November 26, 2007, who argued that new threats “require our government to operate as a whole differently – to act with unity, agility, creativity. And they will require considerably more resources devoted to America’s non-military instruments of power.”

\textsuperscript{84} For example, see “A Smarter, More Secure America: Report of the CSIS Commission on Smart Power,” November 6, 2007, Center for Strategic and International Studies; William Kristol and 36 others, “Toward a Comprehensive Strategy: A Letter to the President,” September 20, 2001, Project for the New American Century, which concludes, “Diplomatic efforts will be required to enlist other nations’ aid in this war on terrorism. Economic and financial tools at our disposal will have to be used.”

\textsuperscript{85} Pierson & Trowbridge 2002, 11.
### Table 3.1. Variables and Descriptive Statistics.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>Mean</th>
<th>Std.Dev.</th>
<th>Min.</th>
<th>Max.</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total economic aid(_{it})</td>
<td>4710</td>
<td>50.16</td>
<td>120.06</td>
<td>0</td>
<td>2262.6</td>
<td>Greenbook</td>
</tr>
<tr>
<td>ln(Total+1)(_{it})</td>
<td>4710</td>
<td>2.24</td>
<td>1.97</td>
<td>0</td>
<td>7.72</td>
<td>Greenbook</td>
</tr>
<tr>
<td>USAID economic aid(_{it})</td>
<td>4710</td>
<td>24.58</td>
<td>64.16</td>
<td>-1.5</td>
<td>1224.6</td>
<td>Greenbook</td>
</tr>
<tr>
<td>ln(USAID+1)(_{it})</td>
<td>4710</td>
<td>1.56</td>
<td>1.81</td>
<td>0</td>
<td>7.11</td>
<td>Greenbook</td>
</tr>
<tr>
<td>Non-USAID economic aid(_{it})</td>
<td>4710</td>
<td>47.92</td>
<td>118.82</td>
<td>0</td>
<td>2254.88</td>
<td>Greenbook</td>
</tr>
<tr>
<td>ln(Non-USAID+1)(_{it})</td>
<td>4710</td>
<td>2.11</td>
<td>2.00</td>
<td>0</td>
<td>7.72</td>
<td>Greenbook</td>
</tr>
<tr>
<td>GDP per capita(_{it})</td>
<td>4083</td>
<td>6801.76</td>
<td>8568.27</td>
<td>153.44</td>
<td>88320.78</td>
<td>Penn World Tables</td>
</tr>
<tr>
<td>ln(GDP per capita)(_{it})</td>
<td>4083</td>
<td>8.3</td>
<td>1.03</td>
<td>5.03</td>
<td>11.39</td>
<td>Penn World Tables</td>
</tr>
<tr>
<td>Military_presence(_{it})</td>
<td>4710</td>
<td>245.46</td>
<td>2067.19</td>
<td>0</td>
<td>54635</td>
<td>Kane / Defense</td>
</tr>
<tr>
<td>ln(Military Presence+1)(_{it})</td>
<td>4710</td>
<td>1.89</td>
<td>1.97</td>
<td>0</td>
<td>10.91</td>
<td>Kane / Defense</td>
</tr>
<tr>
<td>Ally(_{it})</td>
<td>4710</td>
<td>0.05</td>
<td>0.22</td>
<td>0</td>
<td>1</td>
<td>State Department</td>
</tr>
<tr>
<td>Attacks(_{it})</td>
<td>4710</td>
<td>0.25</td>
<td>1.47</td>
<td>0</td>
<td>41</td>
<td>START</td>
</tr>
<tr>
<td>Democracy(_{it})</td>
<td>4255</td>
<td>3.84</td>
<td>1.86</td>
<td>1</td>
<td>7</td>
<td>Freedom House</td>
</tr>
<tr>
<td>ln(Trade)(_{it})</td>
<td>4710</td>
<td>4.77</td>
<td>2.98</td>
<td>0</td>
<td>12.97</td>
<td>IMF</td>
</tr>
<tr>
<td>ln(Population)(_{it})</td>
<td>4408</td>
<td>0.28</td>
<td>2.06</td>
<td>2.58</td>
<td>14.09</td>
<td>World Bank</td>
</tr>
</tbody>
</table>

*These summary statistics are for 1979 to 2008 and exclude Afghanistan, Egypt, Iraq, and Israel.
Table 3.2. Results from Analysis of U.S. Foreign Aid Allocation.

See discussion at Section 3.4.

<table>
<thead>
<tr>
<th>Selection</th>
<th>Allocation</th>
<th>Allocation FE</th>
<th>Selection</th>
<th>Allocation</th>
<th>Allocation FE</th>
<th>Selection</th>
<th>Allocation</th>
<th>Allocation FE</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>-0.634***</td>
<td>-0.591***</td>
<td>-0.422***</td>
<td>-0.727***</td>
<td>-0.674***</td>
<td>-0.433***</td>
<td>-0.602***</td>
<td>-0.240**</td>
</tr>
<tr>
<td>(0.039)</td>
<td>(0.062)</td>
<td>(0.077)</td>
<td>(0.040)</td>
<td>(0.077)</td>
<td>(0.105)</td>
<td>(0.037)</td>
<td>(0.111)</td>
<td>(0.128)</td>
</tr>
<tr>
<td>GDP*post-9/11</td>
<td>0.035*</td>
<td>-0.020</td>
<td>-0.009</td>
<td>0.035*</td>
<td>0.008</td>
<td>0.019</td>
<td>0.111</td>
<td>-0.48***</td>
</tr>
<tr>
<td>(0.019)</td>
<td>(0.018)</td>
<td>(0.012)</td>
<td>(0.018)</td>
<td>(0.019)</td>
<td>(0.016)</td>
<td>(0.017)</td>
<td>(0.018)</td>
<td>(0.013)</td>
</tr>
<tr>
<td>U.S. Ally</td>
<td>-0.224</td>
<td>0.186*</td>
<td>0.404***</td>
<td>0.110</td>
<td>0.269**</td>
<td>0.401***</td>
<td>-0.403***</td>
<td>0.150</td>
</tr>
<tr>
<td>(1.41)</td>
<td>(1.13)</td>
<td>(0.090)</td>
<td>(1.43)</td>
<td>(1.15)</td>
<td>(1.14)</td>
<td>(1.16)</td>
<td>(1.16)</td>
<td>(1.16)</td>
</tr>
<tr>
<td>Military Pres.</td>
<td>0.111***</td>
<td>0.175***</td>
<td>0.114***</td>
<td>0.063***</td>
<td>0.073***</td>
<td>0.030</td>
<td>0.159***</td>
<td>0.134***</td>
</tr>
<tr>
<td>(0.017)</td>
<td>(0.017)</td>
<td>(0.018)</td>
<td>(0.016)</td>
<td>(0.018)</td>
<td>(0.021)</td>
<td>(0.015)</td>
<td>(0.029)</td>
<td>(0.036)</td>
</tr>
<tr>
<td>Attack Count</td>
<td>0.242***</td>
<td>0.041***</td>
<td>0.025**</td>
<td>0.078***</td>
<td>0.053***</td>
<td>0.013</td>
<td>0.042**</td>
<td>0.010</td>
</tr>
<tr>
<td>(0.053)</td>
<td>(0.014)</td>
<td>(0.010)</td>
<td>(0.025)</td>
<td>(0.015)</td>
<td>(0.013)</td>
<td>(0.018)</td>
<td>(0.013)</td>
<td>(0.011)</td>
</tr>
<tr>
<td>Weak States</td>
<td>0.540***</td>
<td>-0.213***</td>
<td>1.152***</td>
<td>0.325***</td>
<td>-0.011</td>
<td>1.075***</td>
<td>0.093</td>
<td>-0.258***</td>
</tr>
<tr>
<td>(0.074)</td>
<td>(0.076)</td>
<td>(0.228)</td>
<td>(0.070)</td>
<td>(0.076)</td>
<td>(0.272)</td>
<td>(0.063)</td>
<td>(0.071)</td>
<td>(0.265)</td>
</tr>
<tr>
<td>Democracy</td>
<td>0.138***</td>
<td>0.169***</td>
<td>0.152***</td>
<td>0.158***</td>
<td>0.171***</td>
<td>0.088***</td>
<td>0.089***</td>
<td>0.134***</td>
</tr>
<tr>
<td>(0.016)</td>
<td>(0.019)</td>
<td>(0.020)</td>
<td>(0.016)</td>
<td>(0.022)</td>
<td>(0.027)</td>
<td>(0.015)</td>
<td>(0.023)</td>
<td>(0.026)</td>
</tr>
<tr>
<td>Trade</td>
<td>0.073***</td>
<td>-0.029</td>
<td>0.048**</td>
<td>0.099***</td>
<td>0.046**</td>
<td>0.073**</td>
<td>0.039***</td>
<td>-0.017</td>
</tr>
<tr>
<td>(0.015)</td>
<td>(0.019)</td>
<td>(0.023)</td>
<td>(0.015)</td>
<td>(0.021)</td>
<td>(0.030)</td>
<td>(0.014)</td>
<td>(0.020)</td>
<td>(0.027)</td>
</tr>
<tr>
<td>Population</td>
<td>0.117***</td>
<td>0.339***</td>
<td>0.902***</td>
<td>0.124***</td>
<td>0.311***</td>
<td>1.121***</td>
<td>0.146***</td>
<td>0.277***</td>
</tr>
<tr>
<td>(0.019)</td>
<td>(0.024)</td>
<td>(0.074)</td>
<td>(0.019)</td>
<td>(0.026)</td>
<td>(0.082)</td>
<td>(0.018)</td>
<td>(0.033)</td>
<td>(0.115)</td>
</tr>
<tr>
<td>Cold War</td>
<td>-0.299***</td>
<td>0.127**</td>
<td>0.340***</td>
<td>-0.408***</td>
<td>-0.142**</td>
<td>0.070</td>
<td>0.020</td>
<td>0.428***</td>
</tr>
<tr>
<td>(0.063)</td>
<td>(0.063)</td>
<td>(0.049)</td>
<td>(0.061)</td>
<td>(0.072)</td>
<td>(0.068)</td>
<td>(0.057)</td>
<td>(0.059)</td>
<td>(0.052)</td>
</tr>
<tr>
<td>War on Terror</td>
<td>0.109</td>
<td>0.325***</td>
<td>0.095</td>
<td>0.116</td>
<td>0.128</td>
<td>-0.062</td>
<td>0.217*</td>
<td>0.487***</td>
</tr>
<tr>
<td>(0.135)</td>
<td>(0.120)</td>
<td>(0.082)</td>
<td>(0.132)</td>
<td>(0.126)</td>
<td>(0.106)</td>
<td>(0.120)</td>
<td>(0.124)</td>
<td>(0.095)</td>
</tr>
<tr>
<td>(0.427)</td>
<td>(0.462)</td>
<td>(1.076)</td>
<td>(0.422)</td>
<td>(0.519)</td>
<td>(0.106)</td>
<td>(0.391)</td>
<td>(0.499)</td>
<td>(1.379)</td>
</tr>
</tbody>
</table>

Observations 3983  3983  3983
R-squared 0.28 0.29 0.22

Selection equation estimated using probit; dependent variable equals "1" if country received at least $1 million U.S. bilateral aid, "0" otherwise.
Allocation equation estimated using OLS conditional on receiving aid; dependent variable is natural log of U.S. bilateral aid (2008 USD millions).
Standard errors in parentheses. Significance levels *p<0.10, **p<0.05, *** p< 0.01.
4.1. Introduction

The GATT/WTO authorizes governments in developed countries to unilaterally confer better-than-“Most Favored Nation” (MFN) tariff rates on select goods imported from developing countries. In contrast with multilateral norms, this subset of trade policy is intentionally nonreciprocal and discriminatory. Developing countries gain one-way market access but are under no formal obligation to grant corresponding tariff rates. Moreover, these nonreciprocal trade preferences are unilaterally implemented, which gives preference-granting governments discretion over how to define eligibility. Nonreciprocal trade preferences would therefore seem to be a potentially malleable supply of economic incentives.

This chapter examines the United States’ administration of nonreciprocal trade preferences, focusing on explaining how and why shifting strategic priorities after the September 11th, 2001 attacks influenced the use of nonreciprocal trade preferences as a tool of foreign policy. The foreign policy context under examination suggests that, on the whole, this should be a fertile period for observing changing patterns in the administration of nonreciprocal trade preferences. 9/11 catalyzed a dramatic shift in U.S. foreign policy that prompted government officials to treat a wide range of issue areas as channels of global anti-terrorism strategy. One indirect channel of this strategic shift involved foreign economic policies like foreign aid and trade, which ostensibly provided diplomatic means of fortifying important U.S. bilateral relationships in the developing world.¹

The descriptive evidence suggests that nonreciprocal trade preferences became an increasingly salient feature of U.S. “linkage diplomacy” after 9/11. Specifically, the executive exercised increased discretion in administering the centerpiece of U.S. nonreciprocal trade policy, the Generalized System of Preferences (GSP). For example, both in the immediate wake of 9/11 and during subsequent years, the Bush Administration successively targeted country and product-level modifications to GSP eligibility at allies. Some of the primary beneficiaries of product-level changes included Egypt, Morocco, Pakistan, the Philippines and Turkey. States added to the country-level beneficiary list included Afghanistan, Algeria, Georgia, Iraq, Pakistan, Tajikistan, Turkmenistan, and Ukraine. Each of these countries either shares a land border with Afghanistan or Iraq, is home to or a target of foreign terrorist organizations, or contributed troops to U.S. military operations. Finally, consistent with the idea of a security-economics linkage, both the aggregate and country-specific data on the amount of imports eligible for GSP exhibit a surge during the post-9/11 period.

Yet, there are good reasons to pose questions about the generality and confounding logics associated with these apparent security-motivated modifications to nonreciprocal trade preferences. First, as with most foreign economic policies, this one generates winners and losers. Import-competing industries are the predictable opponents of GSP expansion; did they play a deferential role in the midst of a security crisis or did they mobilize to

---


2 I borrow the term from Davis 2009.


5 Based on data from the International Trade Commission; see Section 2 of this paper.
defend their own interests? Second, the ubiquitous view of GSP is that it is wholly constrained by statutory limits and mandates, leaving virtually no room for discretionary choice. If this is the case, what did the executive do and how? Third, even if some variation in GSP administration arises from the state’s shifting security interests, there might be other more general factors guiding it: for example, nonreciprocal trade preferences could be residual to the pursuit of more attractive outside options like reciprocal preferential trade agreements (PTAs). Thus, a compelling theory of GSP administration should account for the potential causal impact of security interests, domestic constraints, and outside options. Simply put, the occurrence of a discrete shock like 9/11 does not furnish an easy answer, because the effects associated with a shock depend on their interaction with existing preferences, resources and institutions.\(^6\)

Therefore, parallel with Chapter Three, the purpose of this chapter is to study the interaction between security motivated demands for increased policy discretion over GSP and domestic political constraints. To do this, I conceptualize the scope of GSP eligibility as the dependent variable. Eligibility varies across countries, products, and time. Previous research on GSP looks only at country-level eligibility, which glosses over most of the variation in the way GSP is administered at the product-level.\(^7\)

The central argument is that shifting bilateral security rationales motivated the president to exercise increased discretion by expanding the scope of GSP eligibility for U.S. allies. In this sense, the administration of trade preferences is very similar to foreign aid allocation: both have been indirect channels of post-9/11 security-economic linkage strategy through which the U.S. sought to reinforce its bilateral relationships, especially vis-à-vis

---

\(^6\) March and Olsen 1989, 64-65.  
\(^7\) Ozden and Reinhardt 2005, 7.
informal allies, in the developing world.\textsuperscript{8} Such a functionalist logic explains patterns of trade preference administration as a function of shifting security motivations for linkage.

Second, it is important to note that the executive’s discretionary authority does not uniformly expand when security rationales operate. Rather, the degree to which domestic actors constrain executive discretion varies across and within foreign economic policy channels.\textsuperscript{9} Agencies, legislators and industry groups that expect to shoulder the costs associated with policy change will rationally move to defend their own interests. In this chapter, I argue that import-competing industry groups and their representatives discounted the value of potential security gains from economic linkage relative to the president. Lacking consensus, the executive faces the decision to either choose policies that simply avoid areas of significant resistance, bargain for compromise, or disregard conflicting interests.\textsuperscript{10} Under conditions of constrained strategic choice, therefore, we should expect the observed pattern of foreign economic engagement to depend not only on the executive’s strategic response to security exigencies but also on parallel responses to domestic resistance in a given channel.\textsuperscript{11} In short, my argument echoes arguments in previous work on economic statecraft, which stress that the executive’s incentives to link foreign economic policy with the state’s security interests will also depend on the severity of domestic constraints.\textsuperscript{12}

Empirically, this two-pronged argument provides a framework for explaining the strategic administration of trade preferences. I test the observable implications of this political dynamic using a new panel dataset on the scope of developing country eligibility

\textsuperscript{8} On “linkage diplomacy” see Davis 2009; see Byman 2006a, 2006b regarding allies in the “War on Terror.”
\textsuperscript{9} On the theoretical relationship between domestic politics and international bargaining, see Milner 1997; Moravcsik 1993: Putnam 1988.
\textsuperscript{10} Domestic bargaining increases the transaction costs associated with economic “carrots.” Drezner 1999.
\textsuperscript{11} Lake & Powell 1999, especially Rogowski 1999.
\textsuperscript{12} See especially Davis 2009.
for the Generalized System of Preferences (GSP), which is the core of U.S. nonreciprocal trade policy toward developing countries. Parallel with the foreign aid findings, I find evidence that U.S. allies have been associated with a higher absolute level of GSP-eligible imports. The baseline set of statistical results do not show that higher levels of domestic import competition have been negatively associated with the absolute level of GSP-eligible imports, but a separate analysis of coverage ratios (share of imports eligible for GSP) identifies this relationship.

Since the statistical evidence provides only indirect support for my claims, I illustrate the logic of my argument with a more synthetic description of the countervailing pressures on U.S. trade preferences across three cases --Pakistan, the Philippines, and Turkey—which can be seen as “most likely” cases for observing linkage strategy after 9/11, given their strategic importance as allies. As Chapter Three demonstrated, both the Bush and Obama Administrations have had substantial discretion over the disbursement of bilateral economic aid. Congress has repeatedly threatened, with limited success until recently, to cut or condition Pakistan’s aid. In contrast, the Bush Administration’s strong push to expand Pakistan’s eligibility for U.S. trade preferences encountered severe obstacles. Namely, concentrated opposition from the textiles and clothing industry compelled the president to extend only modest trade concessions. In sum, despite calls from both sides for deeper trade relations to complement aid flows, different lines of resistance have so far prevented this from becoming a reality.13

---

4.2. The Dependent Variable: The Scope of GSP Eligibility

The Generalized System of Preferences (GSP) is the centerpiece of U.S. policy on nonreciprocal trade preferences. Created by the Trade Act of 1974, GSP defines the countries and products eligible to receive better-than-MFN (“Most Favored Nation”) tariff rates in any given year.\footnote{In addition to the United States and European Union, at least 11 other developed countries – Australia, Belarus, Bulgaria, Canada, Japan, New Zealand, Norway, Switzerland, and the Russian Federation – currently maintain formal GSP programs. Some of the literature suggests that several large developing countries have recently introduced GSP schemes of their own.} For example, the U.S. GSP program in 2004 granted a zero tariff on 7,477 (63%) of 12,000 8-digit product categories, while the MFN rate is duty-free for only 4,083 (34%) of these tariff lines.\footnote{Ozden & Reinhardt 2005.} Congress sets \textit{ex ante} eligibility criteria and “graduation” requirements; when a country, product or country-product rises above a competitive threshold, it is supposed to lose eligibility.\footnote{For this reason, at least 36 developing countries have been entirely graduated from GSP since 1976, including Singapore, Hong Kong, Taiwan, Korea, Malaysia, and Mexico. Large developing countries still eligible for GSP include Brazil, India, Russia, Indonesia, Turkey, South Africa and Thailand.} Yet, the statutory rules governing U.S. nonreciprocal trade preferences also delegate broad discretionary authority to the president, who is allowed to modify country and product-level eligibility, and issue waivers that delay graduation,\footnote{These are called competitive need limit (CNL) waivers.} subject to a “fire alarm” mechanism that notifies Congress of opposition.\footnote{The GSP statute gives the president “the authority to revise country eligibility criteria and allowable tariff lines.” CRS Report 2008, 16. On “fire alarms,” see McCubbins & Schwartz 1984.} Moreover, the executive can choose to modify the scope of GSP eligibility through an expedited procedure and report changes after the fact.\footnote{The USTR cites examples of this expedited process in: “Transcript of bilateral press conference following the U.S.-Philippines Trade and Investment Council: USTR Robert Zoellick, Secretary Mar Roxas, Philippines Department of Trade and Industry and Philippines Executive Secretary Alberto Romulo,” 20 November 2002. \textit{Inside Trade}.} GSP has multilateral origins. It was originally proposed by UNCTAD under the premise that “special differential treatment” (SDT) was required to promote developing
countries' integration into the multilateral trading system.\textsuperscript{20} Strikingly, GSP represents an exception to all of the GATT/WTO's core principles, which direct members to pursue tariff reductions on a multilateral, reciprocal, and non-discriminatory basis.\textsuperscript{21} However, the GATT's “Enabling Clause” authorized member states to implement GSP unilaterally and acknowledged that GSP should be both nonreciprocal and structured upon discrimination across country categories (e.g. “least-developed countries” and “fast-growing”). In practice, the major preference-granting countries have chosen “to implement their own programs with little or no coordination and with important differences in design.”\textsuperscript{22}

This paper focuses exclusively on the United States’ version of GSP. My dependent variable is the scope of eligibility, the primary source of variation in U.S. policy on nonreciprocal trade preferences. GSP eligibility can vary across countries, products and years. There are two main reasons why eligibility varies along these dimensions: rules and discretion.

GSP eligibility is governed by a set of rules that were designed to be self-updating. Although most developing countries were eligible for GSP benefits at one point, the law mandates that countries rising above a certain economic growth threshold be “graduated” out of the program (e.g. no longer eligible to receive U.S. nonreciprocal trade preferences).

\textsuperscript{20} While some developing countries have been able to effectively integrate into the reciprocity-based trading regime, many have not, and for these states, the viability of their participation was thought to hinge on methods for softening developing country exporters’ exposure to international competition. In this view, SDT is an institutional “solution” to temporary political constraints on trade liberalization faced by developing country governments. One can imagine a time consistency problem for these governments, which face short-run protection incentives (because of lobbying) and long-run liberalization incentives. Given this problem, a self-enforcing dynamic agreement must reflect high protection in the small country (e.g. delayed implementation of reciprocity), and lower protection by the large country (e.g. temporary trade preferences intended to encourage export firms). Concessions are intended to be reciprocal, but are non-simultaneous in order to allow the developing country time to eliminate barriers to US trade and investment. See Ozden & Reinhardt 2003; Conconi & Perroni 2004.

\textsuperscript{21} See Barton, et al. 2006, chapter two.

\textsuperscript{22} See Hudec 1987; Elliott 2000; CRS Report 2008. The primary source of variation across national GSP schemes is that preference-granting countries establish their own criteria and conditions for identifying developing country beneficiaries, which results in considerable variation in the list of beneficiaries and exceptions across national schemes.
For this reason, at least 36 developing countries have been entirely graduated from GSP since 1976, including Singapore, Hong Kong, Taiwan, Korea, Malaysia, and Mexico. Large developing countries still eligible for GSP include Brazil, India, Russia, Indonesia, Turkey, South Africa and Thailand. Statutory graduation requirements apply not only at the country-level but at the product-level as well. If imports of a particular product exceed a competitive threshold, either for a single developing country or for all of them, it is supposed to be graduated from GSP. This is why many products that are generally eligible for GSP carry a host of country-specific exclusions. In addition to country and product-level “graduation” guidelines, GSP extends eligibility for preferential tariffs on a subset of products to all least-developed countries (LDCs).

Like most policies, the rules governing U.S. nonreciprocal trade preferences anticipate the need for discretion. Congress delegates two main sources of discretionary authority to the president in administering nonreciprocal trade preferences. First, GSP statutes grant the president broad authority to modify country-level and product-level eligibility. To prevent the executive from abusing this flexibility, the law uses standardized procedures that serve as “fire alarms” notifying Congress of opposition to the executive’s choices, which can otherwise be difficult to monitor. The GSP statutes contain a secondary source of discretion, which allow the executive to bypass procedures. Normally, every time the executive wants to modify the program, such as by executive order, he must make a public announcement seeking comment. Every time a country, product or country-product is being considered for graduation, due to statutory requirements, the president has the ability to grant waivers that perpetuate eligibility for that country, product or

---

country-product, but this too hinges on a set of procedural requirements. GSP statutes give the executive the capacity to use an expedited process that bypasses standard procedure, allowing the executive to make changes rapidly and report them after the fact. These two sources of administrative flexibility help to explain why the scope of GSP eligibility is likely to vary more in practice than it does on paper.

Post-9/11 security motivations increased the urgency of the Bush Administration’s push for legislation that would expand the president’s discretionary authority over trade policy. Less than two weeks after the attacks, the U.S. Trade Representative wrote an Op-Ed that substantially re-framed the Administration’s demand for “fast track authority” in security terms. It drew a parallel between post-9/11 conditions and the Cold War, during which “Congress empowered presidents with trade negotiating authority to open markets, promote private enterprise and spur liberty around the world -- complementing U.S. alliances and strengthening our nation.” “Congress now needs to send an unmistakable signal to the world that the United States is committed to global leadership of openness and understands that the staying power of our new coalition depends on economic growth and hope.” When “Trade Promotion Authority” legislation went up for its first vote in December 2001, it fell 4 votes short of a majority for passage. To secure these additional votes, the White House agreed to limitations on preferences for textiles and clothing products specifically originating from the Caribbean and Latin America. When these concerns were addressed, the Trade Act of 2002 passed with a final vote of 215-214.

---

25 These are called competitive need limit (CNL) waivers.
27 Some of the most important multilateral and preferential trade agreements signed by the U.S. were negotiated under “fast track” authority. See especially Conconi, Facchini and Zanardi 2008.
29 Ibid., fn. 74.
This had three implications for the administration of nonreciprocal trade preferences. First, Congress agreed to renew the GSP program for a five-year period, rather than the longstanding pattern of year-to-year renewal, which signified fewer opportunities for legislative scrutiny. Second, the president was (temporarily) no longer required to consult with Congress before initiating trade negotiations on both reciprocal and nonreciprocal preferences. Third, the new law underscored the potential for GSP to be used as a tool of influence, since it required the executive to withdraw preferential treatment from countries that had “not taken steps to support U.S. efforts against terrorism.” These changes created a window of opportunity in which the executive could forge strategic linkages between trade policy and post-9/11 aims.

The anecdotal evidence suggests that the Bush Administration was disproportionately inclined to exercise discretion by improving U.S. market access for its developing country allies. For example, Pakistan, which had been largely excluded from GSP throughout the 1990s, was the first of a string of countries including Afghanistan, Algeria, Georgia, Iraq, Tajikistan and Turkmenistan to be granted added to the list of eligible countries. When the White House added specific products to GSP, it explicitly acknowledged that these additions would create economic benefits for a targeted range of countries: Egypt, Indonesia, Morocco, Pakistan, the Philippines, and Turkey. The USTR also met with country delegations from at least 25 countries to identify ways that GSP could be made more beneficial, from identifying potential product addition to simply

31 This is according to the Annual GSP Handbook.
32 “Bush Expands Trade Preferences for Philippines, Other Developing Countries,” 2 July 2003, Bureau of International Information Program, U.S. Department of State. The USTR also met with country delegations from at least 25 countries to identify ways that GSP could be made more beneficial.
making sure that developing country exporters knew how to claim GSP status.\textsuperscript{33} Indeed, the Bush Administration conceived of the expansion of nonreciprocal trade preferences as one pillar in a comprehensive economic strategy to engage geopolitically important countries.\textsuperscript{34}

The idea that the executive took advantage of opportunities to expand the scope of eligibility is consistent with the aggregate trend of U.S. imports under GSP. Figure 4 below shows that the total value of U.S. imports accorded GSP duty-free treatment has increased substantially. Based on data from the International Trade Commission’s reports on special tariff programs, there was an average 16-percent per year increase in GSP imports during the five-year period 2002 to 2006, compared with an average 2-percent per year decrease during the period 1993 to 2001.\textsuperscript{35}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure4.png}
\caption{Total U.S. Imports accorded GSP treatment, 1993 to 2008.}
\end{figure}

\textsuperscript{33} For example, these countries included Afghanistan, Albania, Algeria, Bangladesh, Bolivia, Egypt, Georgia, India, Iraq, Kazakhstan, Kyrgyzstan, Liberia, Macedonia, Mongolia, Pakistan, Paraguay, Sri Lanka, Tajikistan, Thailand, Tunisia, Turkmenistan, Ukraine, Uzbekistan, Vietnam and Yemen.
\textsuperscript{34} See Lawrence 2006. This consisted of reciprocal trade agreements, GSP, and bilateral investment treaties, eventually cumulating in a U.S.-Middle East free trade agreement.
\textsuperscript{35} These figures are based on total U.S. imports accorded GSP treatment (International Trade Commission).
This temporal trend is especially striking against the backdrop of three broad historical trends. First, trade relations between developed and developing countries evolved as more developing countries liberalized their trade policies. As these developing countries assumed full reciprocity under GATT, the margin between MFN rates and preferential rates narrowed. This trend toward “preference erosion,” paired with the proliferation of reciprocal preferential trade agreements (PTAs), diminished the relative value of nonreciprocal tariff preferences as a feature of North-South trade policy and contributed to the fragmenting unity of developing countries’ push for “special and differential treatment.”

Second, lawmakers in preference-granting countries began to grow skeptical about the continued need for maintaining a GSP program. Throughout the 1990s, Congress adopted a tepid stance toward GSP. As Table 4.1 in this chapter appendix shows, it renewed the GSP program on a year-to-year basis and allowed it to lapse into expiration on several occasions, leaving developing countries concerned that the program would be axed altogether. Third, developing countries still interested in the maintenance of GSP began to learn that it could be a “Faustian bargain.” It released developing countries from having to undertake reciprocal obligations under GATT in exchange for carefully calibrated one-way access to developed country markets.

Meanwhile, Figure 4 below shows how the mean of GSP-eligible imports quantities varies across developing countries according to alliance relationship subcategories and year. The graph on the right-hand side shows data smoothed using the natural log transformation. For both graphs, the “1” group includes developing countries explicitly

---

named a “security partner” or “ally” in the War on Terror, based on a series of country reports published annually by the U.S. Department of State.\(^\text{40}\) Obviously, this indicator is period-idiosyncratic: I use it to group countries across the full time-series simply to show that we observe higher mean GSP-eligible import levels for allies from 2003 onward compared with non-allies. This provides some plausibility for my argument that changing foreign policy interests have had an impact on GSP.

![Figure 4.2](image)  
**Figure 4.2.** Mean GSP-Eligible Imports (raw and log-trans.) by Ally Group and Year.

Taken together, the descriptive evidence highlights a puzzle. GSP has been most extensively studied by economists and political scientists who have wondered whether it has had positive effects on trade and growth.\(^\text{41}\) This literature suggests that GSP’s effects on trade have been modest. One explanation is that, by de-linking access to developed country markets from the developing country’s own trade policy, nonreciprocal preferences dilute the incentives for export industries to oppose protectionist policies at home.\(^\text{42}\)

Research that examines GSP policy as the dependent variable overwhelmingly identifies domestic political opposition in the preference-granting state as the critical

---

\(^{40}\) I discuss this ally indicator in Section 6 of this paper. The source is the annual “State Foreign Policy Objectives” reports, published jointly by the U.S. Department of State and U.S. Department of Defense.


\(^{42}\) Hudec 1987.
determinant of GSP policy.\textsuperscript{43} In the developed country, industries expecting a decline in profits as a result of some product or country being granted GSP eligibility may have an incentive to oppose eligibility. These “import-competing” industries (eg. textiles and apparel, footwear, radio and television, toys and sporting goods) are disproportionately threatened by preferential trade policies that will increase import penetration.\textsuperscript{44} As a result, “The political process leading to GSP decisions is heavily influenced by protectionist domestic interest groups in the U.S.”\textsuperscript{45}

On the other hand, GSP is supported by a coalition of importing industries (that depend on inputs from developing countries), consumer groups, and developing country exporters that likewise depend on the continuation of nonreciprocal tariff preferences. These actors actively lobby for GSP renewal and the expansion of product eligibility.\textsuperscript{46} The chief weakness of previous research on nonreciprocal trade preferences is that it neglects one very important supporter for GSP renewal and expansion: the president.

The absence of the foreign policy environment and the strategic incentives of the executive to respond to foreign policy challenges in the literature on trade preferences is surprising. We know in general that the executive’s responsibility for national security creates a strong interest in exerting control over the instruments of foreign policy.\textsuperscript{47} Although legislators may normally respond to the preferences of their domestic constituents, legislators are also much more likely to defer to the president “during periods of international tension” when policies are credibly justified in terms of national security.

\textsuperscript{43} DeVault 1996, 2005; Silva 2005.
\textsuperscript{44} Industries that oppose GSP eligibility usually have a lower ratio of industry export to imports, because industries that can export are not as sensitive to losses from increasing import penetration.
\textsuperscript{45} Ozden and Reinhardt 2003, 21-22. Protectionist demands exacerbate GSP’s “perverse” influence, since “the non-guaranteed nature of GSP preferences prevents the recipients from fully focusing on their export sectors.”
\textsuperscript{46} CRS Report 2004, 2008.
concerns. We see this dynamic at play in areas of U.S. foreign economic policy. To cite a recent example, shortly after 9/11, the Bush Administration secured Congressional approval of a (reciprocal) preferential trade agreement with Jordan after calls from the Secretary of State Colin Powell and Condoleezza Rice, the National Security Adviser, persuaded a pivotal Republican senator to drop his objections. Senator Phil Gramm explained that he dropped his objections because Jordan was an ally that could help the U.S. foster support in the Middle East for military and other actions against terrorists. “From a foreign policy point of view, this was a must-do thing,” he said. Yet, attempts to use economic instruments of foreign policy in this strategic manner sometimes provoke strong resistance. Once it became clear that the White House was planning to extend tariff concessions in import-sensitive industries for allies like Pakistan, Senators Helms (R) and Hollings (D) made their opposition clear, arguing that “Americans must not be made into pawns in efforts to build an international coalition.”

The conventional view of GSP is that it is constrained by law and captured by domestic opposition, but this view does not seem adequate in light of evidence relating GSP to the broader foreign policy environment. Thus, the core theoretical puzzle is how the state's foreign policy interests interact with domestic constraints. This has been a recurrent theme in the literature on economic statecraft, which often contrasts the state’s security interests with the role of domestic politics to anchor theoretical expectations about the conditions under which we should observe positive and negative sanctions (and whether

---

48 Meernik 1993, 574.
they are “successful” or not). For example, one study argues that “security interests motivate states to offer side payments to an ally,” but that “variation in the willingness of a state to offer such payments will be a function of the costs to the ruling party and the level of executive autonomy.” If either or both of these sets of explanatory variables shift over time, we have some basis for expecting to observe corresponding variation in the way governments leverage the economic instruments of foreign policy.

For this reason, research on states’ propensity to use side payments or longer-term economic engagement strategies to gain leverage over security objectives, and vice versa – is usually tied to specific historical episodes: “linkage diplomacy” in the early 20th century Anglo-Japanese Alliance, post-Cold War “Nordpolitik” on the Korean Peninsula, or the Bush Administration’s efforts to build a “coalition-of-the-willing” for military action in Iraq. Focusing on U.S. foreign policy after 9/11 likewise enhances our empirical leverage to identify positive economic statecraft and our theoretical leverage to explain it.

To explain this relationship, my argument focuses on the executive’s incentives and capacity to use GSP as part of a broader post-9/11 strategy of targeted bilateral economic engagement. Of course, there are a range of alternative explanations. The next section contextualizes previous research about nonreciprocal trade preferences in terms of the literature on economic statecraft.

---

52 For an overview, see Mastanduno 1998, 1999. On positive sanctions, see Baldwin 1971; Drezner 1999.
54 Davis 2009; Kahler and Kastner 2006; Newnham 2008. Biglaiser and DeRouen, Jr. 2009 show that there is a positive relationship between trade and U.S. troop deployments.
55 Yet, focusing on 9/11 by no means duplicates the experimental conditions necessary for a “before-after” research design. See George and Bennett 2004, 166-167.
4.3. Argument and Hypotheses

My argument explains how shifts in the executive’s strategic incentives to foster economic engagement should influence GSP administration. I argue that 9/11 increased the executive’s demand for economic instruments of foreign policy that could be used as an *indirect channel* of global anti-terrorism. One of the primary purposes of economic engagement was to fortify bilateral relationships with governments that pursued anti-terrorism policies congenial to the United States. Given increased demand, what were the means for pursuing a policy of selective economic engagement? I argue that the executive’s discretionary authority over trade policy increased as a result of temporary changes in Congressional delegation. Within this window of increased discretion, the executive had greater flexibility to selectively expand GSP.

Both primary and secondary sources document the sudden elevation of anti-terrorism as a U.S. foreign policy priority after the 9/11 attacks. The Bush Administration’s counterterrorism strategy called for the United States to work with allies to “defeat terrorist organizations of global reach,” to “deny further sponsorship, support, and sanctuary to terrorist,” to “diminish the underlying conditions that terrorists seek to exploit,” and to “defend the United States.” The president’s earliest statements acknowledged that the scope of the U.S. foreign policy response needed to reflect the complexity of the terrorism challenge. Namely, the U.S. would have to rely on a broad range of foreign policy tools and a broad range of international collaborators.

Beyond the use of force, the Bush Administration perceived two broad policy

---

57 White House 2003. Due to the link between Al Qaeda and Islamist insurgent movements in different locations, counterterrorism objectives often bled into a corresponding set of counterinsurgency objectives. In particular, Al Qaeda had nurtured insurgencies in Kashmir, Afghanistan, Chechnya, Algeria, Egypt, the Philippines, and Uzbekistan. 9/11 Commission Report 2004.
channels of anti-terrorism strategy. One class of policies addressed the risks that under-
supervised flows of funds, goods and people across borders could be exploited by terrorist
groups and their supporters. We can think of these as the direct channels of anti-terrorism.
Some examples include the strengthening of global anti-money laundering regulations
(funds), the global spread of port and container security policies (goods), and the
international harmonization of restrictions on human mobility through the system of visas
and borders (people). Another class of policies concerned the potential for directed flows of
funds and goods to create positive spillovers, rather than negative externalities, into the
security realm. These indirect channels of anti-terrorism could be used to supply economic
incentives for foreign governments and their populations to look more favorably upon U.S.
(or support for U.S.) operations. Examples include the strategic allocation of foreign
assistance (funds) and the administration of trade preferences (goods).

If foreign economic policies increasingly became a domain of U.S. attempts to
influence other governments after 9/11, as I argue, what were the targets and objectives of
these attempts? Although the specific objectives vary, we can identify three classes of
corresponding targets, which are summarized in Table 4.2 in this chapter’s appendix. First,
the U.S. has had to collaborate intensively with a range of “frontline” states, including
Afghanistan, Iraq, Pakistan, the Philippines, Somalia and Yemen. These are the countries
in which Al Qaeda and its affiliates operated or countries in which ongoing Islamist
insurgent movements were thought to be supported by Al Qaeda. Second, the U.S. has

59 Baldwin 1985 distinguishes between the target (who is to be influenced) and the scope of objectives (in what
ways a target might be influenced). “In any given influence attempt, states may—and usually do—pursue more
than one goal with respect to more than one target,” p. 17.
60 The U.S. State Department has a list of foreign terrorist organizations that has grown, as FTOs are added
and removed and evolve themselves, from 35 groups in 1996 to 45 groups in 2009 (al Qaeda added in 1999), yet
the “war on terrorism” did not significantly change policies regarding Hizballah, Hamas, the Liberation Tigers
of Tamil Eelam, (LTTE) the Fuerzas Armadas Revolucionaries de Colombia (FARC), or other terrorist
organizations. As the National Commission contends, “the enemy is not just ‘terrorism,’ some generic evil. This
vagueness blurs the strategy. The catastrophic threat at this moment in history is more specific. It is the
had to collaborate with a range of “geo-strategic” (eg. well-positioned) states. These are the countries that have been important for U.S. basing, troop deployment and passage, and for their proximity to the frontline states. In the Middle East and Central Asia alone, (not counting countries that are also frontline states) the U.S. has or had military bases in Bahrain, Djibouti, Kuwait, Kyrgyzstan, Oman, Qatar, Saudi Arabia, Tajikistan, Turkey, the United Arab Emirates, and Uzbekistan. Third, the executive had incentives to target certain countries that contributed troops to the four subordinate operations of Operation Enduring Freedom\textsuperscript{61} and the Multinational Force in Iraq (including the occupation).\textsuperscript{62} This last group is diverse: it includes NATO allies, major non-NATO allies, and the “coalition of the willing.”\textsuperscript{63} The United States’ security relationship with many of these target states was informal.\textsuperscript{64}

It is much more difficult to list the strategic objectives corresponding with each target. In general, however, the literature on positive economic sanctions distinguishes between two types of strategic objectives. “Tactical linkage” involves the “promise of a well-specified economic concession in an effort to alter foreign or domestic policies of the target government.”\textsuperscript{65} “Structural linkage” involves “an effort to use a steady stream of economic benefits to reconfigure the balance of political interests within a target country.”\textsuperscript{66}

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{61} OEF in Afghanistan, Philippines, Horn of Africa, and Trans Sahara.
\item \textsuperscript{62} Including the occupation. The war in Iraq is included because it became linked to leaders’ perceptions of strategically important states. While Iraq was repeatedly framed by Bush administration officials as being a central front in the “war on terror,” the 9/11 Commission found “no credible evidence” of an operational link between Al Qaeda and Iraq before the 2003 invasion.
\item \textsuperscript{63} Major non-NATO allies, defined by Title 10 section 2350a and Title 22 section 2321k of U.S. Code, include Australia, Egypt, Israel, Japan, and South Korea (all designated by George H.W. Bush in 1989); Jordan, New Zealand, and Argentina (designated by Bill Clinton 1996-1998); Bahrain, Philippines, Thailand, Kuwait, Morocco, and Pakistan (designated by George W. Bush in 2003-2004).
\item \textsuperscript{64} Byman 2006, 796-798.
\item \textsuperscript{65} Mastanduno 1999, 303-304.
\item \textsuperscript{66} Ibid., fn. 54.
\end{itemize}
\end{footnotesize}
category of frontline states, such as when the Bush Administration attempted to unilaterally cut tariffs and quotas on Pakistani textiles and clothing (which represents the most politically influential, largest, and highest exporting of Pakistan’s industries).  

However, tactical linkage probably applies to a broader set of countries than structural linkage “because of the high transaction costs associated with exchanging economic benefits for political concessions.” The key to understanding why policy-makers employ either type of positive linkage is not that they are guaranteed to be fully effective but rather that policy-makers perceive the potential benefits as outweighing the costs, compared with the alternatives (including doing nothing).  

If the foreign policy executive indeed faces the greatest incentives to tailor a strategy of economic engagement, including use of GSP, with these countries in mind, we should expect to find evidence in support of the following observable implication:

Hypothesis One: There should be a positive relationship between the presence of a formal or informal alliance relationship with the United States and the amount of U.S. imports eligible for GSP across developing countries.

Systemic theories about the relationship between trade and alliance relationships focus on bipolar systems because “allies are much more uniformly and securely locked into coalitions,” which allows the gains from trade to be more easily privatized (Gowa & Mansfield 1993, 411). My analysis focuses on post-Cold War trade relations between the U.S. and developing countries, in which capacity to affect one’s terms of trade are deeply asymmetrical. Thus, unlike the security externalities thesis in the bipolar setting, where demand for trade-alliance linkages result in free trade, we should expect corollary demands

---

67 See Rosegrant 2006.
to manifest in the domain of discriminatory trade.\textsuperscript{70}

So far, my argument has focused on the executive’s incentives to pursue a policy of selective economic engagement, but we know that the executive’s capacity to actually implement such a policy is constrained. The second component of my theory explains why we should expect a shift in the institutional means of foreign economic policy-making toward greater (executive) discretionary authority. As with many political contexts, it is useful to think about the economic instruments of foreign policy in terms of principal-agent relationships. For example, in the foreign aid arena, the executive and legislature interact over the executive’s foreign assistance budget; once the budget is decided, the executive delegates authority over allocation to an administrative agent (historically the U.S. Agency for International Development). The nature of delegated authority varies along a spectrum from being completely constrained by rules to being fully discretionary.\textsuperscript{71} Thus, although the administrative agent has some flexibility to allocate aid, many observers of aid policy are quick to note that, in fact, both the executive and the legislature have a variety of mechanisms (eg. ear-marks, interagency planning, and reporting requirements) for constraining the agent’s allocation behavior.\textsuperscript{72}

A similar principal-agent dynamic applies in the trade policy arena, where the debate now centers less on whether the executive or the legislature dominates trade policy than on explaining why this “balance” shifts and what the consequences have been. Perhaps the most-researched instance of this debate was sparked by the argument that the passage of the 1934 Reciprocal Trade Agreements Act (RTAA) was significant chiefly because it marked Congress’ abdication of authority for setting tariffs to the president. By increasing the insulation of trade policy from protectionist logrolling, the RTAA ostensibly

\textsuperscript{70} Gowa & Mansfield 1993.
\textsuperscript{71} McCubbins and Page 1987.
\textsuperscript{72} Lancaster 2006; Johnson 2006; Pastor 1980.
enhanced the executive branch’s ability to mold the trade “agenda and policy process to
their own ideological, bureaucratic and above all, international interests.” The
contemporary parallel centers on the role of “Trade Promotion Authority,” (TPA) known as
“fast-track,” which allows the president to initiate trade negotiations and promise other
trade concessions without first consulting with the Congress. In exchange, the president
has to present deals as a package for an “all up or down” vote at a later date, which means
that the executive must still anticipate legislative resistance. Yet, the widespread
interpretation of fast track is that it increases the president’s discretionary authority.

The main implication of research on the institutional mechanisms of trade policy-
making for my argument is that Congress ordinarily acts as the primary constraint on the
executive’s capacity to exercise discretion in trade policy. If the executive enjoys an
extraordinary level of discretionary authority over trade policy, it is because Congress has
chosen to delegate it. This is pertinent to GSP eligibility because domestic opposition to the
expansion of GSP will normally be expressed through lawmakers or through procedures
that lawmakers create to give interest groups access to the policy-making process. If
lawmakers have less of an opportunity to oppose the executive’s GSP modifications, or if the
executive has greater ability to bypass established procedures, this might signify a trend
toward loosened constraints on executive discretion.

Even if there is a general loosening of institutional constraints over time, previous
research stresses that domestic opposition to the expansion of import preferences will vary
across industries. Insofar as developing countries benefit from expanded GSP eligibility in
different industries, we should also expect industries to mount greater resistance to GSP
expansion for developing countries that export competing goods compared with developing

73 Haggard 1988, 91; Lohmann and O’Halloran 1994. Nuanced alternative explanations include Bailey,
74 Conconi, Facchini and Zanardi 2008.
countries that export non-competing goods. On the one hand, if we think domestic opposition is resilient, the executive will have to balance the benefits of GSP expansion for allies with the costs suffered by domestic producers. The easiest way to do this is to make GSP expansion “cheap” by avoiding import-sensitive goods.

Linkage strategies in the trade area created clear “losers.” I argue that the executive’s efforts to expand the scope of U.S. import preferences should have provoked opposition when the costs of policy change were concentrated among domestic import-competing industries.\(^75\) These industries (e.g. textiles and apparel, footwear, radio and television, toys and sporting goods) tend to have a relatively low ratio of industry export to imports, which makes them disproportionately sensitive to losses incurred by preferential trade policies that increase import penetration in their areas of production. Previous research identifies domestic opposition in the preference-granting state as a critical determinant of nonreciprocal trade preference policies such as the Generalized System of Preferences (GSP).\(^76\) Ozden and Reinhardt (2003) thus observe that the “political process leading to GSP decisions is heavily influenced by protectionist domestic interest groups.”\(^77\) This leads to the following observable implication:

Hypothesis Two: A developing country’s scope of eligibility for U.S. trade preferences should be negatively related to the severity of import competition in the preference granting country.

In summary, the central argument combines a simple functionalist mechanism and a political economy mechanism to generate two hypotheses. The first hypothesis

\(^77\) Ozden and Reinhardt 2003, 21-22. Protectionist demands exacerbate GSP’s “perverse” influence, since “the non-guaranteed nature of GSP preferences prevents the recipients from fully focusing on their export sectors.”
underscores the relationship between allies as targets of the executive’s foreign policy strategy and the administration of GSP eligibility. The second hypothesis anticipates resistance from import-competing industries. The remainder of the chapter is devoted to testing these hypotheses empirically using both statistical analysis of panel data on GSP-eligible imports and case studies of countries most likely to be targeted by economic carrots.

4.4 Empirical Analysis

My theory underscores two expectations. On the one hand, consistent with Hypothesis 1, the executive should make the strongest demands for expanded GSP preferences vis-à-vis U.S. allies. On the other hand, if legislators are most likely to oppose the president when the costs of expanding GSP are locally concentrated, as hypothesis 3 suggests, we should also expect the scope of GSP eligibility to be negatively related to the severity of import competition in a given bilateral relationship.

Dependent Variable

To see whether there is empirical support for these hypotheses, I examine variation in the scope of eligibility for U.S. nonreciprocal trade preferences across time and developing countries. I measure the dependent variable, the scope of GSP-eligible imports, as the total amount of U.S. imports from developing country $i$ eligible for GSP benefits during year $t$. I obtained and recoded data for the dependent variable from the International Trade Commission’s tariff and trade databases. The tariff database includes time-series data on GSP eligibility recorded at the Harmonized Tariff Schedule (HTS) 8-digit “tariff line” level. Each tariff line is coded in one of four ways: “A” signifies that all GSP-eligible countries receive zero-duties on that tariff line; “A+” signifies that only least-developed countries are eligible to receive zero-duties on that tariff line; “A*” signifies that select countries are not eligible to receive zero-duties on that tariff line (and lists the excluded countries); and “0” signifies that no countries receive GSP benefits on that tariff line. I recoded the tariff data by coding “1” for eligible or “0” for ineligible for every country, year, and tariff line unit of observation. I then matched this data with U.S. import data to determine the total amount of imports eligible for GSP at the country-year unit of
includes time-series data on GSP eligibility recorded at the Harmonized Tariff Schedule (HTS) 8-digit “tariff line” level. Each tariff line is coded in one of four ways: “A” signifies that all GSP-eligible countries receive zero-duties on that tariff line; “A+” signifies that only least-developed countries are eligible to receive zero-duties on that tariff line; “A*” signifies that select countries are not eligible to receive zero-duties on that tariff line (and lists the excluded countries); and “0” signifies that no countries receive GSP benefits on that tariff line. I recoded the tariff data by coding “1” for eligible or “0” for ineligible for every country, year, and tariff line unit of observation. I then matched this data with U.S. import data to determine the total amount of imports eligible for GSP at the country-year unit of observation.

The sample covers 113 developing countries for twelve years, from 1997 to 2008, listed in Table 4.3 in this chapter’s appendix. I excluded four categories of countries from the sample: (1) OECD countries that were never eligible to receive GSP benefits; (2) developing countries that were graduated out of GSP before the sample starts; (3) countries ineligible for the entire period of analysis due to prohibitions on normal trade relations; and (4) microstates.

**Independent Variables**

Given my central argument, the primary explanatory variable is based on the idea that the strategic salience of foreign policy rationales for economic engagement varies across developing countries and time. Since my argument is that 9/11 increased demand for using economic tools of engagement as an indirect channel of anti-terrorism, this explanatory variable should ideally be conceptualized in a way that identifies those observation.
countries most likely to be the targets of security-motivated U.S. economic engagement after 9/11. Previous studies have used a variety of proxies for foreign policy interests, such as measures of affinity based on U.N. General Assembly votes or formal alliance membership. However, many of the developing countries that have been security allies with the United States are not coded as allies in conventional alliance datasets.

To resolve this problem, I created a new variable, *Ally*, which is a dichotomous variable coded “1” if a country is considered an informal ally of the United States. Rather than basing this variable on a specific dimension of security relationships (e.g., region, bases, or contributions), I rely on a source that records official perceptions to determine whether a country should be coded as an ally. The U.S. Department of State Bureau of Political and Military Affairs publishes annual reports on “Foreign Military Training and Department of Defense Engagement Activities of Interest.” These reports, which are mandated by Congress, contain a standard section called “State Foreign Policy Objectives” that profiles the full range of countries with which the Department of State identifies foreign policy interests. I coded a country as an ally of the United States if it was explicitly profiled as an “ally in the War on Terror,” “important security partner,” or was designated a non-NATO ally.

Most of the country profiles never mention any aspect of terrorism or security cooperation; however, certain country-year profiles explicitly state whether or not a country is perceived as an “ally in the War on Terror.” To illustrate from the 2008 report, Ethiopia is called a “staunch ally in the war on terrorism,” “arguably the key to U.S. security interests in the Horn of Africa,” and “our most effective partner in the counter-terrorist fight within the region.”\(^79\) Djibouti “has played a strategic role in the War on Terror,” “is

---

\(^79\) U.S. Department of State, “Foreign Military Training and DoD Engagement Activities of Interest · State
home to the only U.S. military base in Africa, the multi-national Combined Joint Task Force-Horn of Africa,” and is “in a very strategic position adjacent to the Bab el Mandeb strait between the Indian Ocean and the Red Sea.” Malaysia is a “key counterterrorist partner,” and “chair of the Organization of the Islamic Conference,” the Government of the Philippines is a “key player in the War on Terror” and has benefitted from U.S. help in combating the Abu Sayyaf Group and the Jemaah Islamiyah organization, both U.S.-designated foreign terrorist organizations.

Based on these reports, countries that are coded as an ally for at least three years during the period 2002 to 2008 include Afghanistan, Algeria, Azerbaijan, Bahrain, Chad, Colombia, Djibouti, Egypt, Ethiopia, India, Iraq, Jordan, Kenya, Kuwait, Libya, Malaysia, Morocco, Niger, Nigeria, Oman, Pakistan, the Philippines, Qatar, Russia, Saudi Arabia, Senegal, Singapore, Tanzania, Thailand, Tunisia, Turkey, Ukraine, United Arab Emirates, and Yemen. Given Hypothesis One about the salience of security rationales for trade engagement, I expect the Ally and Military_Presence variables, as different proxies for where the executive has the strongest incentives to forge economic linkages, to be positively associated with the scope of GSP eligible imports.

Hypothesis Two anticipates that import competition will be negatively related to GSP-eligible imports, because domestic industry groups that compete for business with foreign imports have been the most vigorous opponents of GSP expansion. As a rough proxy for this, I use the variable Competition, which is measured as a developing county’s share of textiles and clothing exports out of its total merchandise exports in a given year. My use of this measure is based on the expectation that industry opposition to the

---

Foreign Policy Objectives,” 2008.
80 Ibid., fn. 78.
81 Ibid., fn. 78.
82 This data is based on the WTO Annual Report of International Trade Statistics.
expansion of GSP eligibility disproportionately limits the level of GSP-eligible imports for
developing country beneficiaries whose exports are dominated by textiles and clothing.
This predicts a negative relationship.

To account for the relationship between these “outside options” for economic
engagement and GSP, I include two variables. *Economic_Aid* measures the natural log of
the total U.S. bilateral economic aid commitment to a given developing country in each
year.\(^{83}\) I expect aid to be positively related to the level of GSP-eligible imports, because aid
and trade may be complementary types of economic engagement. I also include the
variable *PTA*, coded “1” if either a U.S. reciprocal trade agreement or E.C. membership is in
effect.\(^{84}\) My expectation about the relationship between PTA status and GSP is not as
clear. On the one hand, PTA status could be negatively related to GSP-eligible imports if
reciprocal preferences are a substitute for nonreciprocal benefits; on the other hand, the
opposite could be true if they are complements.

Several independent variables used in the foreign aid analysis should also explain
variation in the scope of GSP eligibility. Developing countries at a higher level of economic
development are more likely to take advantage of nonreciprocal trade preferences because
they tend to be stronger exporters to the U.S. market. Thus, unlike aid, I expect the
variable *GDP* per capita to display a positive coefficient. *GDP* is measured as the natural
log of a country’s GDP per capita in constant 2005 dollars.

I include several other variables not central to my argument. The variable
*LDC_Status* is a dichotomous variable measured “1” for each year that a country is
designated a least-developed country, according to the Annual U.S. GSP Handbooks. On
the one hand, LDCs are ostensibly eligible for more products under GSP than non-LDCs,

---

\(^{83}\) This data is from the USAID “Greenbook.”
\(^{84}\) I coded PTAs based on “entry into force” years from the USTR website.
but they also tend export fewer products compared with countries at a higher level of
economic development. I thus anticipate a negative coefficient on the *LDC* variable. To
account for heterogeneous domestic institutions, I include the variable *Democracy*, using
inverted Freedom House indices (1, least democratic, to 7, most democratic). The variable
*Export_Dependence* is the natural log of a country’s export-to-GDP ratio. To control for the
possibility of a secular trend on the dependent variable affecting all observations, I include
a variable *Trend* that is the mean of the dependent variable for each year. Finally, I
include a *War_on_Terror* period indicator coded “1” for the years 2002 to 2008. Table 4.4 in
this chapter’s appendix summarizes the descriptive statistics for variables in the analysis.

**Results**

I estimated the impact of these variables on the dependent variable, GSP-eligible
imports, using Ordinary Least Squares regression with panel-corrected standard errors.
The unit of analysis is the country-year. All independent variables except the period
dummy are lagged by one year. I ran the model with and without country fixed effects.

Table 4.5 in this chapter’s appendix records the baseline results under Column 1,
where the dependent variable is “GSP-Eligible Imports.” The main result of interest is that
the coefficient on the *Ally* variable is positive and statistically significant across all
specifications. This is consistent with Hypothesis 1, which argues that the presence of an
alliance relationship with the United States will be positively associated with the level of
GSP-eligible imports. There is also evidence that higher U.S. military presence is positively
associated with the level of GSP-eligible imports, echoing previous work on the
interdependence between troops and trade.\(^85\) However, I do not find evidence of a
systematic negative relationship between the proxy variable *Competition* (developing

\(^{85}\) Biglaiser & DeRouen 2009.
country textiles and clothing exporters) and the GSP variable, as posited by Hypothesis 3. The results suggest that the opposite is true.

One possible reason for this is that the dependent variable is measured as an absolute level. I thus used a different measurement of the dependent variable, “GSP Coverage Ratio,” to estimate the results recorded under Column 2. The coverage ratio is measured as the proportion of U.S. imports from developing country $i$ covered by GSP benefits for each year $t$. It provides a simple measure of variation in the relative importance of one-sided trade preferences across developing country beneficiaries and time. Three results are notable. The coefficient on the Ally remains positive and statistically significant. The Competition variable now has as negative sign and is statistically significant, but only in the model without country fixed effects where the fit is poor. Finally, LDC_Status countries are associated with a higher coverage ratio, despite not being associated with a higher absolute level of GSP-eligible imports.

Table 4.6 below records the predicted substantive effects of the Ally variable on GSP-eligible import levels and GSP coverage ratios when all other variables are held at their sample mean. As the argument suggests, on average allies are associated with an increased level of GSP-eligible imports by 109 percent and an increased GSP coverage ratio by 13 percent.

<table>
<thead>
<tr>
<th>Ally</th>
<th>GSP-Eligible Imports</th>
<th>GSP Coverage Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 \rightarrow 1$</td>
<td>$+109%$</td>
<td>$+13%$</td>
</tr>
<tr>
<td>$\text{Ally} = 0$</td>
<td>$7.58 \text{ M}$</td>
<td>0.60 percent</td>
</tr>
<tr>
<td>$\text{Ally} = 1$</td>
<td>$15.82 \text{ M}$</td>
<td>0.68 percent</td>
</tr>
</tbody>
</table>

86 The measurement of the GSP coverage ratio is similar to the non-tariff barriers (NTB) coverage ratio, which is the most commonly employed measure of NTBs in that literature. See Kono 2006; Gawande & Hansen 1999; Mansfield and Busch 1995.
In summary, results from my analysis of U.S. economic aid allocation and the administration of U.S. nonreciprocal trade preferences bear important similarities. Taking many other factors into account, I find that the pattern of bilateral economic engagement favors U.S. allies in both policy channels. In the aid channel, I assess allocation patterns across different samples in order to highlight distinct allocation strategies. Specifically, allies were not associated with higher aid levels under USAID. On the other hand, USAID’s stable emphasis on development need was not clearly mirrored in the government-wide pattern of economic aid allocation. In the trade channel, I found mixed support with respect to the expectation that competitive pressures would correspond with lower levels of GSP-eligible imports. Since the statistical method ideally suited for illustrating how competitive pressures limited executive policy discretion, I take a closer look at the U.S.-Pakistan case to flesh out the argument’s logic.

4.5. Case Study: U.S. Trade Preferences for Pakistan

Pakistan’s renewed importance as a major U.S. ally in the “War on Terror” makes it a “mostly likely” case for observing the link between security rationales and increased executive discretion over foreign economic policies. Yet, U.S. policies toward Pakistan have also come under intense legislative scrutiny in both the aid and trade channels. This case is therefore useful for illustrating how sources of domestic constraint have differentially shaped the executive’s strategy for using aid and market access as strategic foreign policy tools.

U.S. attempts to grant trade preferences to Pakistan faced severe domestic opposition. Three strategic rationales guided U.S. trade linkage efforts. First, the earliest discussions in the State Department focused on the possibility that uncertainty over U.S.
operations in Afghanistan would decrease Pakistan’s textiles and clothing exports. Alan Larson, then Under Secretary of State for Economic, Business and Agricultural Affairs, recalled that his “first involvement in Pakistani trade issues was responding to the ambassador’s and the trade minister’s frantic concerns that they weren’t going to get any textiles orders.” The Bush Administration was sensitive to these concerns because the textiles and clothing industry employs more than 60 percent of Pakistan’s industrial workforce and exports to the U.S. alone were worth $2 billion in 2001. Second, Bush Administration officials believed that trade concessions would boost Musharraf’s standing domestically vis-à-vis critics who were provoked by his government’s cooperation with the United States against the Taliban. If the U.S. granted trade concessions, Musharraf might be able to strengthen his support among Pakistan’s politically influential textiles industry groups. Third, U.S. officials thought that trade concessions had symbolic value. By coming to the assistance of a country’s most critical industry rather than directly to the government, as aid disbursement often did, the Bush Administration officials thought that it could bolster the image of the U.S. in Pakistan.

These security rationales for making trade concessions interacted with the pre-existing push for “fast track” and the security rationales for making trade concessions. 9/11 was incidental to the push for fast track; it was neither a fundamental cause for the executive to seek fast track nor did 9/11 fundamentally cause legislators to grant it. However, the evidence does indicate that foreign policy priorities after 9/11 altered the Bush Administration’s approach to advocating on behalf of fast track, its overall sense of urgency to secure fast track, and its ultimate exercise of discretionary authority under it.

---

87 Rosegrant 2006, 2.
88 Pakistan ranked number one in U.S. imports in categories ranging from cotton yard, fabric, cotton sheets and pillowcases, making Pakistan the fourth largest supplier to the U.S. of textiles and clothing, according to the U.S. Department of Commerce.
89 Rosegrant 2006, 4.
Some of the most important multilateral and preferential trade agreements signed by the U.S. were negotiated under “fast track” authority. Thus, the renewal of fast track was a trade policy priority for the Bush Administration from its inception in January 2001. After 9/11, the Bush Administration immediately tailored its approach to pressuring Congress to move forward on granting fast track legislation. As early as September 20, 2001, the U.S. Trade Representative wrote an Op-Ed that drastically re-framed the Bush Administration’s trade policy: “Throughout the Cold War,” it read, “Congress empowered presidents with trade negotiating authority to open markets, promote private enterprise and spur liberty around the world — complementing U.S. alliances and strengthening our nation.”

“Congress now needs to send an unmistakable signal to the world that the United States is committed to global leadership of openness and understands that the staying power of our new coalition depends on economic growth and hope...And most important, Congress needs to enact U.S. trade promotion authority so America can negotiate agreements that advance the causes of openness, development and growth.”

Prior to any explicit Congressional consideration of fast track legislation, the Bush Administration began to pursue bilateral talks on the possibility of reducing tariffs for a range of U.S. imports, including most controversially Pakistani goods that competed with U.S.-made textiles and clothing products. In reality, without fast track authority, these were merely pledges rather than true concessions. But the Bush Administration pressed hard for Congress to take action of Trade Promotion Authority. When TPA legislation went up for its first vote in December 2001, it fell 4 votes short of a majority for passage. To secure these additional votes, the White House agreed to limitations on preferences for textiles and clothing products (in the Caribbean and Latin America). When these

---

90 See especially Conconi, Facchini and Zanardi 2008.
92 Ibid., fn. 65.
conditions were met, TPA passed with a final vote of 215-214 and became known as the Trade Act of 2002. The Trade Act of 2002 held important implications for the executive’s capacity to modify GSP eligibility (among other trade policy tools). First, Congress modified the statutory criteria for GSP eligibility so that countries that it could not be applied to countries that had “not taken steps to support U.S. efforts against terrorism.” Although this clearly implies limitations on eligibility rather than any mandate to use GSP as a positive sanction, it highlights the recognition that GSP could be useful as a tool of influence. This is important in light of the White House’s interpretation that the GSP statute gave the president “the authority to revise country eligibility criteria and allowable tariff lines.” Second, in contrast to the previous pattern of year-to-year renewals (with lapses), Congress agreed to renew GSP for a five-year period. This meant that Congress relied indirectly on administrative procedures to monitor the executive’s modifications to GSP eligibility but that the program was not subjected to comprehensive scrutiny for a longer-than-usual duration. Third, the president now had a “window” of discretion in which to pursue a strategy of targeted foreign economic policy linkage.

As early as September 24, 2001, the Bush Administration began to raise the possibility of reducing tariffs (and expanding quotas) on a range of Pakistani goods. The U.S. textiles industry reacted in a predictable manner. As a lobbyist for the American Textiles Manufacturers Institute stated, “To grant textile and apparel concessions to Pakistan, a major exporter, would be placing the burden of supporting the war on terror on the backs of the textile industry and its workers, who were already in trouble.” Senators

---

95 In principle, the president has the authority to expand eligibility under GSP through granting waivers and to expand or drop quotas on textiles products, where were overseen by the Committee for the Implementation of Textile Agreements (CITA), an interagency committee headed by the Commerce Department.
96 Rosegrant 2006, 6.
Helms (R) and Hollings (D) made their opposition clear, arguing that “Americans must not be made into pawns in efforts to build an international coalition.” Yet, rather than opposing trade concessions entirely, domestic import-competing groups and their representatives lobbied the Commerce Secretary to narrow the range of concessions. In contrast, U.S. importers and retailers enthusiastically argued in favor of a two-year tariff drop on all exports from Pakistan and other key allies.

The Bush Administration moved ahead with proposing ten categories of textiles and clothing products that would be slated for nonreciprocal tariff and quota relief. Yet, because “fast track” legislation had not yet been passed, the White House mounted a concerted campaign to press Congress for action (President Bush, the U.S. Trade Representative Zoellick, Commerce Secretary Evans, and Secretary of State Powell personally lobbied members of Congress) while assuaging concerns over politically inflammatory uses of trade policy discretion. “In developing any proposal for assistance to Pakistan,” the Commerce Secretary wrote to Congress, “the Administration is committed to working with the Congress to minimize the impact on the U.S. textile and apparel industry.” Eventually, the Bush Administration was able to finalize the package of concessions for Pakistan, which combined economic and military aid with trade concessions, the latter with a modest value of $476 million over three years – far more modest than initially envisioned. This first package of trade concessions centered on quota relief. It was not until early 2005 that the White House successfully managed to secure consensus for granting tariff relief on a group of 14 products exported by Pakistan to the U.S.

Figure 4.3 below shows that Pakistan’s GSP-eligible imports declined after 2001 and

---

99 Rosegrant 2006, 16.
did not increase until 2005, when the Bush Administration secured GSP treatment for select Pakistani goods. Without a doubt, this was a modest deal. In striking contrast, the European Union announced in January 2002 that it would grant tariff-free access to its markets for all Pakistani textile and clothing imports under its own GSP program.  

The U.S.-Pakistan relationship illustrates the way in which countervailing pressures have shaped the pattern of bilateral economic engagement. On the one hand, Pakistan’s strategic importance as an ally has clearly motivated the executive branch’s efforts to use foreign economic inducements as a tool of “linkage diplomacy” (Davis 2009). We observe this in both the aid and trade preference channels. On the other hand, domestic actors have differentially constrained the executive branch’s policy discretion. In general, Congress has exerted only weak influence over the president’s bilateral foreign aid strategy. However, in the face of industry and legislative resistance, the executive branch has been far more limited in its ability to grant Pakistan preferential tariff and quota relief.

Pakistan was not an isolated target of Bush administration efforts to use GSP as a

---

foreign policy tool. Shortly after 9/11, during a state visit by President Arroyo, President Bush pledged to provide the Philippines with a ten-fold increase in military aid and $1 billion in trade benefits under GSP. Official statements framed these pledges in terms of President Arroyo’s “leadership in the fight against terror” in the southern Philippines and internationally.\textsuperscript{102} The Philippines press interpreted U.S. trade concessions as a response to the Philippines’ “all-out support for the Bush Administration’s global war on terrorism.”\textsuperscript{103} Between 2001 and 2003, we observe a two-level bargaining dynamic over U.S. nonreciprocal trade preferences for the Philippines. Internationally, government officials in the Philippines began to press the U.S. to follow through with its earlier commitment by pushing for the specific inclusion of 11 products including dried mangoes, carageenan (an additive), tuna, and pineapple juice, all of which are important export industries. For example, around 400,000 people work in the pineapple business (operated by Dole USA) in the Philippines, but prior to 2003, only pineapple juice from certain African countries were eligible for GSP benefits.\textsuperscript{104} Beyond pushing for the inclusion of additional products, the Philippines petitioned the U.S. for GSP waivers on Philippine exports that were about to exceed the statutory competitive limit. Domestically, the Bush Administration had to work with industry groups and Congress in order to expand the Philippine’s GSP eligibility, which is contentious because it is a major beneficiary of U.S. GSP (the 6\textsuperscript{th} largest in terms of GSP imports in 2001).\textsuperscript{105} In 2003, the U.S. added a total of

\textsuperscript{102} “Joint Statement Between the United States of America and the Republic of the Philippines,” 20 November 2001, Office of the Press Secretary. The Bush Administration viewed the Philippines as a key counter-terrorism partner and named it a major non-NATO ally in 2003. Three groups based in the Philippines, Abu-Sayyaf, the New Peoples Army, and the Alex Boncayao Brigade, are on the U.S. list of “Foreign Terrorist Organizations” (the latter two since 2003).


\textsuperscript{104} “Arroyo to ask Bush to include additional RP products in U.S. GSP,” 13 May 2003, \textit{Manila Bulletin}.


\textsuperscript{105} CRS Report 2008.
8 products imported by the U.S. from the Philippines, representing only a fraction of the original amount pledged. Moreover, the U.S. did not grant eligibility for some of the products most desired by the Philippines, including pineapple juice and carageenan. There is little evidence U.S. producers actively lobbied against these additions, but we do observe U.S. labor group opposition (eg. conditions on Dole-owned pineapple fields) and environmental group opposition (eg. effects of carageenan production, which is a seaweed-based additive). Data on GSP-eligible imports from Philippines nonetheless exhibit an interesting pattern. Figure 4.4 below shows that, after a period of decline, the total amount of U.S. imports from the Philippines eligible for GSP expands between 2001 and 2007.

![The Philippines’ Eligible Imports under U.S. GSP](image)

**Figure 4.4. The Philippines’ Eligible Imports under U.S. GSP.**

Finally, as Figure 4.5 shows, we observe a very similar linkage pattern vis-a-vis Turkey, which was viewed by the U.S. as a key ally. Turkey, for its part, was “keen to...look into ways and means to overcome local opposition to a war with Iraq and greater access to the U.S. textile market was one of the key negotiating terms during its discussions

---

over the stationing of US troops.” Turkey is distinctive because it actively exports many GSP-eligible textiles and apparel products, such as silk, headgear, and carpets. However, Turkey was growing increasingly competitive in these areas, making trade preferences a domestically sensitive issue in the U.S. Even so, the Bush Administration managed to secure GSP concessions for Turkey. First, the U.S. granted GSP benefits on 6 categories of textiles products from Turkey, including hand-knitted carpets and certified handicraft textiles. Second, the U.S. used an expedited process for granting a waiver on gold jewelry and copper wires, the two most important imports from Turkey under GSP, which were set to exceed the competitive need limit.

![Figure 4.5. Turkey’s Eligible Imports under U.S. GSP.](image)

**4.6. Conclusion**

The administration of U.S. nonreciprocal trade preferences faces dual pressures. Internationally, the president seeks to adjust the scope of eligibility for strategically important developing countries. Domestically, import-competing industries and their

---

110 “Bush Expands Trade Preferences for Developing Countries,” 1 July 2003, Bureau of International Information Programs, U.S. Department of State.
representatives in Congress seek to prevent the president from adjusting the scope of eligibility in economically and politically sensitive product areas. Historically, the domestic constraints on the Generalized System of Preferences have been so severe that Congress renewed it one year at a time, often allowing it to lapse; this created the impression among developing countries that it could be axed altogether. As security rationales for using trade preferences as a tool of linkage diplomacy grew in salience during the post-9/11 period, the president demanded increased discretion over GSP administration. The descriptive pattern of GSP expansion is striking: After a decade of decline, the total value of U.S. imports accorded “special and differential treatment” under GSP surged in the post-9/11 period. The statistical results presented in this chapter demonstrate that U.S. allies and security partners have been the principal beneficiary of presidential discretion in this channel. They are associated with both a higher level of GSP-eligible imports and a higher GSP coverage ratio. However, as the case study focused on Pakistan illustrates, presidential discretion over trade preferences encountered resistance. Both Bush and Musharraf pushed vigorously for expanded access to the U.S. market for certain Pakistani textiles and clothing products, but American industry groups opposed their efforts. Whereas the European Union granted duty-free access for all Pakistani imports after 9/11, the U.S. package of trade concessions was far more limited. Similar functionalist demands shaped both foreign aid allocation and the administration of trade preferences, yet differential lines of political resistance have caused the U.S. to rely heavily on aid and minimally on trade.
Table 4.1. *U.S. Generalized System of Preferences Renewal History.*

<table>
<thead>
<tr>
<th>Public Law</th>
<th>Effective</th>
<th>Expiration</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>P.L. 93-618, Title V</td>
<td>2-Jan-75</td>
<td>2-Jan-85</td>
<td>Statute originally enacted.</td>
</tr>
<tr>
<td>P.L. 103-66, sec. 13802</td>
<td>10-Aug-93</td>
<td>30-Sep-94</td>
<td>Extended retroactively; amended to strike out reference to &quot;Union of Soviet Socialist Republics.&quot;</td>
</tr>
<tr>
<td>P.L. 103-465, sec. 601</td>
<td>8-Dec-94</td>
<td>31-Jul-95</td>
<td>Extended retroactively.</td>
</tr>
<tr>
<td>1952</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P.L. 106-170, sec. 508</td>
<td>17-Dec-99</td>
<td>30-Sep-01</td>
<td>Extended retroactively.</td>
</tr>
<tr>
<td>P.L. 107-201, div. D, Title XLI</td>
<td>6-Aug-02</td>
<td>31-Dec-06</td>
<td>Extended retroactively; amended to (1) include requirement that beneficiaries take steps to support efforts of U.S. to combat terrorism and (2) further defines the term &quot;internationally recognized worker rights.&quot;</td>
</tr>
<tr>
<td>P.L. 109-432, Title VIII</td>
<td>31-Dec-06</td>
<td>31-Dec-08</td>
<td>Extended before lapse.</td>
</tr>
<tr>
<td>P.L. 100-436, sec. 4</td>
<td>1-Jan-09</td>
<td>31-Dec-09</td>
<td>Extended before lapse.</td>
</tr>
</tbody>
</table>
Table 4.2. Three Classes of Target States

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2. &quot;Geo-strategic&quot; states:</td>
<td>(In addition to many of the frontline states) Bahrain, Djibouti, Kuwait, Kyrgyzstan, Oman, Qatar, Saudi Arabia, Tajikistan, Turkey, United Arab Emirates, Uzbekistan.</td>
</tr>
<tr>
<td>3. &quot;Contributing&quot; states:</td>
<td><strong>OEF</strong> Djibouti, Ethiopia, Georgia, Kyrgyzstan, New Zealand, Pakistan, Philippines, Russia, Somalia, South Korea, Ukraine; <strong>MNF-I</strong> Albania, Australia, Armenia, Azerbaijan, Bosnia-Herzegovina, Bulgaria, Czech Republic, Denmark, Dominican Republic, El Salvador, Estonia, Georgia, Honduras, Hungary, Italy, Japan, Jordan, Kazakhstan, Latvia, Lithuania, Macedonia, Moldova, Mongolia, Netherlands, New Zealand, Nicaragua, Norway, Philippines, Poland, Portugal, South Korea, Romania, Singapore, Slovakia, Spain, Thailand, Ukraine, United Kingdom.</td>
</tr>
<tr>
<td>Country</td>
<td>Period of Statutory Eligibility</td>
</tr>
<tr>
<td>--------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>2004-2008 Added</td>
</tr>
<tr>
<td>Algeria</td>
<td>2005-2008 Added</td>
</tr>
<tr>
<td>Angola</td>
<td>Full</td>
</tr>
<tr>
<td>Argentina</td>
<td>Full</td>
</tr>
<tr>
<td>Armenia</td>
<td>Full</td>
</tr>
<tr>
<td>Bahrain</td>
<td>Full</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>Full</td>
</tr>
<tr>
<td>Barbados</td>
<td>Full</td>
</tr>
<tr>
<td>Belize</td>
<td>Full</td>
</tr>
<tr>
<td>Benin</td>
<td>Full</td>
</tr>
<tr>
<td>Bhutan</td>
<td>Full</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Full</td>
</tr>
<tr>
<td>Bosnia</td>
<td>Full</td>
</tr>
<tr>
<td>Brazil</td>
<td>Full</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>1997-2006 EU</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Full</td>
</tr>
<tr>
<td>Burundi</td>
<td>Full</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Full</td>
</tr>
<tr>
<td>Cameroon</td>
<td>Full</td>
</tr>
<tr>
<td>Cape Verde</td>
<td>Full</td>
</tr>
<tr>
<td>Chad</td>
<td>Full</td>
</tr>
<tr>
<td>Chile</td>
<td>Full</td>
</tr>
<tr>
<td>Colombia</td>
<td>Full</td>
</tr>
<tr>
<td>Comoros</td>
<td>Full</td>
</tr>
<tr>
<td>Congo, Dem.</td>
<td>Full</td>
</tr>
<tr>
<td>Congo, Rep.</td>
<td>Full</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>Full</td>
</tr>
<tr>
<td>Cote D'Ivoire</td>
<td>Full</td>
</tr>
<tr>
<td>Croatia</td>
<td>Full</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>1997-2004 EU</td>
</tr>
<tr>
<td>Djibouti</td>
<td>Full</td>
</tr>
<tr>
<td>Ecuador</td>
<td>Full</td>
</tr>
<tr>
<td>Egypt</td>
<td>Full</td>
</tr>
<tr>
<td>El Salvador</td>
<td>Full</td>
</tr>
<tr>
<td>Eq. Guinea</td>
<td>Full</td>
</tr>
<tr>
<td>Eritrea</td>
<td>Full</td>
</tr>
<tr>
<td>Estonia</td>
<td>1997-2004 EU</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Full</td>
</tr>
<tr>
<td>Fiji</td>
<td>Full</td>
</tr>
<tr>
<td>Gabon</td>
<td>1999-2008 Added</td>
</tr>
<tr>
<td>Ghana</td>
<td>Full</td>
</tr>
<tr>
<td>Georgia</td>
<td>2001-2008 Added</td>
</tr>
<tr>
<td>Ghana</td>
<td>Full</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Full</td>
</tr>
<tr>
<td>Guinea</td>
<td>Full</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>Full</td>
</tr>
<tr>
<td>Guyana</td>
<td>Full</td>
</tr>
<tr>
<td>Haiti</td>
<td>Full</td>
</tr>
<tr>
<td>Honduras</td>
<td>Full</td>
</tr>
<tr>
<td>Hungary</td>
<td>1997-2004 EU</td>
</tr>
<tr>
<td>India</td>
<td>Full</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Full</td>
</tr>
<tr>
<td>Iraq</td>
<td>2004-2008 Added</td>
</tr>
<tr>
<td>Jamaica</td>
<td>Full</td>
</tr>
<tr>
<td>Jordan</td>
<td>Full</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>Full</td>
</tr>
<tr>
<td>Kenya</td>
<td>Full</td>
</tr>
<tr>
<td>Kyrgyz Rep.</td>
<td>Full</td>
</tr>
<tr>
<td>Latvia</td>
<td>1997-2004 EU</td>
</tr>
<tr>
<td>Lebanon</td>
<td>Full</td>
</tr>
<tr>
<td>Lesotho</td>
<td>Full</td>
</tr>
<tr>
<td>Lithuania</td>
<td>1997-2004 EU</td>
</tr>
<tr>
<td>Macedonia</td>
<td>Full</td>
</tr>
<tr>
<td>Madagascar</td>
<td>Full</td>
</tr>
<tr>
<td>Malawi</td>
<td>Full</td>
</tr>
<tr>
<td>Mali</td>
<td>Full</td>
</tr>
<tr>
<td>Malta</td>
<td>1997-2004 EU</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Full</td>
</tr>
<tr>
<td>Moldova</td>
<td>Full</td>
</tr>
<tr>
<td>Mongolia</td>
<td>1999-2008</td>
</tr>
<tr>
<td>Morocco</td>
<td>Full</td>
</tr>
<tr>
<td>Mozambique</td>
<td>Full</td>
</tr>
<tr>
<td>Namibia</td>
<td>Full</td>
</tr>
<tr>
<td>Nepal</td>
<td>Full</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>Full</td>
</tr>
<tr>
<td>Niger</td>
<td>Full</td>
</tr>
<tr>
<td>Oman</td>
<td>Full</td>
</tr>
<tr>
<td>Pakistan</td>
<td>2002-2008 Added</td>
</tr>
<tr>
<td>Panama</td>
<td>Full</td>
</tr>
<tr>
<td>PNG</td>
<td>Full</td>
</tr>
<tr>
<td>Paraguay</td>
<td>Full</td>
</tr>
<tr>
<td>Peru</td>
<td>Full</td>
</tr>
<tr>
<td>Philippines</td>
<td>Full</td>
</tr>
<tr>
<td>Poland</td>
<td>1997-2004 EU</td>
</tr>
<tr>
<td>Romania</td>
<td>1997-2006 EU</td>
</tr>
<tr>
<td>Russia</td>
<td>Full</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Full</td>
</tr>
<tr>
<td>Senegal</td>
<td>Full</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Full</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1997-2004 EU</td>
</tr>
<tr>
<td>Sol.Islands</td>
<td>Full</td>
</tr>
<tr>
<td>Somalia</td>
<td>Full</td>
</tr>
<tr>
<td>South Africa</td>
<td>Full</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Full</td>
</tr>
<tr>
<td>Suriname</td>
<td>Full</td>
</tr>
<tr>
<td>Swaziland</td>
<td>Full</td>
</tr>
<tr>
<td>Syria</td>
<td>Full</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Full</td>
</tr>
<tr>
<td>Thailand</td>
<td>Full</td>
</tr>
<tr>
<td>Togo</td>
<td>Full</td>
</tr>
<tr>
<td>Trinidad Tobago</td>
<td>Full</td>
</tr>
<tr>
<td>Tunisia</td>
<td>Full</td>
</tr>
<tr>
<td>Turkey</td>
<td>Full</td>
</tr>
<tr>
<td>Uganda</td>
<td>Full</td>
</tr>
<tr>
<td>Uruguay</td>
<td>Full</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>Full</td>
</tr>
<tr>
<td>Venezuela</td>
<td>Full</td>
</tr>
<tr>
<td>Yemen</td>
<td>Full</td>
</tr>
<tr>
<td>Zambia</td>
<td>Full</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Full</td>
</tr>
</tbody>
</table>

* However, GSP applied full period.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>Min</th>
<th>Max</th>
<th>Obs.</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>GSP-Eligible Imports (ln)</td>
<td>8.99</td>
<td>3.82</td>
<td>0</td>
<td>16.78</td>
<td>1332</td>
<td>Intl. Trade Commission / Author</td>
</tr>
<tr>
<td>U.S. Ally</td>
<td>0.22</td>
<td>0.41</td>
<td>0</td>
<td>1</td>
<td>1443</td>
<td>U.S. State Department / Author</td>
</tr>
<tr>
<td>Textiles/Clothing Exports</td>
<td>0.11</td>
<td>0.19</td>
<td>0</td>
<td>0.88</td>
<td>1443</td>
<td>WTO Int’l Trade Statistics</td>
</tr>
<tr>
<td>PTA Onset</td>
<td>0.02</td>
<td>0.15</td>
<td>0</td>
<td>1</td>
<td>1443</td>
<td>U.S. Trade Representative</td>
</tr>
<tr>
<td>U.S. Economic Aid (ln)</td>
<td>3.06</td>
<td>1.83</td>
<td>0</td>
<td>7.97</td>
<td>1443</td>
<td>USAID Greenbook</td>
</tr>
<tr>
<td>LDC Status</td>
<td>0.32</td>
<td>0.47</td>
<td>0</td>
<td>1</td>
<td>1443</td>
<td>U.S. GSP Handbook / World Bank</td>
</tr>
<tr>
<td>Democracy</td>
<td>4.27</td>
<td>1.69</td>
<td>1</td>
<td>7</td>
<td>1443</td>
<td>Freedom House</td>
</tr>
<tr>
<td>Total Imports (ln)</td>
<td>11.94</td>
<td>2.82</td>
<td>2.08</td>
<td>17.73</td>
<td>1443</td>
<td>Intl. Trade Commission / Author</td>
</tr>
<tr>
<td>GDP per capita (ln)</td>
<td>8.22</td>
<td>0.99</td>
<td>5.74</td>
<td>10.18</td>
<td>1330</td>
<td>Penn World Tables</td>
</tr>
<tr>
<td>Trend</td>
<td>8.99</td>
<td>0.2</td>
<td>8.62</td>
<td>9.45</td>
<td>1332</td>
<td>International Trade Commission</td>
</tr>
</tbody>
</table>
Table 4.5. *Results from Analysis of U.S. Nonreciprocal Trade Preferences.*

See discussion at Section 4.4.

<table>
<thead>
<tr>
<th></th>
<th>(1) GSP-Eligible Imports</th>
<th>(2) GSP Coverage Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>1.164***</td>
<td>0.634***</td>
</tr>
<tr>
<td></td>
<td>(0.230)</td>
<td>(0.013)</td>
</tr>
<tr>
<td>U.S. Ally</td>
<td>0.736**</td>
<td>0.039**</td>
</tr>
<tr>
<td></td>
<td>(0.305)</td>
<td>(0.016)</td>
</tr>
<tr>
<td>Military Presence</td>
<td>0.264***</td>
<td>0.002</td>
</tr>
<tr>
<td></td>
<td>(0.066)</td>
<td>(0.004)</td>
</tr>
<tr>
<td>Competition</td>
<td>1.919***</td>
<td>-0.165***</td>
</tr>
<tr>
<td></td>
<td>(0.500)</td>
<td>(0.051)</td>
</tr>
<tr>
<td>PTA</td>
<td>0.645**</td>
<td>0.007</td>
</tr>
<tr>
<td></td>
<td>(0.281)</td>
<td>(0.019)</td>
</tr>
<tr>
<td>LDC Status</td>
<td>-0.927</td>
<td>0.165***</td>
</tr>
<tr>
<td></td>
<td>(0.584)</td>
<td>(0.032)</td>
</tr>
<tr>
<td>Democracy</td>
<td>0.004</td>
<td>-0.010*</td>
</tr>
<tr>
<td></td>
<td>(0.128)</td>
<td>(0.006)</td>
</tr>
<tr>
<td>Export Dependence</td>
<td>-0.178</td>
<td>0.010</td>
</tr>
<tr>
<td></td>
<td>(0.263)</td>
<td>(0.019)</td>
</tr>
<tr>
<td>Trend</td>
<td>-0.558**</td>
<td>-0.060***</td>
</tr>
<tr>
<td></td>
<td>(0.251)</td>
<td>(0.016)</td>
</tr>
<tr>
<td>War on Terror</td>
<td>-0.061</td>
<td>-0.001</td>
</tr>
<tr>
<td></td>
<td>(0.167)</td>
<td>(0.010)</td>
</tr>
<tr>
<td>Constant</td>
<td>4.417</td>
<td>0.164</td>
</tr>
<tr>
<td></td>
<td>(2.970)</td>
<td>(0.168)</td>
</tr>
</tbody>
</table>

Country FE | No  | Yes  | No  | Yes  |
Observations | 1173 | 1173 | 1173 | 1173 |
R-squared    | 0.35 | 0.72 | 0.09 | 0.64 |

The dependent variable "GSP-Eligible Imports" is the natural log of the total value of U.S. imports from developing country $i$ that is eligible for special tariff rates in year $t$. The dependent variable "GSP Coverage Ratio" is the share of U.S. imports from developing country $i$ eligible for special tariff rates in year $t$. Equation estimated using OLS Prais-Winsten regression. Panel corrected standard errors in parentheses. Significance levels *p<0.10, **p<0.05, *** p< 0.01.
CHAPTER FIVE
Dividing Authority over Visa Issuance

5.1. Introduction

The September 11, 2001 terrorist attacks were a major shock to the political economy of U.S. nonimmigrant visas. Throughout the 1990s, facilitation was the overriding concern shaping the issuance of visas for temporary visits, study, and work in the United States. Policymakers wanted visas to be issued expeditiously, especially in response to American commercial and diplomatic interests (Yale-Loehr, et al. 2006). Even in the contentious area of work visas, Congress faced continual pressures to expand quotas (Reksulak, et al. 2006). After 9/11, the State Department’s consular system faced intense criticism for neglecting linkages between national security and the visa issuance function. As Secretary of State Colin Powell recalled, “Nobody wanted to have to be the next one to go before Congress after a terrorist attack and be ripped apart for letting someone into the country who shouldn’t have been let into the country” (Alden 2008, 217). Knowledge that most of the hijackers had obtained legal travel visas via highly accommodating procedures fed perceptions that an increasingly rigid security regime, involving intensified scrutiny of applicants, was needed to reduce the risk of another failure (9/11 Commission 2005, 11-12).

Through a succession of executive decisions and legislation, including the Homeland Security Act of 2002, the U.S. government crafted the post-9/11 mandate for visa policy, which was designed to make it harder for applicants to obtain a visa without first undergoing security checks, in-person interviews, and submitting extensive paperwork. The cumulative effect of post-9/11 visa security initiatives countered the goal of facilitation; it would be systematically more difficult and time-intensive for aliens wanting to enter the United States to get a visa. Although the anecdotal evidence pointing to this shift is
abundant, few studies examine the implications of security concerns for variation in visa issuance patterns across time, countries-of-origin, and nonimmigrant visa categories. This variation is critical, since security-motivated policies were often crafted to target applicant groups broadly associated with a higher risk of terrorist affiliation and higher risk of transferring sensitive dual-use technologies. Indeed, we observe that dramatic fluctuations in bilateral visa issuance levels tend to correspond with differentiated demands for enhanced security. For example, the total number of U.S. nonimmigrant visas issued to passport holders from many such targeted countries-of-origin, including Saudi Arabia, Syria, Pakistan, and the United Arab Emirates, declined by more than 50 percent from just before 9/11 to 2004; in the case of Saudi Arabia, this represented a surge in the annual rate of refusal from approximately 2 percent to 10 percent.\footnote{See Yale-Loehr, et al. 2005, 23; also Joel Mowbray, “US Visa Policy,” \textit{Washington Times}, August 10, 2004.}

Of course, these risk-based policies threatened to generate negative spillover effects for a far larger population of legitimate visa applicants. Stakeholders with an interest in preserving the flexibility and resulting openness of visa issuance procedures therefore pressured leaders in the executive branch and Congress to insulate, as much as possible, existing channels of facilitation from tightened security measures. Businesses in the travel and tourism industries, backed by concerned constituents and elected representatives, want foreigners to be able to obtain visas quickly and cheaply. Firms that recruit international talent on a temporary basis, or which depend on ease of movement across borders to complete business transactions, likewise lobby for visa procedures principally responsive to commercial needs. Universities and other research institutions seek to ensure stable flows of students and scientists from abroad. Finally, diplomatic officials on both sides often view the visa issuance function as an important tool of foreign policy, both because it is normally governed by norms of reciprocity and because it can otherwise be used as a “carrot” or
“stick.” This powerful coalition of business groups, educational institutions, and diplomatic agents served as a political counterbalance to demands for visa security.

The central purpose of this chapter is to explain variation in U.S. visa policy in terms of these dual sets of pressures. The question is not whether national security concerns have shaped visa issuance patterns but rather how they have interacted with the broader political economy of U.S. visa policy. The nature of this interaction poses a theoretical puzzle because we have to contend with different explanations of policy variation. One causal mechanism to explain visa issuance patterns follows a simple functionalist logic. That is, we attribute observed changes in visa policies and visa issuance levels to the president’s rational demands for tighter visa issuance procedures, which are largely a function of risk assessment. Since policymakers tend to allocate resources for scrutinizing visa applicants according to risk, on average we should expect that higher-risk years and countries-of-origin will be associated with lower visa issuance levels.

However, since national security imperatives interact with other goals of visa policy, it is not sufficient to examine the implications of the functionalist mechanism in isolation. We have to pay attention to the preferences of actors other than the president, who may have a strong incentive to influence the way security-motivated linkages to visa policy are designed and implemented. If these preferences are to be taken seriously, the president must not only respond to foreign policy exigencies but also forge consensus among multiple stakeholders, whether in Congress, within the executive branch, or among private interest groups and allies (Moravcsik 1997; Milner 1997). Under normal conditions, the coalitional mechanism suggests that we should expect the strength of commercial and diplomatic ties to be associated on average with higher visa issuance levels. Did this relationship hold during the post-9/11 period as the pro-facilitation coalition defended its own interests from being overwhelmed by security priorities?
Empirically, this chapter uses two bodies of evidence to shed light on both the hypothesized causal mechanisms and their observable implications. First, I study the interaction between security-motivated policy demands and facilitation-motivated policy demands in a case study focused on the choice to delegate authority over visa policy to a new Department of Homeland Security. Perceptions of the visa system’s failure under the Department of State fueled legislative proposals to transfer visa issuance functions to Homeland Security. However, these proposals faced considerable resistance from stakeholders within Congress and the executive branch, who feared that such a merger would not only diminish the importance of non-security goals in the visa channel but also severely undercut the consular bureaucracy’s existing capacities in an uncertain security environment. The case study shows that the Bush Administration tried to reconcile these dual concerns by seeking institutional compromise. Rather than giving Homeland Security complete control, the formal delegation outcome fostered a division of labor in which State lost visa policy oversight but retained operational control of the consular system. Moreover, many of the details about how such a division should be implemented were left to informal negotiation, thereby enhancing officials’ capacity to work out the tensions between demands for restrictive and flexible visa policies as the issue’s sensitivity subsided over time.

By establishing the effect of countervailing political pressures on the new institutional structure of U.S. visa policy, the case study provides important context for interpreting the second body of evidence, which analyzes patterns of visa issuance (and refusal) across countries-of-origin, visa categories, and time. Specifically, the dependent variable is the total number of visas issued to applicants from a given country each year from 1997 to 2010. I look at B-class tourist visas, F-class student visas, and H-class temporary work visas separately, since the configuration of stakeholders varies from category to category. In addition to a general post-9/11 effect, the main results from this
analysis offer support for the hypothesis that countries perceived by the U.S. as posing a higher risk of terrorism have been associated with lower visa issuance levels for travel and study. However, the evidence suggests that work visa issuance patterns were relatively insulated from the 9/11 shock. I also find support for the hypothesis that U.S. commercial and diplomatic ties, measured using trade and aid flows, have been associated with higher visa issuance levels. This suggests that the longstanding goal of visa facilitation persisted after 9/11, even as security-motivated policies took hold. Here again, work visa issuance patterns are distinctive: countries receiving higher amounts of U.S. foreign aid have not been associated with higher post-9/11 work visa issuance levels. The analysis controls for a host of other factors, such as the population, distance, language, and per capita income of a given country-of-origin, as well as aggregate visa issuance and application trends.

The main contribution of this chapter is that it sheds light on the effects of a critical juncture in U.S. foreign policy on cross-border flows of people, thereby complementing the traditional focus of international political economy (IPE) research on flows of foreign aid and trade. Like aid and trade, visa policies may hold important implications for national security, economic development, and innovation (Alden 2008; Pritchett 2006; Kapur & McHale 2005). Consistent with other channels of statecraft, visa policies respond to interrelated security and economic interests (Baldwin 1985; Keohane & Nye 1977). My argument accordingly stresses both context-specific security demands as well as basic political economy factors in explaining visa issuance patterns. Security motivations and political economy are tightly connected in many other issue-areas. They are usefully researched together to get a clearer picture of transnational flows.

---

2 There is evidence that all visa classes have been negatively affected by the global economic recession, further underscoring the importance of accounting for broad non-security political economy factors that shape nonimmigrant visas.
5.2. The Political Economy of Nonimmigrant Visas

U.S. nonimmigrants are the class of aliens with permanent residence abroad seeking to come to the United States on a temporary basis for a specific purpose. In order to both facilitate cross-border flows of people while also being able to monitor and limit these flows, the Immigration and Nationality Act (INA) designates 24 major nonimmigrant visa classes commonly referenced by their location in the INA (e.g. H-1B temporary professional workers). This chapter focuses on three major categories of nonimmigrant visas. Class B visas cover visitors for business and/or pleasure (“visitors”). Class F and J visas cover students in an academic or language training program as well as exchange visitors, and their families (“students”). Class H visas cover temporary workers of “distinguished merit and ability” (H-1), those who perform services unavailable in the United States (H2), agricultural services (H2-A), and their families (“workers”).

Beyond visa classes, the U.S. divides the policy framework for nonimmigrant visas in two tracks. The Visa Waiver Program (VWP) was created by a 1986 law in order to facilitate the entry of temporary visitors from approximately 35 (mostly OECD) countries into the United States without a visa. These countries are expected to extend reciprocal treatment to American citizens. The other track is thus comprised of passport-holders from non-VWP countries who must obtain a visa in order to travel, study, or work in the U.S.

Previous research on U.S. visa policies underscores various ways in which domestic and international political economy pressures shape outcomes. The configuration of stakeholders with an interest in liberal visa issuance policies depends on the visa class in question. For example, a diverse coalition of industries that benefit from tourism, ethnic group lobbies, and diplomatic officials support B-class visa policies that facilitate rather

---

3 Table 1 in the appendix lists basic visa issuance statistics for these classes over time.
4 Table 2 in the appendix lists country participants in the U.S. Visa Waiver Program.
than hinder travel. Universities and other research-intensive institutions (eg. hospitals, technology firms) lobby strenuously for policies that make it easier to admit talented students and skilled temporary workers into the United States. Goldsborough (2000, 89) argues that U.S. immigration policies have been largely “driven by businesses that need more workers – skilled and unskilled, legal and illegal.” The development of the U.S. quota system for regulating work visas illustrates the manifestation of business and labor group pressures. In response to complaints that H-1 visa-holders were filling entry-level positions, the Immigration Act of 1990 created new occupational-based categories and quotas to limit the number of work visas that could be granted in a fiscal year. Demand for foreign workers grew throughout the decade, prompting Congress to expand the H-1B quota (from 65,000 to 115,000) in 1998 and again in 2000 (to 195,000). That year, the largest employers of H-1B workers were large high-tech firms, including Cisco, Intel, Microsoft, Motorola, and Oracle (Kapur & McHale 2005).

U.S. visa policy in the 1990s thus tended to prioritize travel facilitation, “the processing of ever more visas more expeditiously without a commensurate increase in resources.” This general policy stance “was reinforced by constant pressure from Congress to speed up the visa process and avoid any delays or disruption.” Travel facilitation was strategically important for a myriad of reasons: to generate economic benefits for businesses, to allow talented people to join institutions in the U.S., to promote tourism, to achieve humanitarian goals, and to conduct diplomacy by conveying commitment to the

---

5 The literature widely echoes this view. Timmer and Williamson (1996) show that business associations in labor-scarce countries have historically demanded subsidization of immigration. Examining temporary worker visas, Facchini, et al.(2011) find that barriers to migration are higher in sectors where labor unions are more important and lower in those sectors where business lobbies are more active. Hanson and Spilimbergo (2001, 636) show that U.S. border enforcement softens when sectors using illegal immigrants expand, because “sectors that benefit greatly from lower border enforcement lobby politicians on the issue, while sectors that benefit modestly are less politically active.”


7 Alden 2008, 165.
value of openness. From the perspective of the State Department, which enjoyed *de facto* control of visa policy, the consular function was also a foreign policy tool, because officials took interest in the “streamlining of application procedures for visitors from friendly countries or countries of particular economic and geopolitical interest.”

Prior to the 9/11 attacks, “the visa process was seldom considered a major element of national security.” In the aftermath of the attacks, Congress enacted three major pieces of legislation pertaining to nonimmigrant visa policies: The Enhanced Border Security and Visa Entry Reform Act of 2002, The Homeland Security Act of 2002, and the Terrorism Prevention Act of 2004. Given this expansive legislative mandate, the executive branch pursued a wide range of visa security initiatives. For example, under a new procedure called “Visa Condor,” visa applicants from 26 countries in which there was a record of Al Qaeda presence faced extensive security clearances. Most nonimmigrant visa applicants between the ages of 14 and 79 were required to appear for in-person interviews, and a new Security Advisory Opinion system was designed so that consular officers abroad would refer selected visa applicants for closer review by intelligence and law enforcement agencies.

The cumulative effect of these changes “was to intensify the scrutiny of visa applicants, typically with little regard to the effect on travel by legitimate travelers.” Robert Gates, then a university president, observed that the federal government “for perfectly understandable reasons...made it much tougher to get a visa,” but criticized the

---

8 Ibid. fn. 7. This ordinarily hinged on reciprocal treatment: the U.S. extended aliens ease of access as long as U.S. passport holders were accorded parallel treatment by other countries’ visa regimes.
10 The Enhanced Border Security and Visa Entry Reform Act of 2002 (P.L. 107-173) was designed to improve the visa issuance process and the effectiveness of border inspections through electronic information systems, such as central background databases, an integrated entry-exit tracking system, and biometric identifiers. The Homeland Security Act of 2002 (P.L. 107-296) delegated authority over visa policies from the Department of State to the newly created Secretary of Homeland Security, who “shall be vested exclusively with all authorities to issue regulations...relating to the functions of consular officers of the United States in connection with the granting or refusal of visas.” Finally, the Intelligence Reform and Terrorism Prevention Act of 2004 (P.L. 108-458), enacted in response to the 9/11 Commission’s recommendations, mandated a new Visa and Passport Security Program.
visa process for failing “to differentiate quickly and accurately between legitimate scholars and students – and individuals who may pose genuine security risks.” Variation in visa policies and patterns of visa issuance raise questions about the interaction between national security and the political economy of nonimmigrant visas. On the one hand, national security crises should be a potent catalyst of change in the way governments manage the visa process. On the other hand, elevating the security functions of visa policy potentially induces a trade-off with travel facilitation functions of visa policy, which might make changes less palatable. How did the government try to reconcile tensions between demands for increased scrutiny of visa applicants and demands for travel facilitation, diplomatic sensitivity, and openness?

Drawing the distinction between migration policies that respond principally to internal or societal security goals and migration policies that respond principally to military security goals, Rudolph (2003) argues that changes in the state’s conception of security explain why migration policies shift toward and away from openness. From this perspective, the most “salient change [since 9/11] is the widespread recognition of the link between military security and the effective control over global migration,” a link that “challenges the policy equilibrium crafted during the 1990s” (615). Yet, observing that

---

13 There is a large literature arguing that the president’s ability to craft foreign policies will depend on the configuration of domestic support and resistance. “In trying to promote the national interest,” Krasner (1978, 68) writes, “the American state often confronts dissident bureaus, a recalcitrant Congress, and powerful private actors.” The theoretical debate has previously been cast in terms of state-centered versus society-centered explanations of policy (Ikenberry, et al. 1988), or in contrasts between foreign policy models, which focus on the president’s preferences, and political economy models, which emphasize that the president must craft policies to overcome domestic resistance. See Milner & Tingley 2011.
14 The existing research neither explains how this political dynamic helps account for U.S. leaders’ institutional design choices in the visa channel nor specifies how it relates to variation in policy patterns across bilateral relationships. In particular, the creation of the Department of Homeland Security, the largest federal government reorganization since the Defense Department was created, bears directly on the way leaders responded to perceptions that the State Department failed “to appreciate the consular function as part of a coordinated national effort to manage border security” (Inspector General 2002, 18). However, aside from attempts to explain the Department of Homeland Security’s origins (Perrow 2006; Cohen, et al. 2006), we have limited understanding of the relationship between institutional strategy and post-9/11 visa policies.
major post-9/11 legislative vehicles to enhance migration security have yielded mixed success, Rudolph explains that military security interests have not overwhelmed migration policies because “economic interests continue to serve as a powerful counterweight to the political interests that push for closure” (616).

Several pertinent empirical studies underscore the need for further analysis. Neiman and Swagel (2009) research the impact of post-9/11 visa policies on travel to the United States, comparing travel patterns before and after 9/11 across two groups of countries, those that participate in the U.S. Visa Waiver Program and those that do not. They argue that visa policies had little impact on the difference in travel reductions between these groups. However, one problem with this analysis is that it includes only 65 countries, 23 of which participate in the Visa Waiver Program. The sample excludes almost all of the 26 countries targeted by post-9/11 visa security initiatives such as “Visa Condor.” Other studies examine the determinants of visa restrictions on a global scale but fail to consider temporal variation.\textsuperscript{15} For example, Neumayer (2005) studies variation in visa restrictions on a dyadic basis for the year 2004 and finds that passport holders from Western high-income OECD countries face the fewest bilateral visa restrictions, while passport holders from most non-OECD countries face substantial restrictions.\textsuperscript{16} Further studies echo this finding, yet it is hard to see how a single-year research design supports the conclusion that, “at least in terms of the politics of visas, we are not operating in a ‘brave new’ post-9/11 world, where Muslims, regardless of origin, may face obstacles to travel internationally” (Luedtke, et al. 2010, 155; Lawson & Lemke 2011).

\textsuperscript{15} Reksulak, et al. (2006) examine the effects of wages, unionization, enforcement changes, and other macroeconomic factors on the issuance of U.S. H1-B worker visas at the yearly unit of observation. This study is useful for establishing a political economy model, but it does not speak to the differential effects of security concerns on issuance patterns across countries-of-origin.

\textsuperscript{16} His explanation is that “OECD countries use their political power to maintain these inequalities” (78). For example, in order to gain visa-free access to the United States, the U.S. government requires that the other country grant reciprocal privileges to American citizens, but offering visa access to American citizens is no guarantee of visa-free access to the United States. See also Siskin 2004.
5.3. Argument and Hypotheses

My argument synthesizes two key causal mechanisms, which can help to explain why security concerns either influence or fail to influence nonimmigrant visa issuance policies. The first causal mechanism follows a simple functionalist logic in which the state adopts more rigid visa issuance policies when and where leaders demand enhanced national security. The second causal mechanism identifies a diverse coalition of actors whose preferences over nonimmigrant visa policy should lead them to oppose policy shifts that threaten to detract from the goal of facilitation. In order to enhance the security functions of visa policies, leaders must also secure this coalition’s support. The task of my analysis is to see how these mechanisms interact to explain varied outcomes.

National security concerns can be a powerful catalyst of policy change. In theory, one of the principal mechanisms at work when national security concerns are salient is that legislators and interest groups exercise deference in relationship to the president, either because of the president’s constitutional authorities or informational advantages in matters of security and defense. Under such conditions, the president gains increased capacity for controlling the policy agenda (Hinckley 1994). After the 9/11 attacks, we observe that the president made differentiated demands for security linkages in indirect versus direct policy channels. In the indirect channels, the president demanded enhanced policy discretion to link foreign economic policies with bilateral security goals, since increasingly discretionary economic policies could bolster U.S. alliance relationships. In the direct channels, the president sought reduced policy discretion so that cross-border flows of funds, goods, and people might be more rigidly scrutinized. In managing these flows, too much discretion posed a threat to U.S. security.

Visa policy was one such direct channel in which the president wanted to forge security linkages. Although visa policy during the 1990s had been characterized by
demands for increasingly accommodating visa issuance procedures, the intent of post-9/11 security linkages was to increase the rigidity of the visa issuance function because too much flexibility could be exploited by terrorists. If the functionalist explanation holds, we should expect leaders to rationally tighten nonimmigrant visa policies the most when and where they perceive the greatest security risks. In terms of institutional strategy, one observable implication is that the principals, the president and Congress, should empower agents with the incentive to adjust visa issuance policies according to perceptions of security risks. Moreover, we should also expect the pattern of visa issuance to vary as a function of perceived security risks. Specifically, tightened visa screening procedures are likely to produce a larger decline in both applications and the overall volume of visas that can be processed for high risk countries-of-origin relative to other countries. Thus, one of the functionalist explanation’s main observable implications can be summarized in the following hypothesis:

Hypothesis One: The severity of perceived security risks associated with a given country-of-origin should be negatively related to yearly visa issuance levels.

The functional explanation is insufficient if policy outcomes reflect not only the president’s response to salient security risks but also the demands of other actors with divergent preferences. The second causal mechanism therefore identifies variation in the degree of policy consensus as the reason why security linkages have uneven effects on outcomes in a given channel. Security linkages sometimes dovetail substantially with extant policy agendas, harnessing powerful coalitions in favor of change. However, policy consensus might not be forthcoming if stakeholders within Congress, the executive branch, private industry, or foreign countries are less responsive to shifting security priorities. Rather than deferring to the president’s security agenda, these actors rationally resist visa
policies that make it more costly for them to satisfy their constituency, achieve commercial gain, or fulfill particular bureaucratic missions.

There are at least three classes of actors with a stake in visa policies that preserve openness and therefore adopt a pro-facilitation stance. Businesses and research institutions that depend on a steady flow of foreign visitors, students, or temporary workers are likely to favor policies that make it easier to obtain visas in a timely manner. For example, Microsoft has frequently asked Congress to reform U.S. permanent and temporary employment-based visas, such as the H-1B program, in order “to get critical recruits on board quickly.”

Universities are also a major advocate for visa facilitation. Since 9/11, many institutions within the university community have been especially concerned that visa and immigration policies would jeopardize the flow of international graduate students and scholars, especially in science and engineering. Finally, the “incumbent” bureaucratic agent in the visa area, the State Department, views the visa issuance function as a diplomatic tool and seeks to protect its own flexibility (Alden 2008, 176, 234).

These groups pressure lawmakers to consider not only national security but other long-term economic, scientific, and cultural goals of visa programs. One Member of Congress, noting that “tighter scrutiny has undoubtedly been a major contributing factor to the increase in visa application and processing delays around the world,” pointed out that, “next to issues concerning Social Security, visa delays tend to be the most requested issue when it comes to casework within our districts. We have heard in prior hearings about the serious impact visa delays have on U.S. businesses, on tourism, institutions of higher learning, the science community and many others” (U.S. Congress 2004, 1).

---

17 See “The Economic Imperative for Immigration Reform – High-Skilled Immigration as a Driver of Economic Growth,” Statement of Brad Smith, General Counsel and Senior Vice President, Legal and Corporate Affairs, Microsoft Corporation. United States Senate Committee on the Judiciary, Subcommittee on Immigration, Refugees and Border Security, Washington, D.C. July 26, 2011.

18 See National Research Council 2005, 86.
The higher the costs of circumventing resistance, the more constrained the president should be in grafting security aims onto the visa issuance process. Empirically, we should observe an institutional strategy that seeks to balance different goals of visa policy. That is, in addition to adopting restrictive visa policies, leaders should also preserve visa policies that accommodate special interests. If this is the case, we would expect visa issuance levels to be positively associated with the strength of U.S. bilateral commercial and diplomatic ties, since the stakes of maintaining openness are greater for these relationships. Thus, one of the political economy explanation’s main observable implications can be summarized in the following hypothesis:

**Hypothesis Two:** The strength of U.S. bilateral commercial and diplomatic ties should be positively related to visa issuance levels.

Taken cumulatively, the two causal mechanisms discussed thus far would provide contrasting assessments of what is likely to happen to visa policies in a crisis-induced “window of opportunity.” This chapter suggests that both the security-motivated functionalist logic and the political economy explanation will influence policy patterns.

Two other causal mechanisms dovetail with my argument about domestic resistance. Institutional path dependence suggests that, even if security shocks expand consensus in favor of tightening visa policies, we might still fail to observe shifting patterns of policy implementation because it is too costly to manipulate routinized procedures that are embedded in large organizations. The consular system responsible for issuing visas is massive, geographically dispersed, and run largely by career diplomats immersed in a culture that prioritizes facilitation. For example, Alden (2008, 165) notes that “consular officers were far more likely to be reprimanded for denying visas [in the 1990s] than for issuing them.” Organizational inertia could “blind employees to homeland security issues...
and make it difficult to incorporate homeland security into existing missions” (Kettl 2004, 39). As a result, the institutionalization of visa rules and procedures – not necessarily active political opposition – insulates policies from the destabilizing effects of shocks.\footnote{March and Olsen 1989 observe that “Most institutional action results neither from extraordinary processes or forces, nor from heroic interventions, but from relatively stable, routine processes that relate institutions to their environments” (58).}

Domestic resistance might also come from partisan divides over visa policy. This will depend on the visa class in question. With respect to work visas, we might expect right-leaning legislators to be more responsive to the business community’s demands for expanding high-skilled temporary worker programs, whereas legislators from left-leaning districts are more critical of programs that increase foreign competition in the domestic labor market (Reksulak, et al. 2006). However, there is less evidence of a partisan divide with respect to travel facilitation and student visas. “Democrats wanted an open door for refugees and a generous policy of family reunification. Republicans wanted a steady supply of foreign workers to keep the chamber of commerce happy. Both favored more foreign students for the university, more skilled workers for Silicon Valley, more tourists to fill the hotels” (Alden 2008, 164). Thus, insofar as partisanship affects visa issuance patterns, it should matter primarily for the allocation of H-class work visas.

In summary, this section distinguishes between two main causal mechanisms linking security and visa policy outcomes. First, the functional explanation emphasizes that the president’s demands for enhanced security account for the increasing rigidity of visa policies toward applicants from “higher risk” countries-of-origin. If this explanation holds, we should expect to observe only minimal constraints on the president’s policy choices, both in terms of institutional strategy (shift in authority to agents with security missions) and patterns of visa issuance (negative relationship between risk and issuance levels). Second, the domestic resistance explanation focuses on countervailing pressures on
visa policy, such that demands for increasingly rigid visa security provoke pushback from actors who want flexible visa policies in order to facilitate travel, study, temporary labor, and diplomacy. In terms of observable implications, this explanation anticipates partial shifts in authority to agents with security missions and greater resilience of status quo visa policies where countervailing interests are relatively strong. Specifically:

Hypothesis 1: The severity of perceived security risks associated with a given country-of-origin should be negatively related to yearly visa issuance levels, all else equal.

Hypothesis 2: The strength of U.S. bilateral commercial and diplomatic ties should be positively related to visa issuance levels, all else equal.

The remainder of the chapter employs a two-prong strategy for assessing these hypotheses. The case study below illustrates how the causal mechanisms explain the changing institutional structure of visa policy, which in turns provides essential context for interpreting descriptive patterns of visa issuance and the statistical results in Section Five.

5.4. Case Study: The Politics of Institutional Compromise

The principal issue before the Bush Administration and Congress was how to restructure authority over the visa issuance function within the broader context of designing a new Department of Homeland Security (DHS). Specifically, should DHS subsume the sprawling Consular Affairs bureaucracy, or should it gain policy oversight but leave operational control to the Department of State? How did policymakers and private stakeholders expect each delegation option to influence visa issuance patterns, and which proposal did they support? According to the functionalist mechanism, growing perceptions of security risks motivated U.S. leaders to demand intensified scrutiny of visa applicants. This mechanism might be sufficient to explain the choice of delegation strategy if the
president and Congress were responding to security concerns in isolation. However, countervailing concerns – that too much focus on security would overwhelm vital visa facilitation goals – were prominent in policy deliberations. A diverse coalition composed mainly of business and education groups, echoing the arguments of diplomatic officials themselves, pressured lawmakers to pursue compromise by resisting proposals that would have given the DHS unrestricted control of the visa issuance function. Instead, they pushed for, and secured, a “division of labor” in visa policy: DHS gained policy oversight but State retained its mandate to issue visas abroad.  

This outcome illustrates, as the coalitional mechanism stresses, how post-9/11 security concerns interacted with the broader set of preferences. Empirically, the compromise over delegation strategy structured a core tension in post-9/11 visa policies. Under extraordinary pressure to counter perceptions of failure, the executive branch could tighten visa security procedures for a set of higher-risk countries-of-origin. Meanwhile, by insulating operational control of the consular system from DHS, the visa issuance function’s longer-term priority – to flexibly accommodate legitimate travelers, students, and workers – might still be defended.

Visa Proposals in the Homeland Security Restructuring Debate

Perceptions of the federal government’s failure to prevent the attacks were a powerful catalyst of demands to restructure homeland security, and U.S. visa policy became a prime target of criticism. According to Alden (2008), Consular Affairs officials from within the State Department testified before Congressional hearings more frequently than any other executive agency during the first session of the 107th Congress. The question of

---

how to reorient the government’s approach to issuing visas thus became enmeshed in the much larger debate over various homeland security proposals, which the Bush Administration and Congress grappled with most intensively between September 2001 and the fall of 2002 when the Department of Homeland Security was established.

Initially, the White House preferred to coordinate the government’s homeland security response through a Homeland Security Advisor located in the Executive Office of the President. Even before the president issued the executive order in October 2001 to establish the Office of Homeland Security, Senators Lieberman (D) and Specter (R) drafted a bill, S. 1534, to consolidate several agencies under a new Department of Homeland Security, which would have its own budget and far greater legislative oversight compared to the president’s plan. As early details emerged concerning intelligence gaps and the lax process by which the 9/11 hijackers obtained visas, members of Congress on both sides of the aisle increasingly questioned the adequacy of the administration’s approach.

Meanwhile, between October 2001 and March 2002, the White House repeatedly made statements in favor of intensified coordination and cautioned against large-scale reorganization, citing uncertain benefits due to protracted jurisdictional battles and the risk of undercutting agencies’ effectiveness amidst persisting security threats (Cohen, et al. 2006, 688; Zelikow 2011).

As bipartisan support for significant legislative action grew, the White House’s position shifted. In June 2002, President Bush announced his own proposal for a Department of Homeland Security that would bring 22 federal agencies under one roof, representing “the most extensive reorganization of the federal government since the

---

21 As the 9/11 Commission’s Staff Report on Terrorist Travel later described in painstaking detail, most of the September 11 hijackers obtained valid nonimmigrant visas to travel to the United States without submitting completed applications, mostly without interviews, and without background checks. Knowledge of the “Visa Express” program in Saudi Arabia, in which the application process was relaxed as a matter of State Department policy, drew especially severe criticism well before the Report was published. See Alden 2008, 172-179 and 9/11 Commission 2004, 116-130.
1940’s.” Cohen et al. (2006, 700) note that the president “switched from opposing the merger to fashioning – with legislative allies – a new homeland security agency larger than anything previously proposed.” Perrow (2006) interprets this switch as a consequence of perceptions that the White House was dragging its feet on the consolidation effort, while Congress took the lead. Under the president’s original proposal, DHS “would assume the legal authority to issue visas to foreign nationals” while the State Department “would continue to administer the visa application and issuance process.” On this issue, two main options crystallized within Congressional debates. Opponents of the president’s plan tended to be House Republicans, who argued that the “principal focus of visa issuance should be national security, not diplomatic concerns” and that DHS legislation needed to ensure that the visa issuance process “should be about close and careful examination of each and every applicant.” For example, Representatives Burton and Weldon, both Republican chairs of the House Committee on Government Reform and the Subcommittee on the Civil Service, spearheaded a proposal to move the Bureau of Consular Affairs from the State Department to DHS entirely. They believed that security risks would not be given top priority if the State Department continued to control the visa issuance function.

Indeed, on September 19 after the attacks, the State Department had issued a cable to U.S. embassies and consulates that no change had been made in visa processing procedures. One year after the attacks, the Inspector General (2002, 18) concluded, “The post-September 11 era should have witnessed immediate and dramatic changes in [Consular Affair’s] direction of the visa process. This has not happened. A fundamental
readjustment by Department leadership regarding visa issuance and denial has not taken place. The Department still does not fully appreciate the consular function as part of a coordinated national effort to manage border security.” The portrayal of Consular Affairs as being “trapped in the death grip of inertia” fed skepticism about whether the new DHS Secretary would actually be able to reorient visa policies through the Secretary of another department, given that “officers in the field inevitably will respond to the priorities which come down their own chain of command.”

The president’s plan mirrored the compromise option proposed by a larger bipartisan coalition in both chambers of Congress. This option, as Secretary of State Colin Powell testified, was premised on the State Department being “willing, anxious, to give all of the authority” over visa issuance to the Secretary of Homeland Security, yet insistent that it would be “absolutely essential…that the actual issuance of the visas remain within the Department of State” since “most visa applicants want to come [to the U.S.] for legitimate purposes: business, tourism, education.” Such an arrangement was intended to strike a balance between national security demands for tightened visa issuance procedures and countervailing demands to defend the system’s prevailing emphasis on travel facilitation. Proponents of the president’s plan feared that a consular system subsumed under DHS would have to divert resources away from its legacy mandate toward the homeland security mandate. As Kettl (2004, 38) explains, “To bend the mission to accommodate the coordination demands of homeland security risked undermining an

---

25 Ibid., fn. 19, pages 26, 33, 49. According to Alden 2008, 178, Colin Powell stated in retrospect that the head of Consular Affairs “really was not flexible enough and responding flexibly enough to the political and bureaucratic demands of the post-9/11 period.”


27 This was a possibility because the president’s plan originally required the new DHS to be budget neutral. See Cohen, et al. 2006, 678. Perrow 2006, 13, similarly notes, “To the extent that new security responsibilities are added to the agencies, one can imagine that all the agencies folded into the [Homeland Security] department will be having a harder time doing the jobs they were originally designed to do.”
agency’s other – and, in the minds of many agency managers, more important – missions.”

Thus, Representatives Hyde (R) and Lantos (D) rallied support for a compromise amendment, eventually adopted by all House committees with jurisdiction, designed to protect the administration’s preferred division of labor over visa policy.28

In short, the debate over delegating visa policy reflected the interaction of post-9/11 security-motivated demands with an existing bipartisan coalition that had historically favored accommodating visa procedures. This interaction accounts for the core institutional features of both the formal delegation decision and its informal implementation.

Formal Delegation and Informal Division of Labor

In November 2002, the House passed a compromise bill (H.R. 5005) 295 to 132, and 90 to 9 in the Senate, to establish the Department of Homeland Security. President Bush signed The Homeland Security Act of 2002 into law later that month. It divided the Immigration and Naturalization Service into two agencies for services and enforcement and contained general language delegating powers to set visa regulations to the Secretary of Homeland Security.29 The law assigned to DHS six specific visa-related functions: (1) assigning DHS employees to Saudi Arabia, (2) developing homeland security training programs for State Department consular officers, (3) ensuring that all DHS and consular employees are appropriately trained, (4) developing performance standards for the Secretary of State to evaluate consular employees, (5) studying the visa issuance process, (6) assigning DHS employees to foreign posts as needed to bolster security. Yet the

---

29 See Yale-Loehr, et al. 2006, 45. Section 428 gave the DHS authority to “issue regulations with respect to, administer, and enforce the provisions relating to the functions of consular officers of the United States in connection with the granting or refusal of visas.” In other words, Section 428 “transferred the oversight of certain aspects of the consular function from the Justice Department to DHS, while leaving the functions of the secretary of state in the State Department...Moreover, it does not define what exactly is entailed in the administration and enforcement of the visa process.”
Homeland Security Act did not precisely spell out how the Department of State’s Bureau of Consular Affairs was to implement the new provisions under DHS oversight.

This ambiguity set the stage for a period of informal negotiations between DHS Secretary Ridge and Secretary of State Powell. Powell fought hard to retain his department’s consular authority because he wanted to keep visa issuance as a foreign policy tool as well as to avoid disrupting the chain of command. Reportedly, Ridge became persuaded that it was not in DHS’s interest to assume operational control of the vast consular bureaucracy (Yale-Loehr, et al. 2006, 45). In September 2003, they jointly announced a Memorandum of Understanding, which clarified that “the Secretary of Homeland Security will establish visa policy, review implementation of that policy, and provide additional direction...while respecting the prerogatives of the Secretary of State to lead and manage the consular corps and its functions, to manage the visa process, and to execute the foreign policy of the United States.”30 The Memorandum proceeds to specify that DHS has authority to issue visa policy guidance, including regulations, Foreign Affairs Manual provisions, interpretive and procedural notes, and all cables to diplomatic and consular posts implementing provisions of any laws pertaining to visas, with certain listed exceptions.31 Thus, while the visa issuance function remained operationally in State’s hands, DHS gained significant policy oversight.

Strikingly, the formal act of delegation was least ambiguous in directing DHS to exercise authority in the country-of-origin where officials perceived the highest security risks, Saudi Arabia: this was also the country in which State officials introduced Visa Express as a sign of diplomatic and commercial goodwill before 9/11. Post-9/11 policy

---

31 For example, the Secretary of State retains final responsibility over visa guidance concerning who is eligible to pass in transit to and from the U.N. headquarters, what is a qualifying treaty of commerce and navigation, and whether qualifying reciprocity exists.
reversal is thus hard to explain without the functionalist mechanism linking demands for enhanced security with varying assessments of risk. In contrast, the formal act of delegation was quite ambiguous with respect to the State Department’s continued administration of the visa issuance function. By leaving room for interpretation, the Homeland Security Act’s implementation could be adapted to the shifting security environment: mandates crafted in response to short-term exigencies would not necessarily constrict the consular system’s longer-term mandate. The coalitional mechanism anticipates the need for such flexibility because it relates policy outcomes to the overlapping preferences of a broader range of stakeholders in nonimmigrant visa issuance.

*Rigidity and Flexibility in Post-9/11 Visa Policy*

Delegation compromise yielded a mixture of policies. In response to security pressures, the U.S. adopted a rigidly constrained set of visa issuance procedures targeted at higher-risk countries and the persistence of a more discretionary track aimed at facilitating legitimate travel. For example, the core trio of visa security initiatives – Visa Condor, Visa Viper, and Visa Mantis – was designed to ensure that certain groups of visa applicants would face greater scrutiny, including mandatory interviews, wait-periods to conduct additional security clearances, and tighter application of the “intending immigrant” threshold to establish an applicant’s financial and residential ties in the country-of-origin.

Visa Condor, introduced in 2002, targeted passport-holders from 26 countries in which Al Qaeda or other Islamic terrorist groups had a presence. Visa Viper was an

---

32 These countries are Afghanistan, Algeria, Bahrain, Djibouti, Egypt, Eritrea, Indonesia, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Malaysia, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, Turkey, United Arab Emirates, and Yemen. Alden (2008) highlights the fact that consensus about which countries to include under the new security reviews was nowhere near automatic. Due to concerns “that the United States not appear to be targeting only Muslim countries,” he writes, officials at the State Department “suggested the inclusion of India, and some East African countries like Tanzania and Kenya, and even argued that one or more Western Hemisphere countries should be added to give more balance” (105-106).
interagency reporting process created after the 1993 World Trade Center bombing and significantly revamped after 9/11 to produce information about aliens for the purpose of watch-listing potential terrorists. Visa Mantis was also a security review procedure expanded after 9/11 to target applicants with backgrounds in 16 sensitive technology areas, who could potentially engage in illegal transfers of dual-use technology. Finally, to oversee the implementation of these initiatives, the Department of Homeland Security began to place its own Visa Security Officers at select consular posts, nearly identical to the Visa Condor country list. The cumulative effect of these security-motivated policy initiatives was that the consular system faced a disproportionately burdensome workload for targeted applicants and countries-of-origin. This translated into a backlog and ultimately lower nonimmigrant visa issuance levels, an outcome that critics of the State Department’s inflexible response to 9/11 explicitly anticipated.

Not surprisingly, despite efforts to target higher-risk countries-of-origin, visa security policy initiatives had negative spillover effects for legitimate travel. Business groups, educational institutions, and foreign governments made their concerns known to the Bush Administration and Congress. For example, the U.S. Chamber of Commerce, which had already worked extensively to shape Homeland Security legislation, noted “quiet concerns among the business community” that policymakers were pursuing a “Fortress America mentality and would not weight the potential negative economic impact on the

---

However, Justice Department officials successfully argued that the list should only target countries where there was evidence of activity by Al Qaeda or other Islamic terrorist groups.

33 This program had severe consequences for the flow of scientists, engineers, graduate students, and other researchers into the United States. Yale–Loehr, et al. 2006 describes these initiatives in greater detail. For anecdotal evidence about how such initiatives influenced the nonimmigrant visa process, see especially “Smooth Sailing or an Impending Wreck? The Impact of New Visa and Passport Requirements on Foreign Travel to the United States.” Hearing before the Committee on Government Reform, House of Representatives, 108th Congress, 10 July 2003, Serial No. 108-51. Washington, DC: U.S. Government Printing Office, 84-86.

country as a whole.” Officials assured the business community that it would “search for ways to both expedite – to improve security and to expedite or at least not significantly hinder legitimate international commerce, travel and immigration,” but there was nevertheless a “growing perception among the private sector that words are not matching the policies that have been announced.” As such, a coalition of business and education groups sent letters pressing the administration to both delay the implementation of stringent visa procedures and phase them in gradually (eg. according to risk) rather than all at once. The letters, from groups like the National Business Travel Association, U.S. Chamber of Commerce, and Association of American Universities, describe a wide range of instances representative of the obstacles foreign employees, students, and tourists faced in trying to obtain a temporary visa. These stakeholders deluged policymakers with demands to strengthen visa procedures that accommodated legitimate travel by issuing visas in an expedited, flexible manner, prompting the Secretary of State to become “deeply involved” in persuading his administration colleagues to respond to complaints (Alden 2008, 219-222).

In summary, this case study shows that both the president’s plan and various legislative proposals for a Department of Homeland Security recognized the need for an institutional division of labor that would bolster visa security measures while minimizing their negative externalities for legitimate travelers. This delegation compromise provides the vital context for understanding empirical variation in visa issuance patterns.

37 Aside from active lobbying resistance, efforts to transform the priorities guiding visa issuance encountered substantial path dependence. One State Department official, talking about the consular affairs bureaucracy, made note of the “complexity of turning around all this machinery and pointing it in a different direction.” See Alden 2008, 218. Indeed, despite the introduction of numerous risk-based visa security measures, the post-9/11 period has seen only minimal transfer of operational control over visa issuance.
5.5. **Descriptive Patterns and Statistical Evidence**

Descriptive patterns of nonimmigrant visa issuance highlight variation across visa classes, countries-of-origin, and time. Figure 1 below shows the total number of B-class travel visas issued by the United States each year from 1990 to 2010. Between 2001 and 2005, this number dropped by approximately 50 percent, from 4 to 2 million.

![Bar graph showing B-class visas issued by the United States from 1990 to 2010](image)

**Figure 5.1. Total B-class Travel Visas issued by the United States, 1990 to 2010.**

For other visa classes, the post-9/11 drop was not as severe. Figure 2 below shows the total number of F-class student visas and H-class work visas issued by the United States since 1990. Total student visas declined by 20 percent between 2001 and 2005, and total work visas declined by 9 percent during this period. Moreover, in both cases, we observe evidence of a longer-term increase in visa issuance patterns. Following the post-9/11 decline, the U.S. has been issuing steadily more student and work visas. However, the global recession has again put the H-1B temporary work visa program under pressure, as seen from the decline since 2008.
In addition to temporal variation and differences between major visa classes, there is an important cross-sectional dimension. While the majority of foreigners faced difficulties obtaining U.S. visas after 9/11, national security concerns fell disproportionately on visa applicants from particular countries-of-origin. For example, visa applicants who were citizens or nationals of 26 countries were required to meet additional security clearances under a program called “Visa Condor” (See Table 3 in appendix). Figure 3 below shows the average number of B-class travel visas issued annually to applicants from countries-of-origin categorized according to “Low” and “High Risk” groups. Average visa issuance levels for the “High Risk” group, which includes Visa Condor targets, declined significantly after 2001 and have rebounded slowly since then, whereas there is a more moderate post-9/11 decline in average visa issuance levels for the “Low Risk” group that then rebounds at a higher rate.38

---

38 These patterns hold when countries participating in the Visa Waiver Program are excluded from the sample. Although most applicants from VWP countries are exempt from travel visa requirements, those that do not meet the program’s criteria require a waiver of ineligibility that forces them to obtain a visa through the normal channels.
Figure 4 below presents this data in a different way, showing the average percentage drop in B-class tourist and H-class work visas issued between 2000 and 2005, by country risk group. The graph on the left shows that the number of B-class tourist visas issued for countries in the high risk group dropped on average by nearly 50 percent during this period, while other countries experienced a 20 percent increase. The graph on the right suggests that the post-9/11 shock was not nearly as severe for H-class work visas, which dropped on average by 10 percent for countries in the high risk group, while also experiencing a 20 percent increase among other countries.

---

39 This figure excludes several major outliers: Argentina, Singapore, Uruguay for B-class; Bahrain, Belize, Botswana, Chad, Costa Rica, Equatorial Guinea, Nicaragua for H-class.
As one of the countries targeted by Visa Condor, and the country in which most of the 9/11 hijackers claimed citizenship, applicants from Saudi Arabia faced extraordinary scrutiny. In 2000, the U.S. issued 48,000 travel visas to residents of Saudi Arabia. According to a consular official interviewed by the 9/11 Commission, “our mission in Saudi Arabia [was] to be as accommodating as we possibly could” (Alden 2008, 167). Given the relative wealth of most Saudi visitors to the U.S., the State Department’s policy during the 1990s set a low barrier for Saudis to overcome the “intending immigrant” presumption in U.S. immigration law. For example, through a modified procedure known as Visa Express, most Saudi applicants did not have to show – with financial records, proof of home address, and a personal interview – that they were likely to return to Saudi Arabia after visiting (168-171). The 9/11 attacks sharply reversed the trend of travel facilitation. In 2003, as Figure 5 below depicts, the U.S. issued fewer than 6,000 travel visas, representing an 88 percent decrease from 2000.

**Figure 5.4.** Avg. Percent Change in Travel (left) and Work (right) Visas issued, 2000 – 2005.
Thus, the descriptive evidence suggests a need for closer analysis of the interaction between national security and other determinants of U.S. nonimmigrant visa issuance patterns. On the one hand, we observe outcomes consistent with increased demand for visa policy to perform vital security functions. However, since post-9/11 demands for enhanced security interacted with countervailing demands for visa policy to perform diplomatic and commercial functions, we need to model the conditional effects of security concerns on visa issuance patterns. The case study illustrated how policymakers dealt with this tension through institutional compromise, by dividing control over visa policy between the Department of Homeland Security and the Department of State.

The next section, a panel analysis of visa issuance patterns, is designed to offer additional support for the argument. It addresses three sets of concerns. First, there are myriad political, economic, and demographic factors that shape patterns of visa issuance besides security risk. Second, it is important to analyze refusal rates because variation visa issuance levels will reflect variation in application levels. Third, we should further distinguish between the determinants of visa patterns specific to nonimmigrant categories.
Regression Analysis

The dependent variable in this analysis is the level of visa issuance, measured as the natural log of the total number of temporary visas issued by the U.S. for a given year and country-of-origin. Complete data is available for the years 1997 to 2010 from the Department of State’s Visa Office.\(^{40}\) I use data specific to three categories of nonimmigrant visas: B-class tourists and business travelers, F-class students, and H-class temporary workers. The sample includes all countries except Visa Waiver Program participants.

In light of the theoretical framework, the analysis focuses on two sets of independent variables. First, I include the variable \( \text{Higher\_Risk} \) to test the functionalist hypothesis that “high-risk” countries-of-origin have been associated with a lower level of visa issuance, in accordance with the president’s demands for enhanced security. This is a dichotomous variable equaling “1” for every country-of-origin targeted by the post-9/11 visa security program, Visa Condor. If the simple functionalist logic holds, we should expect the coefficient on \( \text{Higher\_Risk} \) to be negative and statistically significant.

Second, I include the variables \( \text{US\_Trade} \) and \( \text{US\_Aid} \) to test the hypothesis that, all else equal, commercially and diplomatically important countries-of-origin have been associated with a higher level of visa issuance. The trade variable, used as a proxy for the degree to which commercial actors have a stake in visa facilitation, is the natural log of U.S. exports to a given country in each year.\(^{41}\) For example, if a country trades intensively with the U.S., it is more likely to have a strong base of support for liberal visa policies among firms and legislators, who pressure the executive branch to protect pro-facilitation measures in the face of heightened security concerns. The aid variable, used as a proxy for the degree to which diplomatic officials have a stake in visa facilitation, is the natural log of


\(^{41}\) International Monetary Fund, Direction of Trade Statistics.
U.S. bilateral economic aid to a given country in each year.\textsuperscript{42} There is ample evidence that bilateral foreign policy priorities, including alliances and informal security partnerships, have been a major determinant of U.S. foreign aid allocation patterns (Lancaster 2006; Fleck & Kilby 2010). Diplomatic officials are more likely to ensure that restrictive visa policies avoid damaging U.S. relationships with allies and other friendly countries. If the coalitional explanation holds, we should expect the trade and aid variables to be positively related to visa issuance levels – that is, the opposite relationship compared to risk.

The interaction between the main independent variables should matter because policymakers often have to make trade-offs between competing policy pressures. The dilemma for policymakers in the visa channel can be especially severe when a country-of-origin is either commercially or diplomatically important while also perceived as posing a higher security risk. This was precisely the case with Saudi Arabia, which has historically had an extremely low rate of refusal, as the principal beneficiary of the “Visa Express” program, yet was seriously hit after 9/11 in terms of dropping visa issuance levels. In general, we might expect the marginal effect of risk on visa outcomes to be smaller when commercial or diplomatic ties are strong, compared with contexts in which these bilateral ties to the U.S. are weak. Thus, the analysis also includes multiplicative interaction terms, \textit{Risk*Trade} and \textit{Risk*Aid}.$^{43}$

Finally, I include a host of other control variables that should influence visa issuance levels but are not the focus of my argument. As with many other studies of long and short-term immigration, the average income, size, spoken language, and distance from the U.S. of a given country should also influence visa outcomes. Higher levels of

\textsuperscript{42} U.S. Agency for International Development, U.S. Overseas Loans and Grants Database (“Greenbook”).

\textsuperscript{43} In a multiplicative interaction model, such as $Y = \beta_0 + \beta_1 X + \beta_2 Z + \beta_3 XZ + \epsilon$, the marginal effect of $X$ is calculated as $\beta_1 + \beta_3 Z$. Thus, $\beta_3$ is interpreted as the conditioning effect of $Z$ on the effect of a change in $X$ on $Y$. Brambor, Clark & Golder 2005, 11.
GDP\_per\_capita should be associated with higher visa issuance levels both because the propensity to travel is higher and it is easier to overcome the “intending immigrant” presumption.\textsuperscript{44} Population and Language (common language above a 9\% threshold) should also be associated with higher visa issuance levels, whereas Distance (between capital cities) should be associated with lower visa issuance levels.\textsuperscript{45} The analysis includes a Period dummy variable for the post-9/11 years 2002 through 2010 and a Visa\_Trend variable that measures aggregate fluctuations in the total number of B-class travel visas issued by the U.S. from year to year.

Discussion of Results

I estimate the effect of these variables on the natural log of visa issuance levels using an Ordinary Least Squares specification with panel corrected standard errors and a 1-year lag on the main independent variables. The unit of analysis is the country-year. In order to understand similarities and differences across nonimmigrant visa classes, I estimate the same model for B-class travel visas, F-class student visas, and H-class work visas separately.

Table 5.5 in the appendix records the results for the analysis of visa issuance levels across the period 1997 to 2010. Focusing on the principal independent variables, the Higher\_Risk variable is negatively signed across all specifications but is not statistically significant with respect to B-class travel visas and not consistently statistically significant for the other visa classes. This contrary result confirms that the Higher\_Risk variable is not a major determinant of cross-sectional variation in visa issuance levels across the full period of analysis; a post-9/11 period of analysis, however, should yield results that accord

\textsuperscript{44} Per capita GDP data is from the Penn World Tables, supplemented with the World Bank Development Indicators.

\textsuperscript{45} Population data is from the Penn World Tables, supplemented with the World Bank Development Indicators. Language and distance data come from Mayer & Zignago 2011.
with Hypothesis 1. Both \textit{US\_Trade} and \textit{US\_Aid} are statistically significant and positively related to visa issuance levels across all specifications and visa categories, which supports Hypothesis 2 that visa issuance patterns track the overall strength of bilateral commercial and diplomatic ties. The control variables yield the predicted results, albeit with some differences between visa categories. \textit{GDP\_per\_capita} and \textit{Population} are both positively correlated with visa issuance levels, while the opposite is true for \textit{Distance}, across all specifications. As the \textit{Language} variable shows, having a common language is positively associated with the issuance of travel and work visas but not student visas. Strikingly, we observe that the \textit{Period} variable is negative and statistically significant with respect to travel and student visas but not work visas. Consistent with the coalition mechanism, this result suggests that H-class visa issuance patterns have been relatively more insulated from post-9/11 fluctuations compared with other nonimmigrant visa classes.

In order to focus the analysis on post-9/11 patterns, Table 5.6 records results from estimating the same model (minus the \textit{Period} variable) for all observations 2002 to 2010. Using this limited sample, I find that the variable \textit{Higher\_Risk} is statistically significant and negatively related to visa issuance levels across all specifications with the exception of columns 3b (work visas). I interpret this as evidence in support of Hypothesis 1, which argues that risk-based demands for enhanced security have resulted in lower visa issuance levels for targeted countries-of-origin during the post-9/11 period. As with the larger sample, the results here also point to a positive and statistically significant relationship between trade levels and visa issuance levels across all specifications. Figure A1 in the Appendix confirms that visa issuance levels \textit{within the high-risk group} correlate positively to U.S. trade, both prior to (2000) and after (2004) the 9/11 attacks. The results with respect to foreign aid are also similar to the larger sample, except that foreign aid is not a statistically significant determinant of work visa issuance levels.
In summary, the results of the analysis highlight two main findings. First, consistent with the causal mechanism that links visa patterns with demands for enhanced security, I find that countries-of-origin perceived by the U.S. as posing a higher risk during the post-9/11 period have been associated with lower visa issuance levels. Table 5.7 below records the estimated substantive effects associated with the Risk variable; for all visa categories, the predicted visa issuance levels decline as Risk moves from “0” values to “1” values. The effect is stronger for the post-9/11 observations. Although the substantive effects are large for H-class work visas, the relationship between country risk and visa issuance level is not statistically significant.

<table>
<thead>
<tr>
<th>Table 5.7. Predicted Visa Issuance Levels.</th>
</tr>
</thead>
<tbody>
<tr>
<td>B-Class Travel Visas</td>
</tr>
<tr>
<td>----------------------</td>
</tr>
<tr>
<td>Risk 0 → 1, Full Sample</td>
</tr>
<tr>
<td>(3419 to 3075)</td>
</tr>
<tr>
<td>Risk 0 → 1, Post-9/11</td>
</tr>
<tr>
<td>(3207 to 2228)</td>
</tr>
</tbody>
</table>

Second, visa patterns respond not only to security but also to a wider set of foreign policy goals, such as facilitating travel for countries-of-origin with whom the U.S. maintains stronger bilateral commercial ties. I find that trade flows are positively associated with visa issuance levels. This echoes qualitative evidence that U.S. officials and private stakeholders seek to protect linkages between the openness of visa procedures and the strength of bilateral economic relations. Diplomatic ties appear to have a more limited effect; aid allocation is corresponds to higher post-9/11 issuance levels for travel and student visas, but not work visas.

I took several steps to verify the robustness of these results. First, the results hold
for an expanded sample including Visa Waiver Program countries. Second, since the
*Higher_Risk* variable I use is dichotomous and time-invariant, I also tested a continuous proxy, the number of terrorist attacks directed at U.S. targets (also tested for all targets) in a given country-year, based on information from the Global Terrorism Database (*Boutton & Carter, working*). The coefficient on this variable yields a similar interpretation: higher levels of terrorist activity have been associated with lower levels of visa issuance in the travel and student visa categories, for both the full and post-9/11 time periods, but not work visas. Third, the results do not change when I include a variable measuring the 5-year (2006 to 2010) mean refusal rate for a given country-of-origin. An important next empirical step, given improved data availability, would be to analyze variation in refusal rates over time and countries, since visa application levels vary alongside, and feed into, fluctuating visa issuance levels. Figure 5.6 below graphs the 5-year average rate of refusal for the Higher-Risk countries against GDP per capita in 2004, showing a clear negative relationship. Interestingly, richer countries targeted by post-9/11 visa security policies exhibit relatively low refusal rates.

The statistical results presented here parallel the case study by demonstrating that countervailing demands have shaped not only the structure of authority over U.S. nonimmigrant visa policies but also patterns of visa issuance. Security pressures have fostered a shift toward closure in U.S. visa policy for targeted states, while persistent facilitation pressures have ensured that visa procedures remain accommodating for applicants from countries in which the U.S. has especially salient foreign policy interests.

---

46 Currently, the data needed to calculate refusal rates is limited to the years 2006 to 2010. See Yale-Loehr 2007, 22: “While some of the drop in [NIV] applications was related to the fear of travel and terrorism immediately after September 11, a large part of the overall decrease in visas issued can be attributed to two additional factors: (1) the perception that visa procedures have become stricter, and (2) the fact that certain countries of types of applicants are refused visas more frequently because of higher security thresholds.”
Figure 5.6. Average Rate of Refusal for “High Risk” Country Group.

5.6. Conclusion

The goal of facilitation – making it easier for foreign nationals to benefit from U.S. institutions, culture, and economic opportunities, while U.S. institutions benefit from foreign talent and exchange – has been the dominant force shaping nonimmigrant visa policies in the United States. However, in the wake of the 9/11 attacks, visa policy assumed a prominent role in homeland security strategy. This presented a challenge for policymakers: “The problem was that the very thing that made globalization possible – a low-friction world in which goods, people, and ideas moved freely across national borders – also made countries far more vulnerable to attacks from those disaffected with the new order” (Alden 2008, 35).

This chapter theorizes the interaction between demands for increasingly rigid visa issuance policies, designed to manage security risks, and countervailing demands for flexible visa issuance policies responsive to commercial and diplomatic interests. The explanation advanced here holds that the president needed to gain support from multiple
stakeholders with divergent policy preferences. Policy outcomes were not simply a function of demands for security. Rather, the character of domestic resistance shaped the choice of institutional strategy and patterns of visa issuance.

I find evidence in support of this claim using both qualitative and quantitative analyses. The case study shows that the president’s post-9/11 institutional strategy sought to reconcile tensions between demands for rigidity and flexibility in the nonimmigrant visa channel. Under intense legislative criticism surrounding the visa system’s failure, the president chose to include visa functions in shifting authority to the Department of Homeland Security. However, this formal act of delegation left room for informal compromise. Officials anticipated that new visa security measures were likely to generate backlash from legislative committees, the business and educational community, foreign governments, and the consular bureaucracy itself. Thus, rather than fully empowering Homeland Security to revamp the visa system, they negotiated a deal to divide control between departments: Homeland Security would gain policy-setting authority, but the Department of State’s capacity for implementing visa issuance functions via the consular network was largely left intact. This outcome nicely illustrates how executive and legislative attempts to influence agency design can produce compromise (Lewis 2003; McCubbins 1985).

The statistical results complement the qualitative interpretation. Using a new dataset of U.S. visa issuance and refusal by country-of-origin, for the period 1997 to 2010, I find robust evidence that official perceptions of risk have been negatively correlated with visa issuance levels. Issuance patterns for H-class temporary work visas, however, are not as systematically exposed to security pressures. Moreover, there is strong evidence that bilateral commercial interests, indicated by trade volume, have been positively associated with visa issuance levels across all nonimmigrant visa categories. Visa policies, like so
many other areas of foreign policy, remain subject to a mixture of foreign policy and domestic political goals that leaders, under pressure from stakeholders, seek to balance.

The struggle for balance nevertheless provides a sobering lesson. Perceptions of policy failure after the attacks fueled support for dramatic changes. For some people, the amalgamation of 22 federal agencies under the Department of Homeland Security corrects what had been an overly fragmented and poorly coordinated system. In order to bolster the linkages between security and visa policies, the post-9/11 institutional strategy needed to reduce competition between the consular bureaucracy’s “legacy” mandate, facilitation and diplomacy, and the risk management mandate. Others view an institutional strategy structured upon competing demands as an essential ingredient for achieving “smart” or “soft” power in U.S. foreign policy (Nossel 2004; Nye 2004). Without the counterbalancing pressures of private and public stakeholders in the visa channel, the negative spillover effects of risk-based policies “intended to restrict the illegal movements of an extremely small population” would likely have been even greater that they were.47

This chapter’s emphasis on linkages between security and political economy dovetail with a larger body of research about the mechanisms of policymaking in times of crisis (Gourevitch 1986; Alison & Zelikow 1999; Kettl 2004). The mechanisms linking security and political economy could be similarly explored in a wider set of policy channels beyond visa policy, in which the 9/11 attacks catalyzed demands for strategic reorientation. These include foreign economic policies (aid and trade), global regulatory enforcement (anti-money laundering), homeland security (ports, borders, and transportation), and military strategy (counterterrorism and counterinsurgency).

Future research will need to probe the micro-foundations of the argument advanced

---

here in order to examine directly the behavior of firms, universities, and legislators in shaping visa policy. This research dovetails with work on formal and informal governance. Although a new architecture of legislated changes now shape visa policies during the post-9/11 period, to a large extent these programs leave room for flexible implementation in the face of environmental uncertainty, multiple goals, and shifting political pressures. Another question is whether the U.S. case is singular, or whether it is representative of the way many governments respond to a security shock. Research on the comparative political economy of nonimmigrant policy will help improve our knowledge about the factors that shape temporary flows of people across borders.
Appendix

Table 5.1. U.S. Nonimmigrant Visas Issued in Major Categories (millions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>B – Visitors</td>
<td>4.28</td>
<td>4.40</td>
<td>4.15</td>
<td>3.01</td>
<td>3.68</td>
</tr>
<tr>
<td>F – Students</td>
<td>0.22</td>
<td>0.25</td>
<td>0.31</td>
<td>0.26</td>
<td>0.41</td>
</tr>
<tr>
<td>H – Workers</td>
<td>0.09</td>
<td>0.11</td>
<td>0.29</td>
<td>0.32</td>
<td>0.29</td>
</tr>
</tbody>
</table>

Visitors includes B1 (pleasure) B2 (business) and B1/B2 (both), excluding Border Crossing Card. Students includes F1 (academic or language students) and F2 (immediate family). Workers includes all H1 to H4 temporary workers.

Table 5.2. Participants in the U.S. Visa Waiver Program

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Country</th>
<th>Year</th>
<th>Country</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>1988</td>
<td>Lichtenstein</td>
<td>1991</td>
<td>Singapore</td>
<td>1999</td>
</tr>
<tr>
<td>France</td>
<td>1989</td>
<td>Luxembourg</td>
<td>1991</td>
<td>Uruguay*</td>
<td>99-03</td>
</tr>
<tr>
<td>Germany</td>
<td>1989</td>
<td>Monaco</td>
<td>1991</td>
<td>Czech Republic</td>
<td>2008</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1989</td>
<td>Spain</td>
<td>1991</td>
<td>Lithuania</td>
<td>2008</td>
</tr>
<tr>
<td>Andorra</td>
<td>1991</td>
<td>Brunei</td>
<td>1993</td>
<td>South Korea</td>
<td>2008</td>
</tr>
<tr>
<td>Austria</td>
<td>1991</td>
<td>Ireland</td>
<td>1995</td>
<td>Slovak Republic</td>
<td>2008</td>
</tr>
<tr>
<td>Belgium</td>
<td>1991</td>
<td>Argentina*</td>
<td>96-02</td>
<td>Malta</td>
<td>2008</td>
</tr>
<tr>
<td>Denmark</td>
<td>1991</td>
<td>Australia</td>
<td>1996</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>1991</td>
<td>Slovenia</td>
<td>1997</td>
<td>*Removed from VWP.</td>
<td></td>
</tr>
</tbody>
</table>

*Removed from VWP.

Table 5.3. Countries on the “Visa Condor” List

5. Egypt 11. Kuwait 17. Pakistan 23. Tunisia

Table 5.4. Variables and Data Sources

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>DV: Travel Visa</td>
<td>(ln) Total NIVs issued in B-class, excl. Border Crossing Card.</td>
<td>U.S. Dept. of State Visa Office</td>
</tr>
<tr>
<td>DV: Student Visa</td>
<td>(ln) Total NIVs issued in F-class.</td>
<td>U.S. Dept. of State Visa Office</td>
</tr>
<tr>
<td>DV: Work Visa</td>
<td>(ln) Total NIVs issued in H-class.</td>
<td>U.S. Dept. of State Visa Office</td>
</tr>
<tr>
<td>Higher_Risk</td>
<td>Coded “1” for 26 Visa Condor listed countries.</td>
<td>U.S. Dept. of State Visa Office</td>
</tr>
<tr>
<td>US_Trade</td>
<td>(ln) U.S. bilateral trade, exports.</td>
<td>IMF Dir. of Trade Statistics</td>
</tr>
<tr>
<td>US_Aid</td>
<td>(ln) U.S. bilateral economic assistance.</td>
<td>USAID Greenbook</td>
</tr>
<tr>
<td>GDP_per_capita</td>
<td>(ln) GDP per capita.</td>
<td>Penn World Tables</td>
</tr>
<tr>
<td>Distance</td>
<td>(ln) Distance between capital cities.</td>
<td>GeoDist, Mayer &amp; Zignago 2011</td>
</tr>
<tr>
<td>Language</td>
<td>Coded “1” if a common spoken language above 9 percent.</td>
<td>GeoDist, Mayer &amp; Zignago 2011</td>
</tr>
<tr>
<td>Population</td>
<td>(ln) Total population in the country-of-origin.</td>
<td>Penn World Tables</td>
</tr>
<tr>
<td>Visa_Trend</td>
<td>Total U.S. B-class visas issued in a year, across countries.</td>
<td>U.S. Dept. of State Visa Office</td>
</tr>
<tr>
<td>Period</td>
<td>Dummy variable &quot;1&quot; for years 2002 and after</td>
<td></td>
</tr>
</tbody>
</table>
Figure 5.7. *U.S. Travel Visas Issued to High Risk Countries-of-Origin in 2000 (left) and 2004 (right) versus Trade.*
<table>
<thead>
<tr>
<th></th>
<th>(1) B-class Travel Visas</th>
<th>(2) F-class Student Visas</th>
<th>(3) H-class Worker Visas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher Risk</td>
<td>-0.106 (0.193)</td>
<td>-0.178 (0.315)</td>
<td>-0.168 (0.333)</td>
</tr>
<tr>
<td></td>
<td>0.118 (0.234)</td>
<td>0.122*** (0.026)</td>
<td>0.153*** (0.026)</td>
</tr>
<tr>
<td></td>
<td>0.184*** (0.024)</td>
<td>0.152*** (0.026)</td>
<td>0.163*** (0.031)</td>
</tr>
<tr>
<td></td>
<td>0.008 (0.034)</td>
<td>0.105* (0.060)</td>
<td>-0.056 (0.038)</td>
</tr>
<tr>
<td>U.S. Trade</td>
<td>0.186*** (0.024)</td>
<td>0.152*** (0.026)</td>
<td>0.178*** (0.032)</td>
</tr>
<tr>
<td></td>
<td>0.185*** (0.024)</td>
<td>0.122*** (0.026)</td>
<td>0.178*** (0.032)</td>
</tr>
<tr>
<td></td>
<td>0.184*** (0.024)</td>
<td>0.125*** (0.026)</td>
<td>0.178*** (0.031)</td>
</tr>
<tr>
<td>Risk*Trade</td>
<td>-0.008 (0.034)</td>
<td>0.105* (0.060)</td>
<td>-0.056 (0.038)</td>
</tr>
<tr>
<td>Risk*Aid</td>
<td>0.004 (0.033)</td>
<td>-0.005 (0.032)</td>
<td>0.000 (0.045)</td>
</tr>
<tr>
<td>U.S. Aid</td>
<td>0.040 (0.028)</td>
<td>0.035*** (0.013)</td>
<td>0.036*** (0.013)</td>
</tr>
<tr>
<td></td>
<td>0.040 (0.028)</td>
<td>0.035*** (0.013)</td>
<td>0.036*** (0.013)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.443*** (0.037)</td>
<td>0.419*** (0.050)</td>
<td>0.418*** (0.050)</td>
</tr>
<tr>
<td></td>
<td>0.443*** (0.036)</td>
<td>0.417*** (0.048)</td>
<td>0.418*** (0.048)</td>
</tr>
<tr>
<td></td>
<td>0.443*** (0.036)</td>
<td>0.417*** (0.048)</td>
<td>0.418*** (0.048)</td>
</tr>
<tr>
<td>Distance</td>
<td>-0.815*** (0.090)</td>
<td>-0.348*** (0.079)</td>
<td>-0.346*** (0.083)</td>
</tr>
<tr>
<td></td>
<td>-0.811*** (0.089)</td>
<td>-0.392*** (0.085)</td>
<td>-0.790*** (0.101)</td>
</tr>
<tr>
<td>Language</td>
<td>0.373*** (0.040)</td>
<td>0.039 (0.119)</td>
<td>0.039 (0.117)</td>
</tr>
<tr>
<td></td>
<td>0.372*** (0.039)</td>
<td>0.052 (0.114)</td>
<td>0.039 (0.117)</td>
</tr>
<tr>
<td></td>
<td>0.371*** (0.039)</td>
<td>0.052 (0.114)</td>
<td>0.039 (0.117)</td>
</tr>
<tr>
<td>Population</td>
<td>0.498*** (0.026)</td>
<td>0.525*** (0.027)</td>
<td>0.523*** (0.026)</td>
</tr>
<tr>
<td></td>
<td>0.497*** (0.027)</td>
<td>0.523*** (0.027)</td>
<td>0.678*** (0.026)</td>
</tr>
<tr>
<td></td>
<td>0.497*** (0.027)</td>
<td>0.523*** (0.027)</td>
<td>0.678*** (0.026)</td>
</tr>
<tr>
<td>Period</td>
<td>-0.462 (0.316)</td>
<td>-0.237*** (0.069)</td>
<td>-0.234*** (0.068)</td>
</tr>
<tr>
<td></td>
<td>-0.460 (0.315)</td>
<td>-0.238*** (0.069)</td>
<td>-0.234*** (0.068)</td>
</tr>
<tr>
<td></td>
<td>-0.464 (0.315)</td>
<td>-0.238*** (0.069)</td>
<td>-0.234*** (0.068)</td>
</tr>
<tr>
<td>Visa Trend</td>
<td>0.024 (0.165)</td>
<td>0.047 (0.034)</td>
<td>0.047 (0.034)</td>
</tr>
<tr>
<td></td>
<td>0.024 (0.165)</td>
<td>0.047 (0.034)</td>
<td>0.047 (0.034)</td>
</tr>
<tr>
<td></td>
<td>0.023 (0.165)</td>
<td>0.047 (0.034)</td>
<td>0.047 (0.034)</td>
</tr>
<tr>
<td>Constant</td>
<td>6.342*** (1.272)</td>
<td>-0.534 (1.258)</td>
<td>-0.539 (1.258)</td>
</tr>
<tr>
<td></td>
<td>6.306*** (1.240)</td>
<td>-0.084 (1.258)</td>
<td>-0.462 (1.199)</td>
</tr>
<tr>
<td></td>
<td>6.337*** (1.258)</td>
<td>-0.539 (1.258)</td>
<td>-0.462 (1.199)</td>
</tr>
<tr>
<td></td>
<td>-0.534 (1.258)</td>
<td>-0.539 (1.258)</td>
<td>-0.462 (1.199)</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.78</td>
<td>0.78</td>
<td>0.54</td>
</tr>
</tbody>
</table>

Dependent variable is the natural log of the number of U.S. nonimmigrant visas issued for each country-of-origin in a given class and year (1997 to 2010). Panel-corrected standard errors in parentheses. Significance levels *p<0.10, **p<0.05, *** p< 0.01.
### Table 5.6. Regression Results, years 2002 to 2010.

See discussion in Section 5.5.

<table>
<thead>
<tr>
<th>(1) B-class Travel Visas</th>
<th>(2) F-class Student Visas</th>
<th>(3) H-class Worker Visas</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>b.</td>
<td>c.</td>
</tr>
<tr>
<td>Higher Risk</td>
<td>-0.364***</td>
<td>-0.801***</td>
</tr>
<tr>
<td></td>
<td>(0.135)</td>
<td>(0.277)</td>
</tr>
<tr>
<td>U.S. Trade</td>
<td>0.135***</td>
<td>0.123***</td>
</tr>
<tr>
<td></td>
<td>(0.027)</td>
<td>(0.028)</td>
</tr>
<tr>
<td>Risk*Trade</td>
<td>0.065</td>
<td>0.194***</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Aid</td>
<td>0.040*</td>
<td>0.040*</td>
</tr>
<tr>
<td></td>
<td>(0.024)</td>
<td>(0.024)</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.441***</td>
<td>0.437***</td>
</tr>
<tr>
<td></td>
<td>(0.052)</td>
<td>(0.050)</td>
</tr>
<tr>
<td>Distance</td>
<td>-0.938***</td>
<td>-0.960***</td>
</tr>
<tr>
<td></td>
<td>(0.092)</td>
<td>(0.093)</td>
</tr>
<tr>
<td>Language</td>
<td>0.388***</td>
<td>0.397***</td>
</tr>
<tr>
<td></td>
<td>(0.051)</td>
<td>(0.048)</td>
</tr>
<tr>
<td>Population</td>
<td>0.538***</td>
<td>0.543***</td>
</tr>
<tr>
<td></td>
<td>(0.035)</td>
<td>(0.035)</td>
</tr>
<tr>
<td>Visa Trend</td>
<td>0.017</td>
<td>0.017</td>
</tr>
<tr>
<td></td>
<td>(0.028)</td>
<td>(0.028)</td>
</tr>
<tr>
<td>Constant</td>
<td>6.997***</td>
<td>7.268***</td>
</tr>
<tr>
<td></td>
<td>(1.042)</td>
<td>(1.034)</td>
</tr>
<tr>
<td>Observations</td>
<td>1220</td>
<td>1220</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.89</td>
<td>0.89</td>
</tr>
</tbody>
</table>

Dependent variable is the natural log of the number of U.S. nonimmigrant visas issued for each country-of-origin in a given class and year (2002 to 2010). Panel-corrected standard errors in parentheses. Significance levels *p<0.10, **p<0.05, *** p< 0.01.
CHAPTER SIX
Globalizing the Anti-Money Laundering Network

6.1. Introduction

In an era of globalization, funds can be moved with relative ease through multiple transactions and financial systems. National authorities have grown increasingly aware of the risk that individuals and groups will exploit legitimate channels to transfer illicit funds. Money laundering, defined as “the process by which proceeds from a criminal activity are disguised to conceal their illicit origins,” poses a global enforcement challenge.\(^1\) Since money laundering tends to involve multiple jurisdictions, and the “failure to share information creates significant negative cross-border externalities,” anti-money laundering requires collaboration among many governments and financial institutions.\(^2\) Anything short of a universal effort resembles a broken sieve.

This chapter addresses two questions. First, how have states organized a response to the problem of international money laundering? Since the early 1990s, states constituting a regulatory “core” have pursued an evolving strategy to strengthen the international anti-money laundering (AML) regime. The strategy centers on club-based standard-setting, promulgating standards through government networks, and embedding standards in international organizations to monitor states’ progress. The September 11, 2001 (9/11) terrorist attacks catalyzed striking changes in the regime’s regulatory scope and organization, since the United States government saw multilateral AML as an ideal channel to combat the financing of terrorism (CFT).\(^3\) From the perspective of the regulatory core, a salient goal of regime adaptation was to foster more stringent observance

---

1 World Bank 2006, 1.
3 AML targets the movement of funds with illicit origins, whereas CFT may involve funds of any origin. Zagaris 2004.
of AML and CFT policy standards across the developing world.

U.S.-led strategy in the AML channel raises a second question about the policy choices of other governments, which have rushed to comply with global standards in some cases and resisted them in others. What explains variation in the domestic adoption of global anti-money laundering policy standards? From a descriptive standpoint, the trend toward global AML and CFT standards adoption has been dramatic. From 2000 to 2010, the cumulative number of countries that have adopted standard AML legislation nearly doubled. Many of these governments had defined the money laundering offense idiosyncratically or limited the scope of predicate crimes to which it applied. In the same period, the cumulative number of countries that have passed standardized laws criminalizing the financing of terrorism increased ten-fold.

Importantly, the pattern of change goes beyond the legal dimension. The number of countries that have implemented Financial Intelligence Units (FIUs), which are centralized reporting units for receiving, analyzing, and disseminating information about financial transactions, nearly tripled since 2000. A subset of these country-level Units has been admitted to the Egmont Group, a peer-screened network of FIUs. In other words, some countries have complemented legal reform “on paper” with standard regulatory practices.

To explain the pattern of standards adoption, I distinguish among three causal mechanisms. First, a functionalist mechanism posits that governments in the regulatory core will pursue a rational strategy that is disproportionately focused on strengthening “weak links” – jurisdictions that pose a higher risk to international anti-money laundering

---

4 Information for these descriptive statistics comes from my own coding of country-level FATF AML-CFT reports, IMF/World Bank reports, and secondary verification efforts. Due to missing reports and definitional issues, my numbers may differ from other published figures. See sections on descriptive evidence and the data analysis for further detail.
and the financing of terrorism.\textsuperscript{5} If this strategy is at all effective, we should expect countries targeted by the regulatory core to be associated with an increased likelihood of adopting regulatory policy standards. This expectation is easily falsified, because problematic countries might also be the most resistant to international pressures. Second, a causal mechanism based on the logic of asymmetric interdependence bolsters expectations that weaker countries targeted by the powerful regulatory core should defer to pressures rather than resist them.\textsuperscript{6} In most cases, the United States, its OECD counterparts and international financial institutions collectively possess overwhelming influence over the domestic policy choices of governments in developing countries. This logic generates a prediction that differs from that of the functionalist explanation. The more a country depends on sources of foreign capital, whether U.S. aid, foreign banks, or multilateral loans, the greater the likelihood that it will adopt AML and CFT policy standards. Third, causal mechanisms that stress domestic preferences and capacity constraints anticipate the likelihood of standards adoption to vary with the strength of domestic political opposition and the burden of regulating the financial sector in a given jurisdiction.

In order to test hypotheses stemming from these arguments, this chapter analyzes a new event history dataset that records when developing countries adopt certain AML and CFT standards from 1986 to 2010.\textsuperscript{7} One important advantage of the data is that it separates the adoption of legal standards from the adoption of standard implementation practices. Specifically, the adoption of standard AML legislation and the adoption of standard CFT legislation are the dependent variables for the legal dimension, while the initial creation of FIUs and admission of FIUs into the Egmont Group are dependent

\textsuperscript{5} We find evidence of this strategy in the enhanced U.S. legislative provisions for international AML (eg. the USA PATRIOT Act of 2001), the enforcement behavior of the Financial Action Task Force, and in the International Monetary Fund’s post-9/11 mandate. For a model of “weakest-link” public goods, see Vicary & Sandler 2002.

\textsuperscript{6} Keohane & Nye 1977.

\textsuperscript{7} I also analyze a universal sample that includes OECD countries.
variables for the implementation dimension. In a discrete time event history setup, the
analysis generates estimated hazard rates, the probability that a country will adopt
standardized laws or practices in a given year provided that it has not already done so.

The results provide strong support for the baseline functionalist explanation. I find
that offshore financial centers, which the regulatory core targets, are associated with an
increased likelihood of adopting all four standards. Drug-producing countries are
associated with an increased likelihood of adopting FIU implementation standards
(although this result does not hold in the universal sample). With respect to the logic of
asymmetrical interdependence, I find robust evidence that the receipt of IMF loans is
associated with the adoption of standard AML legislation only. There is weaker evidence
that receipt of U.S. bilateral aid is positively related to the adoption of CFT legislation and
FIU creation. I also find that the level of claims foreign banks have on particular
jurisdiction is significant and positively associated with the likelihood of adopting all
standards with the exception of CFT legislation. Not surprisingly, countries at a higher
level of economic development are more likely to adopt all of the AML (but not CFT)
regulatory standards.

Taken together, these findings highlight the substantial but nevertheless
conditional power of the regulatory core in this issue-area. The U.S.-led strategy of working
through government networks and international organizations to fortify weaknesses in the
anti-money laundering regime appears to have achieved some of the desired results. Yet,
like most cases of global regulatory politics, certain jurisdictions can either withstand
international pressures or simply lack the capacity to fully align domestic policies with
global standards. Strategic adaptation of the international AML regime following the 9/11
attacks, linking both AML with the issue of terrorist financing and the IMF with the AML
network, serves as a classic case of leveraging a pre-existing “mix of solutions looking for
The qualitative evidence presented in this chapter suggests that these choices, not anticipated at the early stages of institutional design, have enhanced the reach of international monitoring, technical assistance, and international pressure.

The remainder of the chapter is structured as follows. In the next section I describe how the global anti-money laundering regime evolved in parallel with the regulatory core’s strategy for combating salient predicate crimes. I then furnish evidence of variation on the dependent variable, the adoption of AML and CFT policy standards. The chapter proceeds to outline the central theoretical argument and hypotheses; discuss the research design and results of the event history analysis; and illustrates the causal mechanisms in the case of an offshore financial center.

6.2. The Evolving Regime for International Anti-Money Laundering

This section makes three simple observations about the international anti-money laundering regime. First, AML regime has evolved as part of U.S.-led efforts to combat predicate and overlapping crimes. Thus, the regime was originally focused on the predicate crime of drug trafficking. Catalyzed by the 9/11 attacks, the AML regime subsequently adapted to address the overlapping crime of terrorist financing. Second, the organization of the global AML regime has evolved from a standard-setting “club” comprised of major OECD countries into a broader complex of government networks designed to foster the spread of regulatory standards. Since 9/11, the IMF / World Bank began to include AML-CFT standards in routine country monitoring and evaluation. Though it is organizationally diffuse, the AML regime displays remarkable coherence in terms of its core functions. Third, the AML regime helps to structure the costs that government and non-governmental actors bear for observing, or failing to observe, international regulatory standards.

---

8 Cohen, March & Olsen 1972, 16.
Domestic preferences regarding the adoption of AML standards should vary because these costs differ from country to country.

The problem of drug trafficking provided the original impetus for global efforts to curb money laundering. Over time, the international community has expanded the legal scope of money laundering’s “predicate offenses” (the underlying criminal activity that generates proceeds). For example, the scope of the money laundering offense in the 1988 U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention) is limited to drug trafficking. The 2000 U.N. Convention Against Transnational Organized Crime (Palermo Convention), expanded the definition of money laundering to cover “the widest range of predicate offenses.”

In 1989, the G-7 countries created the Financial Action Task Force (FATF), an intergovernmental network of lawyers, financial experts and law enforcement officials seeking to develop a coordinated response to the problem of international money laundering. The FATF reflects a “club model” of governance. It has a highly selective membership that sets standards in an issue-area. In 1990, the FATF adopted 40 Recommendations on Money Laundering, a comprehensive framework for AML designed to be universally applied by countries. These Recommendations serve as “mandates for action by a country if that country wants to be viewed by the international community as meeting international standards.” The original Recommendations center on 4 categories: (1) legal system requirements; (2) preventive measures to be taken by financial institutions; (3) functions and authorities of the Financial Intelligence Unit; and (4) provisions for

---

11 Slaughter 2000.
12 They are thus “decomposable’ from the rest of the system.” See Keohane and Nye 2001.
international cooperation.\textsuperscript{14} Once the FATF set these standards, it created eight additional “FATF-style” regional bodies that are directly modeled on the G-7’s club model.\textsuperscript{15} These FSRBs have regional memberships in Asia (APG), the Caribbean (CFATF), South America (GAFISUD), Europe (Moneyval), Central Asia (EAG), the Middle East (MENAFATF), Eastern and Southern Africa (ESAAMLG), and Western Africa (GIABA).\textsuperscript{16} Thus, the AML regime has evolved from a small club to a larger complex of intergovernmental networks.

The 9/11 terrorist attacks catalyzed important changes to the mandate and organization of the global AML regime. Title III (“International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001”) of the USA PATRIOT Act directed the executive to strengthen AML and CFT regulations at home and abroad.\textsuperscript{17} Domestically, Title III amended portions of prior legislation, including the Money Laundering Control Act of 1986 and the Bank Secrecy Act of 1970, effectively increasing the record-keeping duties of financial institutions and giving the government broader discretionary capacity to monitor and seize assets. Internationally, Title III directed federal agencies to ensure foreign jurisdictions’ observance of AML and CFT standards.

Just one month after 9/11, the FATF formally expanded its mission to include combating the financing of terrorism, adding 9 “Special Recommendations” to the existing

\textsuperscript{14} See Financial Action Task Force, “FATF Standards: The FATF 40 Recommendations,” October 2003. The legal system requirements promote standard definitions of money laundering, an approach to criminalizing it for a wide range of predicate offenses, authorize the seizure of assets, and define the persons and entities covered by the law. The preventive measures for financial institutions center on customer identification practices, record keeping, suspicious transaction reporting requirements, and internal controls and auditing. Standards regarding the Financial Intelligence Unit are intended to promote a common model of law enforcement whereby a central agency collects information produced by financial institutions, analyzes it, and serves as an informational hub with peer FIUs. International cooperation addresses ratification of treaties, mutual legal assistance, and extradition standards.

\textsuperscript{15} This is an example of the sequential expansion of IOs. See Downs, Rocke and Barsoom 1998.

\textsuperscript{16} The FATF’s efforts also overlap with a number of other international standard-setters. For example, the Basel Committee on Banking Supervision promotes three standards relevant to financial institutions’ customer identification and record keeping duties. In addition, there is the International Association of Insurance Supervisors, the International Organization of Securities Commissioners, and the Egmont Group of Financial Intelligence Units.

\textsuperscript{17} See the United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001, P.L. 107-56 (October 26, 2001).
40 (“40+9 FATF Recommendations for AML-CFT”). There is a critical difference between anti-money laundering and combating the financing of terrorism because the latter may involve funds that “originate from legitimate sources as well as criminal activities,” which “requires special laws to deal with terrorist financing.”\(^{18}\) In addition to adapting its substantive mandate, the AML regime’s network of institutional partnerships expanded after 9/11.\(^ {19}\) Throughout the fall of 2001, the Treasury Department directed the U.S. Executive Director(s) of the IMF/World Bank to increase their joint involvement with AML-CFT country surveillance, and to “use their voice and vote” to oppose the approval of loan programs for countries that failed to support U.S. anti-terrorism efforts.\(^ {20}\)

The IMF recognized that as a “collaborative institution with near universal membership,” “legitimacy and acceptance,” and “broad experience in conducting assessments and providing technical assistance in the financial sector,” it could serve as a “vehicle for actively promoting desirable policies and standards in member countries.”\(^ {21}\) According to some IMF Directors, the negative externalities posed by one member’s failure to observe AML-CFT standards warranted including such measures in Article IV consultations (eg. loan conditionality). Others advocated a more limited Fund involvement, noting that AML-CFT standards were not of macroeconomic relevance to all of its members. Ultimately, the IMF and the World Bank adopted a joint approach that went “substantially and visibly beyond that envisaged” in pre-9/11 Board discussions about the issue of AML,

\(^{18}\) World Bank 2006, I-5-6. The relevant FATF recommendation states that countries should not only criminalize the financing of terrorism, terrorist acts and terrorist organizations, but also ensure that these offenses are designated as ML predicate offenses. See the FATF’s Interpretive Note for Special Recommendation II:http://www.fatf-gafi.org/dataoecd/45/19/34863009.PDF.
\(^{19}\) Blazejewski 2008.
\(^{20}\) IMF 2001, 5. “The events of September 11 have brought to the fore the questions of whether and how the Fund could extend its activities to prevent the use of financial systems for terrorist financing.”
\(^{21}\) IMF 2001, 10.
“yet does not go outside the Fund’s mandate or area of expertise.”

Prior to the “entrance” of the international financial institutions, the FATF relied on two methods for dealing with jurisdictions that failed to observe AML standards. First, the FATF often stimulated pressure “from below” by calling on financial institutions to pay special attention to business relations and transactions with persons, companies and financial institutions from non-compliant countries. Second, the FATF could stimulate pressure “from above” by putting countries on a public list of “non-cooperative countries and territories,” which opens the door for members to pursue counter-measures. “Most countries make a concerted effort to be taken off the NCCT list because it causes significant problems for their financial institutions and businesses with respect to international transactions, as well as their reputation internationally.”

In theory, the AML regime’s linkage with the international financial institutions further reduced uncertainty about country-level policies. The very chance that third-parties might perceive particular governments and financial systems as being in violation of global standards can magnify incentives in favor of regulatory harmonization. However, these incentives are likely to vary across jurisdictions. Uneven observance of standards internationally creates negative externalities for both the governments in a regulatory core that are attempting to combat money laundering (and predicate crimes) and financial actors in those jurisdictions that bear the costs of complying with government regulations.

---

22 IMF 2001, 14. Elements of this approach entailed: (1) expanding the scope of the Fund and Bank assessments to reflect the FATF’s adoption of specific anti-terrorist financial recommendations, legal and institutional issues related to the effectiveness of the supervisory aspects of AML (eg. the existence of a suitable legal framework including criminal and civil statutes, institutions for effective implementations, including FIUs); (2) universal application of this expansion of the assessment scope; (3) increasing the number of assessments conducted each year; (4) Article IV consultation missions to follow up on the national authorities’ implementation of AML·CFT measures; (4) working closely with the FATF; and (5) increasing technical assistance.

Thus, law enforcement authorities and financial actors in highly regulated jurisdictions tend to have a strong interest in ensuring that standards are observed globally. Many governments and financial institutions in developing country settings have incentives to adopt global standards, either because they share a reputational stake or because they wish to avoid countermeasures. However, some governments may not be able to comply for capacity reasons or because financial actors within their borders seek to limit supervision.

In summary, the regime for international anti-money laundering has evolved both in terms of its regulatory mandate and organization. Following the 9/11 attacks U.S. policy makers viewed the AML regime as a channel of anti-terrorism and thus moved to strengthen the observance of both AML and CFT standards abroad. It therefore makes sense to look not only U.S. strategy but also evidence of policy change in other countries. The next section provides evidence of the trend toward international adoption of AML and CFT policy standards.

6.3. Descriptive Evidence of Policy Standards Adoption

At a minimum, observance of international AML standards requires that countries adopt standardized AML legislation criminalizing money laundering. The relevant FATF recommendation states that countries “should apply the crime of money laundering to all serious offenses, with a view to including the widest range of predicate offenses.” The original AML codes in many countries exhibited idiosyncratic definitions of money laundering or focused on a narrow set of predicate offenses (e.g. drug trafficking), which exacerbated the challenge of cross-border enforcement. However, since the FATF formally began promulgating the 40 AML Recommendations in 1990, many governments have

---

26 Slaughter 1993; Chayes and Chayes 1995.
27 For example, the supervisory reputations of Offshore Financial Centers varies across jurisdictions. IMF 2000.
28 FATF 2003, 3.
adopted standard AML laws that cover a comprehensive set of predicate offenses. Figure 6.1 below shows that the cumulative number of countries that have adopted such a standard AML law has doubled between 2000 and 2010.

![Cumulative Number of Countries with Standard AML Law](image)

**Figure 6.1. Cumulative Number of Countries with Standard AML Law.**

Due to the difference between the offense of money laundering (illicit funds) and terrorist financing (any funds), the FATF specified after 9/11 that countries should adopt a special set of standardized laws criminalizing terrorist financing apart from their domestic AML codes. From the U.S. government’s perspective, this had the added benefit of compelling governments to take a clear legal stance on the definition of terrorism, which many jurisdictions lacked. This, in turn, facilitated an increasingly harmonized legal basis for the seizure of terrorism-related assets across jurisdictions. Figure 6.2 below shows that the cumulative number of countries that have adopted standard CFT legislation has increased nearly ten-fold between 2000 and 2010, largely due to a surge after 9/11.

---

29 World Bank 2006, 4-5.
Beyond a standardized approach to criminalizing money laundering and the financing of terrorism, the FATF’s Recommendations call for “Financial Intelligence Units,” which are defined as “a central, national agency responsible for receiving (and as permitted, requesting), analyzing, and disseminating to the competent authorities, disclosures of financial information (i) concerning suspected proceeds of crime, or (ii) required by national legislation or regulation, in order to counter money laundering.” As the IMF notes, “The typical process is one where the financial institutions are required to make suspicious activity reports, often through their national supervisors, to a financial intelligence unit. The FIU is operated from within a finance or justice ministry [...] acts as the central repository to gather information...from financial institutions or other sources, and turns this raw reporting into intelligence that is provided to the appropriate government agencies.”

---

authority to support a national AML effort.” The larger bars on the left in Figure 6.3 below show that the total number of operational FIUs has nearly tripled from 2000 to 2010. However, not all of these FIUs are of equal quality. The smaller bars on the right depict the total number of FIUs that have been admitted to The Egmont Group, established in 1995 for information-sharing and cooperative enforcement. To become a member of The Egmont Group, a candidate country’s FIU has to meet the Group’s FIU standards, determined via a system of member-state sponsorship and peer review.

![Figure 6.3. Cumulative Number of Countries with FIUs and Egmont FIUs.](image)

Figure 6.4 in this chapter’s appendix breaks these descriptive trends down further according to whether or not a country is a member of the Organization for Economic Cooperation and Development (OECD). The top pair of graphs shows that OECD countries adopted comprehensive AML legislation prior to 2002, whereas non-OECD countries have adopted comprehensive AML legislation across the period. In contrast, the middle pair of graphs shows that the pattern for adopting CFT legislation among OECD is similar to the

---

pattern among non-OECD countries. In both groups, we observe a surge in the number of adopters immediately following 2001. Finally, the pattern for FIU adoption in the bottom pair of graphs underscores a difference among OECD countries, which largely had operational FIUs prior to 2002, and non-OECD countries, where the annual adoption of FIUs peaked during 2002-2003.

Taken together, these patterns provide a striking panoramic view of changes in country-level adoption of AML and CFT standards, both in terms of law and practices. The descriptive variation raises the broader explanatory question: What theoretical logic best explains why some countries adopt global regulatory standards when they do, while others delay or fail to adopt altogether?

6.4. Argument and Hypotheses

The argument identifies three causal mechanisms that could plausibly explain why certain countries are more likely than others to adopt global regulatory standards. First, according to the functionalist mechanism, the pattern of standards adoption is best explained in terms of the U.S.-led regulatory network’s varied demands for policy change from one jurisdiction to the next. Certain jurisdictions pose a greater problem or risk of money laundering than others. The international regulatory network should be disproportionately concerned about jurisdictions that make it more difficult for regulators interested in combatting predicate crimes and should therefore focus on pressuring these jurisdictions to adopt AML-CFT standards. As a result, countries are differentially exposed to external regulatory pressures and the threat of punishment. This can create divergence in states’ incentives to adopt international standards.\[^{33}\]

In the area of money laundering, the international community has been especially

\[^{33}\] See especially Downs, Rocke and Barsoom 1996.
concerned about two sets of states: (1) states that are at the “frontlines” of the drug trade, whether as major narcotic drug-producing countries are drug-transit countries, and (2) states that are operate as an Offshore Financial Center (OFC). The definition of an OFC is a “center where the bulk of financial sector activity is offshore on both sides of the balance sheet...where the transactions are initiated elsewhere, and where the majority of the institutions involved are controlled by non-residents.” Historically, OFCs have maintained low or zero taxation, limited financial regulation, and banking secrecy/anonymity, but these same jurisdictions have been exposed to a significant amount of pressure to curb the use of legitimate financial services for dubious reasons (eg. tax evasion and money laundering).

International pressures for the observance of AML standards, both during the 1990s and following 9/11, disproportionately targeted these two sets of states. We find evidence of this strategy in not only the behavior of the FATF, whose enforcement activities clearly focused on drug trafficking countries during the 1990s, but also the mandate in Title III of the USA PATRIOT Act, which highlights the priority of targeting “certain jurisdictions outside of the United States that offer ‘offshore’ banking and related facilities designed to provide anonymity, coupled with weak financial supervisory and enforcement regimes.” These offshore jurisdictions “make it difficult for law enforcement officials and regulators to follow the trail of money earned by criminals, organized international criminal enterprises, and global terrorist organizations.” If the pattern of standards adoption responds to functionalist demands, problematic jurisdictions such as offshore financial centers and

34 IMF 2000, 3.
drug-producing countries should be associated with a higher likelihood of adopting international regulatory standards. I thus test the following hypotheses:

Hypothesis One: *Countries that pose a relatively higher regulatory risk, which are disproportionately targeted by the regulatory core, should be associated with an increased likelihood of adopting AML and CFT standards.*

1a. Functional Risk – Drugs: *Drug-producing and drug-transit countries should be associated with an increased likelihood of adopting AML-CFT standards.*

1b. Functional Risk – Offshore: *Offshore financial centers should be associated with an increased likelihood of adopting AML-CFT standards.*

The logic of asymmetrical interdependence informs the second causal mechanism (Keohane & Nye 1977). This causal mechanism explains the varied likelihood of adopting AML-CFT standards in terms of power asymmetries rather than differentiated external demand for regulatory harmonization. That is, some developing countries are disproportionately reliant on foreign sources of support, financial or otherwise, and are more likely to acquiesce to international regulatory pressures. These sources of support can include bilateral aid flows, multilateral loans, and capital tied to foreign banks. The regulatory core wields substantial influence over a developing country’s domestic policy choices in such highly asymmetrical relationships. Conversely, jurisdictions that are not as reliant on bilateral aid flows and multilateral financing should be more capable of resisting external pressures to adopt AML-CFT standards.

From the perspective of asymmetrical interdependence, post-9/11 efforts to adapt the global AML regime were effective principally because they intensified international pressures and weakened the ability of developing countries to resist regulatory standards.
By tightening institutional linkages between AML and CFT enforcement, governments in the regulatory core widened the set of conditions under which non-cooperative jurisdictions might expect punitive counter-measures (eg. economic sanctions).\(^{37}\) Similarly, by embedding the FATF’s standards in the IMF/World Bank’s monitoring routines, the regulatory core was able to harness multilateral pressure to induce regulatory standardization across a larger range of developing countries, whether they were actually prone to money laundering problems.\(^{38}\) The functionalist mechanism and asymmetrical interdependence mechanism occasionally overlap in individual cases. For example, the Seychelles attracted international scrutiny as it rapidly expanded activities in the offshore financial sector during the early 2000s; the government enacted comprehensive AML reforms in 2006 “in reaction to an IMF assessment carried out in 2002.”\(^{39}\) These mechanisms nevertheless anticipate different aggregate patterns of standards adoption over time and space. If the logic of asymmetrical interdependence applies generally, we should expect to find evidence in support of the following hypothesis:

**Hypothesis Two:** A country’s dependence on the regulatory core for financial support should be positively associated with the likelihood of adopting global regulatory standards.

2a. Asymmetrical Interdependence – IMF: Countries that receive IMF loans should be associated with an increased likelihood of adopting AML-CFT standards.

---

\(^{37}\) The link between AML and CFT implied that continued access to foreign assistance and nonreciprocal trade preferences would depend on regulatory cooperation. For example, Trade Act of 2002, Section 4102 of P.L. 107-210, prohibits access to the U.S. Generalized System of Preferences for countries that have “not taken steps to support U.S. efforts against terrorism.”

\(^{38}\) AML-CFT compliance was not formally linked to Article IV consultations (eg. conditionality), despite the proposals of several IMF Directors. See IMF 2001. The link between the FATF and the IMF/World Bank is a good example of a “networked network.” See Slaughter 2000, 186-188.

2b. Asymmetrical Interdependence – US: *Countries that receive higher levels of U.S. bilateral foreign assistance should be associated with an increased likelihood of adopting AML-CFT standards.*

2c. Asymmetrical Interdependence – Foreign Banks: *Countries in which foreign banks have higher levels of claims should be associated with an increased likelihood of adopting AML-CFT standards.*

The literature on treaty “compliance” hinges on the observation that states face differential costs when they make commitments. This chapter conceptualizes the dependent variable as policy adoption, rather than treaty compliance, but the same insights apply: A state’s exposure to punishment, the degree of domestic resistance, and capacity constraints are among the factors that shape the costs of adopting global regulatory standards. The literature on policy diffusion also raises questions about countries’ incentives to either adopt or reject policy innovations originating in the dominant core. Diffusion arguments posit a variety of political or “market” mechanisms, but each of these mechanisms draws on a basic rationalist logic to explain a government’s decision to adopt or reject policy innovation. Namely, if the benefits of adopting standards promulgated by the dominant center outweigh the costs, policy harmonization is more likely to occur, whereas if the costs outweigh the benefits, harmonization will be less likely. International actors can try to unilaterally manipulate the costs and benefits of policy harmonization in a target jurisdiction or act through international regulatory regimes.

---

40 The “managerial” view, Chayes and Chayes 1993, is often contrasted with the “enforcement” view, Downs, Rocke and Barsoom 1996.

41 These include coercion, competition, learning and emulation. Simmons 2001: Simmons, Dobbin and Garrett 2006.

42 On the enforcement of extraterritoriality, see Kaczmarek and Newman 2011. On international regulatory regimes, see Drezner 2007. Regimes reduce uncertainty about the meaning and costs of (non)compliance by
The third causal mechanism accordingly stresses the role of domestic factors, namely the level of domestic political opposition to adopting international standards and varied capacity constraints. States face differential costs of adopting global regulatory standards because levels of domestic resistance to change vary. Observing international standards might be cheaper for governments that don’t have to bargain with domestic interest groups that will bear the costs of new standards or other veto players with opposing interests. In some developing country settings, financial institutions and governments have a strong interest in keeping pace with global standards. For example, India’s AML-CFT reforms were both justified in terms of “changing India’s perception in the eyes of global investors” and a desire to “raise a globally diplomatic pitch against export of terror from neighbouring nations.” Likewise, the chief executive of the Central Bank of Kenya argued that Kenya’s new AML legislation was critical for establishing a framework “through which it can monitor, report and manage money laundering,” given that previously “there was no basis to withhold the funds or take somebody to court.”

Since financial actors and institutions tend to shoulder much of the burden associated with AML, their interests in observing global standards are paramount. Although there are certainly exceptions, financial institutions on the whole tend to be sensitive to perceptions of quality and professionalism. However, financial institutions sometimes have a competitive incentive to resist regulation, as they often do in offshore financial centers. If these financial institutions can constrain or easily capture

making standards explicit, monitoring states’ behavior, and creating enforcement mechanisms. See Keohane 1984, Chapter 6.  
44 Deepshikha Sikarwar, “India May Join War on Terrorist Financing,” The Economic Times, 14 November 2009. The first quote is from the national leader of the fraud investigation branch of Ernst and Young in India, while the second quote is from a government official. 
46 Morriss 2010.
government regulators, the adoption of global standards should be less likely. Thus, the level of checks and balances in a given jurisdiction shapes the likelihood of regulatory harmonization. Furthermore, according to the “managerial” perspective, states’ regulatory behavior is primarily shaped by differences in a state’s “technical” capacities to comply, since the level of regulatory expertise and institutional assets varies considerably across jurisdictions.47 Financial sector regulation tends to be a costly activity for government agencies and especially for the financial institutions themselves. In a broad sense, countries at a higher level of economic development, those with greater institutional capacity, should be more likely to move “on their own” (eg. apart from international pressures) toward improved compliance with international regulatory standards. In general, then, the pattern of regulatory standards adoption should reflect variation in domestic political institutions and capacity constraints:

Hypothesis Three: *The likelihood of adopting global regulatory standards should be positively related to the level of domestic checks and domestic regulatory capacity.*

3a. Domestic – Checks: *Countries with higher levels of domestic checks and balances should be associated with an increased likelihood of adopting AML-CFT standards.*

3b. Domestic – Capacity: *Countries at higher levels of development should be associated with an increased likelihood of adopting AML-CFT standards.*

In summary, the argument identifies three sets of factors that potentially influence the likelihood of adopting AML and CFT standards: (1) functionalist demands for policy change; (2) asymmetric reliance on sources of foreign support; and (3) domestic constraints.

---

6.5. Event History Analysis

*Dependent Variable*

To test these hypotheses, I analyze the adoption AML-CFT standards at the country-year unit of observation between the years 1986 and 2010 on a sample of developing (non-OECD) countries. My dependent variables are intended to capture two main dimensions of AML-CFT standards. The first set of indicators measure the adoption of legal standards: (1) the year in which a country first adopts a comprehensive law criminalizing money laundering; (2) the year in which a country first adopts a stand-alone law criminalizing the financing of terrorism. The next set of indicators measure the adoption of implementation standards: (3) the year in which a country’s Financial Intelligence Unit becomes operational; (4) the year in which a country’s Financial Intelligence Unit gains admission to the Egmont Group of Financial Intelligence Units.

I collected information for these dependent variables from a series of country-level reports on AML-CFT “compliance” published by the FATF, the FATF-style regional bodies, and the IMF/World Bank. These reports use a standard and highly detailed approach for assessing a country’s compliance with each of the 40+9 Recommendations. For each recommendation, the reports assign a country one of four scores: “C” (Compliant); “LC” (Largely Compliant); “PC” (Partially Compliant); or “NC” (Noncompliant). Table 6.1 below provides a breakdown of these compliance codes across four of the FATF Recommendations.

| Table 6.1. Compliance Codes for select FATF Recommendations. |
|------------------|---|---|---|---|
| **R1:** Scope of ML criminal offense | C | LC | PC | NC |
| **R13:** Fin. institutions reporting requirement | 4 | 53 | 78 | 9 |
| **R26:** Establishment of FIU | 15 | 56 | 50 | 23 |
| **SR2:** Criminalizing financing of terrorism | 10 | 38 | 62 | 34 |
These codes provide a useful breakdown of compliance, but they are not yet available for every country-year.\textsuperscript{48} Thus, I use the reports to identify the adoption year. The dependent variable is coded dichotomously, equaling “1” for the first year in which a given standard was adopted and “0” otherwise. I code the dependent variables in the following manner: [1] In the case of AML legislation (Recommendation 1), I recorded the year in which a country adopted “comprehensive” AML legislation that covered at least 15 of the full range of 20 predicate offenses listed by the FATF (as opposed to the “old” AML legislation that typically focuses on the proceeds of narcotic drugs and psychotropic substances).\textsuperscript{49} [2] In the case of CFT legislation (Special Recommendation 2), I recorded the year in which a country adopted “stand-alone” CFT legislation.\textsuperscript{50} [3] In the case of FIU creation (Recommendation 26), I recorded the year in which a country’s Financial Intelligence Unit became operational. [4] Finally, because some FIUs are less developed than others, I also recorded the year in which a country’s FIU was admitted to the Egmont Group of FIUs.\textsuperscript{51}

Although somewhat cumbersome, disaggregating the dependent variable along these four dimensions gives us an opportunity to compare how the hypotheses fare in cases involving two different types of legal standards versus cases involving two “levels” of implementation standards. Countries sometimes choose to modify their laws while neglecting to take further, more costly steps that translate laws into practices.

\textsuperscript{48} The compliance codes in Table 1 are derived from reports of various years between 2004 and 2008.
\textsuperscript{49} See World Bank 2006, V·6 to V·7.
\textsuperscript{50} Thus, simply naming terrorism as a predicate money laundering offense does not signify compliance, since unlike money laundering, terrorist finance need not be derived from illegal sources. Moreover, laws that criminalize “aiding and abetting” do not qualify as standards adoption. See the FATF’s Interpretive Note for Special Recommendation II: http://www.fatf-gafi.org/dataoecd/45/19/34863009.PDF.
\textsuperscript{51} To gain admission to the Egmont Group, an FIU must be peer-sponsored, meet the Group’s membership criteria, and be approved in a Plenary session.
Independent Variables

To test Hypothesis One, I use two variables to account for jurisdictions that generally pose higher negative externalities to international AML enforcement and might therefore be disproportionately subject to international pressures. First, I include a dichotomous variable *Drugs*, which is coded “1” whenever a country is listed as a “Major Illicit Drug Producing Country” or “Major Drug-Transit Country” in the State Department’s International Narcotics Control Strategy Reports.\(^{52}\) Second, I include a dichotomous variable *Offshore*, which is coded “1” if a country is in the IMF’s list of Offshore Financial Centers.\(^{53}\) I expect these variables to display positive coefficients.

To test Hypothesis Two, I use three variables that account for differences in the degree of asymmetrical interdependence among countries. First, countries that are participants in IMF loan programs may be especially sensitive to the observance of international standards, making them more likely to adopt global AML-CFT standards. To account for this, I include a dichotomous variable *IMF* coded “1” whenever a country participates in an IMF program for at least 5 months out of a given year, and “0” otherwise.\(^{54}\) Second, a similar dynamic might apply to countries that are recipients of U.S. bilateral foreign assistance. I thus include a variable *US* that is the natural log of the total

---

\(^{52}\) These are prepared in accordance with Section 489 of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2291). Countries that are coded “1” for multiple years in the sample include Afghanistan, Aruba, The Bahamas, Belize, Bolivia, Brazil, Burma, Cambodia, China, Colombia, Dominican Republic, Ecuador, Guatemala, Haiti, Hong Kong, India, Iran, Jamaica, Laos, Lebanon, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Panama, Paraguay, Peru, Syria, Thailand, Venezuela, Vietnam.

\(^{53}\) See International Monetary Fund, “Offshore Financial Centers IMF Background Paper,” 23 June 2000. The list is based off surveys conducted by the Financial Stability Forum. These jurisdictions include Andorra, Anguilla, Antigua and Barbados, The Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Costa Rica, Cyprus, Gibraltar, Lebanon, Liechtenstein, Macao, Malaysia, Malta, Marshall Islands, Mauritius, Monaco, Nauru, Netherlands Antilles, Niue, Panama, Samoa, Seychelles, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Turks and Caicos, Vanuatu.

\(^{54}\) Data for this variable comes from Dreher 2006. I extended the dataset (version February 2010) to include 2009 programs.
bilateral economic assistance commitment from the U.S. to a given country each year.\textsuperscript{55}

Third, I include a variable \textit{Claims} that measures the (natural logged) level of claims by foreign banks for a given country-year (eg. the consolidated level of foreign banks’ claims on contractual lending vis-à-vis borrowers in Bangladesh in 1989).\textsuperscript{56} I expect the coefficients (hazard ratios) for these variables to be positive.

To account for heterogeneity in domestic political institutions, I include the variable \textit{Checks}, which is an index from the World Bank’s “Database of Political Institutions.” A higher number signifies greater institutional checks and balances among the executive and legislative actors.\textsuperscript{57} To account for heterogeneity in the level of economic development, I include the proxy variable \textit{Capacity} which is measured as the natural log of GDP per capita.\textsuperscript{58} Finally, I include the natural log of \textit{Population}.\textsuperscript{59} Table 6.2 below lists the descriptive statistics for these variables.

\textbf{Table 6.2. Descriptive Statistics.}

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>S.Dev.</th>
<th>Min.</th>
<th>Max.</th>
<th>Obs.</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drug-producing</td>
<td>0.14</td>
<td>0.35</td>
<td>0.00</td>
<td>1.00</td>
<td>4175</td>
<td>U.S. State Dept.</td>
</tr>
<tr>
<td>Offshore financial ctr.</td>
<td>0.12</td>
<td>0.32</td>
<td>0.00</td>
<td>1.00</td>
<td>4175</td>
<td>IMF</td>
</tr>
<tr>
<td>IMF loan</td>
<td>0.28</td>
<td>0.45</td>
<td>0.00</td>
<td>1.00</td>
<td>4149</td>
<td>Dreher 2006</td>
</tr>
<tr>
<td>US foreign aid (ln)</td>
<td>2.14</td>
<td>2.02</td>
<td>0.00</td>
<td>8.02</td>
<td>3992</td>
<td>USAID Greenbook</td>
</tr>
<tr>
<td>For. bank claims (ln)</td>
<td>6.50</td>
<td>3.49</td>
<td>0.00</td>
<td>15.68</td>
<td>4086</td>
<td>BIS</td>
</tr>
<tr>
<td>Dom. Checks</td>
<td>2.69</td>
<td>1.80</td>
<td>1.00</td>
<td>18.00</td>
<td>3402</td>
<td>World Bank DPI</td>
</tr>
<tr>
<td>GDP per capita (ln)</td>
<td>8.39</td>
<td>1.43</td>
<td>0.28</td>
<td>11.98</td>
<td>3801</td>
<td>Penn World Tables</td>
</tr>
<tr>
<td>Population (ln)</td>
<td>8.46</td>
<td>2.09</td>
<td>2.62</td>
<td>14.10</td>
<td>3956</td>
<td>Penn World Tables</td>
</tr>
</tbody>
</table>

\textsuperscript{55} Data is from the U.S. Agency for International Development, U.S. Overseas Loans and Grants: Obligations and Loan Authorizations, July 1, 1945 to September 30, 2009 (“Greenbook”).

\textsuperscript{56} Overview of Consolidated Banking Statistics, Bank for International Settlements. I use an alternate measure based on the presence of foreign banks in the robustness checks.


\textsuperscript{58} Data from the Penn World Tables.

\textsuperscript{59} Data from the Penn World Tables.
Results

I use a discrete-time event history approach that analyzes the probability or “hazard” that a country will adopt a given AML-CFT standard in a given year, provided that it has not already done so. My analysis treats states as entering the process in 1986. When a country does not adopt a given AML-CFT standard by 2010, the observation is right-censored. Table 6.3, in this chapter’s appendix, records the main set of regression results. Each of the four columns shows hazard ratios estimated from the Cox proportional hazards model on a sample of developing (non-OECD) countries. I lagged the independent variables and clustered robust standard errors by country. Significant hazard ratios greater than one suggest that the covariate is associated with an increased likelihood of adopting a standard, while significant hazard ratios less than one suggest that the covariate is associated with a reduced likelihood of adopting a standard.

The results provide strong support for Hypothesis One, which anticipates that high-risk countries will be associated with a higher likelihood of adopting AML-CFT standards. Specifically, countries that operate as offshore financial centers are significantly more likely to adopt regulatory standards in a given year. The evidence for drug-producing countries is mixed: they are more likely to create FIUs and these FIUs are more likely to become Egmont FIUs, but they are not distinctive in terms of adopting legal standards. This set of results provides evidence consistent with the argument that high-risk jurisdictions have been disproportionately subject to international pressures to adopt AML-CFT standards.

The results provide some support for Hypothesis Two, which relates variation in

---

60 Although the baseline models use the same starting point, it makes more sense to begin the process for the “FIU+” model in 1995, when the Egmont Group was created; this adjustment does not change the interpretation of the results.

61 Box-Steffensmeier and Jones 2004, 16-18.

62 One advantage of the Cox model is that it does not impose assumptions about the shape of the hazard curve.

63 Box-Steffensmeier and Jones 2004, 59. The hazard ratio is the exponentiated form of the coefficient.
asymmetrical interdependence to the likelihood of standards adoption. As Column 1 shows, the estimated hazard ratio for the *IMF* variable is significantly greater than one, suggesting that country participation in IMF programs is associated with an increased likelihood of adopting AML legislation. However, as Columns 2-4 show, this does not hold for either CFT legislation or for the FIU outcomes. I also find that the estimated hazard ratio for the *U.S.* variable measuring bilateral aid flows to be significantly greater than one (at the 0.10 level) only in the case of CFT legislation and FIU creation. With respect to the *Claims* variable, I find that the hazard ratio is greater than one and statistically significant for AML law and FIUs but not for CFT legislation. I interpret this to mean that higher reliance on foreign banks is associated with an increased likelihood of standards adoption.

I find limited support for Hypothesis Three, about variation in domestic conditions. I do not find that the index of domestic checks and balances is significantly related to the likelihood of adopting AML-CFT standards. I suspect that the model suffers from omitted variables that capture more specific sources of domestic support and opposition. The hazard ratios for the *Capacity* variable signify that countries at a higher level of economic development are more likely to adopt AML legislation and be admitted to the Egmont Group. The adoption of CFT legislation does not appear to respond to capacity constraints.

I took several steps to verify the robustness of these results. First, I extended the sample to include all countries (eg. OECD and non-OECD). Table 6.4, appended, shows that the interpretation of hazard ratios for three independent variables – *Offshore, IMF*, and *Claims* – remains the same. However, using the full sample of countries leads to the loss of statistical significance on two variables, *Drugs* and *U.S.* aid. Second, I tried substituting a variable measuring foreign bank presence in a given country, based on the best available data, for the variable measuring banks’ foreign claims in a given country.64 I

---

64 The foreign bank presence data is from Claessens, et al. 2008. It is measured in two ways: (1) the percentage
do not find any statistically significant results for the variable measuring foreign bank presence. Some of the results change in this set of models, but this because limited data on foreign bank presence causes nearly 70 percent of the observations to be dropped. Two main results stay the same: offshore financial centers remain associated with a higher likelihood of adoption across all four dependent variable, while countries that receive higher levels of U.S. bilateral aid are associated with a higher likelihood of adopting CFT legislation. Third, since post-9/11 dynamics influence countries’ propensity to adopt AML-CFT standards and duration dependency is not explicitly accounted for in the baseline model, I included a dummy variable for the years 2002 to 2005. This short post-9/11 period is significantly associated with an increased likelihood of adopting CFT legislation and FIUs (including Egmont FIUs), but not AML legislation, compared with other years in the sample. Notably, including this post-9/11 period dummy does not change the substantive interpretation of any of the other results from the baseline models. Instead of using a single dummy variable for the post-9/11 period, I also estimated the model using single-year dummies. The consistent pattern from these tests was that the hazard ratio was positive and statistically significant for the immediate post-9/11 years but declined in magnitude as the years progressed, in some cases losing statistical significance. Again, inclusion of these yearly dummy variables did not change the interpretation of the baseline models. Finally, countries that have a history of inheriting laws as a result of colonial ties may be more likely to adopt legal standards. I included two separate dummy variables measuring British and French legal origins and did not find significant effects for these variables (La Porta, Lopez-de-Silanes and Shleifer 2008).

of foreign banks among total banks by country, and (2) the percentage of assets of foreign banks among total banks by country. A foreign bank is defined to have at least 50 percent foreign ownership.

65 Box-Steppensmeier and Jones 2004, 75.
6.6. Illustrative Case Study

As the functionalist mechanism suggests, international pressures to adopt anti-money laundering standards targeted two types of jurisdictions, offshore financial centers and major drug-producing (or drug-transit) countries. To illustrate how international pressures interacted with domestic politics in the case of a typical offshore financial center, this section examines the case of the Seychelles, a small archipelago country in the Indian Ocean. I briefly describe three episodes relevant to AML regulation – one in the mid-1990s, another in 2000, and the last in 2002 – to show how the causal mechanisms apply to the case of Seychelles.

The first episode took place in the midst of Seychelles’ campaign to stimulate the growth of its offshore financial services industry during the 1990s. The Government of Seychelles wanted to diversify its economy in order to decrease reliance on tourism and fishing. In 1995, the National Assembly of Seychelles passed the Economic Development Act, which granted investors above a certain threshold “immunity from prosecution for all criminal proceedings whatsoever” (except those arising from violence or drug trafficking) and “immunity from compulsory acquisition or sequestration of the assets belonging to an investor.”

Not surprisingly, this Act provoked considerable international backlash. In 1996, the Financial Action Task Force’s president condemned the Act as being designed “to attract capital by permitting international criminal enterprises to shelter both themselves and their illicitly-gained wealth from pursuit by legal authorities.” As a result, the FATF and its members invoked Recommendation 21 countermeasures, which “urged financial institutions worldwide to scrutinize closely business relations and transactions with

---

persons, companies and financial institutions domiciled in the Seychelles.” 68 Under intense scrutiny, the National Assembly promptly moved to adopt the Anti-Money Laundering Act of 1996, one of the first countries in its region to do so, and prevented the immunity clauses that sparked controversy from entering into force. 69

The IMF suggested that the FATF and the Financial Stability Forum’s “unfavorable published perceptions...about the quality of financial supervision,” which were not formally withdrawn until 2000, may account for the initially slow growth of the Seychelles’ offshore financial activities. 70 However, these activities rapidly expanded in the 2000s. For example, less than 1,500 international business companies were registered in Seychelles in 2000, but by 2006, this figure grew to nearly 30,000. 71 Such rapid growth as an offshore financial center invited international scrutiny. In 2000, the OECD’s Forum on Harmful Tax Practices published a report identifying 35 “offshore tax haven” jurisdictions, including the Seychelles. Unlike OFCs, which focus on the banking sector, the OECD report defined tax havens as a “jurisdiction that imposes no or nominal direct taxes on financial or other mobile services income.” Yet offshore tax havens, very much like OFCs that facilitate money laundering, are defined as having one of three other criteria: (1) its regimes lack transparency; (2) it does not engage in effective information exchange; or (3) its regimes facilitates the establishment of entities with no substantial activities. 72 The report noted

68 Ibid., previous footnote.
69 Gilmore 2004, 142-144.
that the OECD would soon recommend its member countries to implement “defensive measures” against uncooperative listed tax havens. As the Government of Seychelles was preparing its plan to respond, the Bush Administration announced new concerns about the OECD report on tax havens, which was initiated under the previous Clinton Administration. In February 2001, Secretary of the Treasury Paul O’Neill noted that the U.S. did not want to “interfere in any other country’s decision about how to structure its own tax system” and was concerned “about the potentially unfair treatment of some non-OECD countries.” The *New York Times* suggested that the Bush Administration had “bowed to a lobbying campaign by anti-tax activists.” Prior to 9/11, the Bush Administration was seeking to pullback international efforts to regulate offshore tax havens, even though most offshore tax havens also functioned as offshore financial centers.

After 9/11, the Bush Administration again pivoted by incorporating many Clinton Administration legislative proposals relating to anti-money laundering and financial regime transparency into the USA PATRIOT Act of 2001 (Reuter & Truman 2004, 74). In 2002, the International Monetary Fund conducted a financial sector review of the Seychelles as part of its intensified post-9/11 involvement in the evaluation of countries’ observance of global AML-CFT standards. In direct response to the IMF assessment, which identified a host of regulatory deficiencies, the government of Seychelles enacted a series of new laws, including the Anti-Money Laundering Act of 2006, the Prevention of Terrorism Act of 2004, the Financial Institutions Act of 2004, and the International Corporate Service Providers Act of 2003. The new AML legislation ensured that all predicate offenses and relevant reporting entities were covered in compliance with international standards; it also

---

provided for the establishment of a Financial Intelligence Unit in 2006. According to the local press, the Minister for Economic Planning and Employment who presented the bill “gave the impression that the outdated [AML] Act was being replaced to meet predominantly the concerns of the International Community in tackling the financing of terrorism.”

These three episodes demonstrate how U.S. and international pressures have influenced the development of anti-money laundering laws and related enforcement practices in a typical offshore financial center like the Seychelles. Whereas prior to 9/11, the global anti-money laundering regime operated much more on the basis of “fire-alarms,” relying on stakeholders to identify regulatory deficiencies, the post-9/11 regime, which draw heavily on the IMF and the World Bank, has increasingly resembled a global “police patrol” that routinely monitors countries’ internal practices (McCubbins & Schwartz 1984).

6.7. Conclusion

Efforts to combat money laundering and the financing of terrorism are often viewed as a losing battle because of the inherent difficulty of monitoring financial transactions and suspicious activities on a global scale. Against these obstacles, states have mobilized to expand the international AML regime’s scope, both in terms of its mandate (beyond illicit funds) and its multilateral organization (beyond the club model). Descriptively, this chapter establishes that the trend in country-level adoption of AML legislation, CFT legislation, and Financial Intelligence Units has been impressive. Over the past two decades, with a post-9/11 surge, governments in the developing world have adopted AML standards and practices that originated from the regulatory core. In a much more compact time frame following 9/11, governments around the world rushed to standardize the

criminalization of terrorist financing in their domestic AML codes.

To explain variation in the adoption of standard AML-CFT policies across time and countries, this chapter specified three sets of hypotheses based on broad theoretical claims in the international relations literature. According to functionalist reasoning, the regulatory core’s principal interest in working through an international regime is to induce regulatory standardization among states that pose the greatest negative externalities to global AML-CFT enforcement. If the core’s strategy is effective, these states should be disproportionately likely to adopt AML-CFT standards. According to the logic of asymmetrical interdependence, variation in power relationships shapes the pattern of standards adoption. Countries that are dependent on the regulatory core for resources should have greater incentives to adopt the core’s preferred policy standards. Finally, heterogeneous domestic preferences and capabilities should also influence a country’s propensity to bring international regulatory standards home.77

Using an original dataset based on reports from the IMF / World Bank, Financial Action Task Force and the Egmont Group, this chapter provides the first systematic analysis of variation in country-level adoption of AML-CFT policy standards in the developing world. This dataset distinguishes between the adoption of standard legislation and standard implementation practices. The results indicate that offshore financial centers, which pose externalities to international anti-money laundering efforts due to their historic under-supervision, are significantly associated with a higher likelihood of adopting AML-CFT standards. This provides support for the functionalist expectation. The results offer some support for the asymmetrical interdependence hypothesis. Countries that receive IMF loans are more likely to adopt AML legislation, while countries that receive higher levels of U.S. foreign aid are more likely to adopt CFT legislation and FIUs. Taken

77 Koh 1998.
together, these results highlight both the power of the regulatory core and its limits.

In addition to presenting new evidence from an important policy area, this chapter contributes to a growing body of applied international relations research at the intersection of security and economic issues. Extant attempts to understand policy responses to 9/11 tend to either gloss over its many channels or focus on the usual few. Yet, this chapter highlights the role that security interests played in catalyzing changes in the regulation of cross-border financial systems. Strengthening the observance of international regulatory and law enforcement standards became an increasingly salient goal of U.S. foreign policy strategy after 9/11. The 2001 National Money Laundering Strategy mentions “terrorism” once. The 2002 National Money Laundering Strategy mentions “terrorism” 94 times. This is consistent with statements that the U.S. response to the problem of terrorism would hold implications for “every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence, and every necessary weapon of war.” The path that global AML and CFT efforts took involved the expansion of intergovernmental networks and strategic partnership with multilateral institutions. Such an approach to leveraging non-military, collaborative tools of foreign policy is a concrete example of how the United States has tried to wield “smart power.”

Unfortunately, this chapter is not able to tackle the looming question of whether the current regulatory approach has been effective in a broader sense at curbing illicit

78 These works nonetheless provide fertile insights into the policy-making process and historical context. Daalder and Lindsay 2003; Chollet and Goldgeier 2008. One multi-issue contribution is Cortright and Lopez 2007.
82 Variations on this idea include Nossel 2004; Nye 2004; Mead 2004.
activities. Getting countries that have previously lagged behind international standards to adopt better legal frameworks and regulatory practices is an important development. At the same time, one worrisome possibility is that the strengthening of international compliance with AML-CFT standards in countries’ formal financial sectors has simply shifted the channels of money laundering and the financing of terrorism into informal transfer systems. If this is accurate, the “sieve” requires even more extensive mending.
Figure 6.4. Pattern of Standards Adoption, OECD versus non-OECD Countries.

a. Yearly adoption of AML law, OECD (L) and non-OECD (R) countries.

b. Yearly adoption of CFT law, OECD (L) and non-OECD (R) countries.

c. Yearly adoption of FIUs, OECD (L) and non-OECD (R) countries.
Table 6.3. Hazard Analysis: Adoption of AML-CFT Standards.

Sample: Developing countries (non-OECD)

<table>
<thead>
<tr>
<th></th>
<th>[1]</th>
<th>[2]</th>
<th>[3]</th>
<th>[4]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AML</td>
<td>CFT</td>
<td>FIU</td>
<td>FIU+</td>
</tr>
<tr>
<td>Risk - Drugs</td>
<td>1.585</td>
<td>1.038</td>
<td>2.278**</td>
<td>2.167*</td>
</tr>
<tr>
<td></td>
<td>[0.617]</td>
<td>[0.502]</td>
<td>[0.874]</td>
<td>[0.882]</td>
</tr>
<tr>
<td>Risk - Offshore</td>
<td>4.416***</td>
<td>3.255**</td>
<td>18.521***</td>
<td>17.551***</td>
</tr>
<tr>
<td></td>
<td>[2.251]</td>
<td>[1.580]</td>
<td>[6.343]</td>
<td>[5.997]</td>
</tr>
<tr>
<td>Dependence - IMF</td>
<td>1.945**</td>
<td>1.052</td>
<td>1.115</td>
<td>1.584</td>
</tr>
<tr>
<td></td>
<td>[0.567]</td>
<td>[0.392]</td>
<td>[0.331]</td>
<td>[0.497]</td>
</tr>
<tr>
<td>Dependence - US</td>
<td>0.884</td>
<td>0.833*</td>
<td>0.856*</td>
<td>0.886</td>
</tr>
<tr>
<td></td>
<td>[0.076]</td>
<td>[0.085]</td>
<td>[0.072]</td>
<td>[0.085]</td>
</tr>
<tr>
<td>Dependence - Claims</td>
<td>0.839***</td>
<td>0.895</td>
<td>0.845***</td>
<td>0.754***</td>
</tr>
<tr>
<td></td>
<td>[0.051]</td>
<td>[0.115]</td>
<td>[0.053]</td>
<td>[0.061]</td>
</tr>
<tr>
<td>Domestic - Checks</td>
<td>1.067</td>
<td>1.084</td>
<td>1.007</td>
<td>1.119</td>
</tr>
<tr>
<td></td>
<td>[0.086]</td>
<td>[0.098]</td>
<td>[0.093]</td>
<td>[0.111]</td>
</tr>
<tr>
<td>Domestic - Capacity</td>
<td>1.348*</td>
<td>1.112</td>
<td>1.138</td>
<td>1.384*</td>
</tr>
<tr>
<td></td>
<td>[0.215]</td>
<td>[0.379]</td>
<td>[0.146]</td>
<td>[0.266]</td>
</tr>
<tr>
<td>Population</td>
<td>1.144</td>
<td>1.180</td>
<td>1.377***</td>
<td>1.1419***</td>
</tr>
<tr>
<td></td>
<td>[0.108]</td>
<td>[0.144]</td>
<td>[0.137]</td>
<td>[0.162]</td>
</tr>
<tr>
<td>Observations</td>
<td>2664</td>
<td>2959</td>
<td>2755</td>
<td>2974</td>
</tr>
<tr>
<td>Country clusters</td>
<td>146</td>
<td>147</td>
<td>147</td>
<td>147</td>
</tr>
<tr>
<td>Likelihood ratio</td>
<td>37.62***</td>
<td>16.20**</td>
<td>103.53***</td>
<td>107.01***</td>
</tr>
</tbody>
</table>

Hazard ratios estimated using Cox proportional hazard regression. Variables with ratios > 1 indicate an estimated increase in the likelihood of legal adoption (AML-CFT) and implementation (FIU). Robust standard errors (in brackets) clustered by country. Significance levels *p<0.10, **p<0.05, *** p< 0.01
Table 6.4. Hazard Analysis: Adoption of AML-CFT Standards.

Sample: All countries (OECD and non-OECD)

<table>
<thead>
<tr>
<th></th>
<th>[1]</th>
<th>[2]</th>
<th>[3]</th>
<th>[4]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AML</td>
<td>CFT</td>
<td>FIU</td>
<td>FIU+</td>
</tr>
<tr>
<td><strong>Risk - Drugs</strong></td>
<td>1.486</td>
<td>0.949</td>
<td>1.514</td>
<td>1.300</td>
</tr>
<tr>
<td></td>
<td>[0.521]</td>
<td>[0.427]</td>
<td>[0.518]</td>
<td>[0.478]</td>
</tr>
<tr>
<td><strong>Risk - Offshore</strong></td>
<td>3.294***</td>
<td>2.672**</td>
<td>6.941***</td>
<td>6.036***</td>
</tr>
<tr>
<td></td>
<td>[1.510]</td>
<td>[1.230]</td>
<td>[1.979]</td>
<td>[1.580]</td>
</tr>
<tr>
<td><strong>Dependence - IMF</strong></td>
<td>1.859**</td>
<td>0.997</td>
<td>1.232</td>
<td>1.384</td>
</tr>
<tr>
<td></td>
<td>[0.478]</td>
<td>[0.311]</td>
<td>[0.318]</td>
<td>[0.349]</td>
</tr>
<tr>
<td><strong>Dependence - US</strong></td>
<td>0.905</td>
<td>0.903</td>
<td>0.888</td>
<td>0.943</td>
</tr>
<tr>
<td></td>
<td>[0.077]</td>
<td>[0.079]</td>
<td>[0.070]</td>
<td>[0.082]</td>
</tr>
<tr>
<td><strong>Dependence - Claims</strong></td>
<td>0.893**</td>
<td>0.886</td>
<td>0.851**</td>
<td>0.781***</td>
</tr>
<tr>
<td></td>
<td>[0.042]</td>
<td>[0.115]</td>
<td>[0.039]</td>
<td>[0.037]</td>
</tr>
<tr>
<td><strong>Domestic - Checks</strong></td>
<td>1.038</td>
<td>1.117</td>
<td>0.990</td>
<td>1.080</td>
</tr>
<tr>
<td></td>
<td>[0.074]</td>
<td>[0.085]</td>
<td>[0.078]</td>
<td>[0.083]</td>
</tr>
<tr>
<td><strong>Domestic - Capacity</strong></td>
<td>1.242*</td>
<td>1.191</td>
<td>1.234*</td>
<td>1.426**</td>
</tr>
<tr>
<td></td>
<td>[0.158]</td>
<td>[0.334]</td>
<td>[0.148]</td>
<td>[0.203]</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td>1.099</td>
<td>1.163</td>
<td>1.304***</td>
<td>1.304***</td>
</tr>
<tr>
<td></td>
<td>[0.090]</td>
<td>[0.127]</td>
<td>[0.101]</td>
<td>[0.111]</td>
</tr>
<tr>
<td>Observations</td>
<td>2969</td>
<td>3434</td>
<td>2989</td>
<td>3250</td>
</tr>
<tr>
<td>Country clusters</td>
<td>168</td>
<td>171</td>
<td>169</td>
<td>171</td>
</tr>
<tr>
<td>Likelihood ratio</td>
<td>28.27***</td>
<td>12.06</td>
<td>72.84***</td>
<td>76.12***</td>
</tr>
</tbody>
</table>

Hazard ratios estimated using Cox proportional hazard regression. Variables with ratios > 1 indicate an estimated increase in the likelihood of legal adoption (AML-CFT) and implementation (FIU). Robust standard errors (in brackets) clustered by country. Significance levels *p<0.10, **p<0.05, *** p< 0.01
CHAPTER SEVEN
Conclusion: Funds, Goods, and People in Context

Overall, the evidence underscores that the president’s heightened authority to change policies during the post-9/11 period has had a sweeping effect across non-military issues of U.S. foreign policy, albeit not without pushback. The preceding chapters show how patterns of foreign aid allocation, the administration of trade preferences, visa issuance, and international anti-money laundering alternately conformed to, or defied, the president’s security-motivated demands for change. Policy patterns varied for two main reasons. First, the strategy for policy reorientation was multifaceted. The president moved to increase the executive branch’s discretionary authority over foreign economic policy while also pushing for rigid constraints on prior executive discretion over the regulation of cross-border flows. Second, because policy changes provoked stakeholders in Congress, the private sector, and within the executive branch, differential lines of resistance across and within issue-areas shaped the extent to which the president’s demands took hold. In this concluding chapter, I summarize the core findings, highlight the study’s contributions to international relations scholarship, and discuss its implications for U.S. foreign policy.

7.1. The Core Findings: Variations on Presidential Authority and Pushback

Striking empirical patterns within each of the issue-areas under examination highlight the extent to which security pressures shaped non-military channels of post-9/11 foreign policy. Indeed, the 9/11 attacks catalyzed changes not only in the use of force, but also the allocation of foreign assistance funding; preferential import of goods from developing countries; the ease with which people move across borders; and attempts to monitor financial flows. These issues have not been insulated from the War on Terror,
although they are often neglected in popular accounts of presidential power over post-9/11 U.S. foreign policy.\footnote{For example, see Posner and Vermeule 2011; Goldsmith 2012; Goldsmith 2007; Clarke 2004. Although some of these books develop arguments that are broadly applicable, echoing Schlesinger 1973, they largely focus on the military and national security intelligence contexts of the “War on Terror.”} On the other hand, security rationales for policy change did not wholly subsume countervailing political economy forces. This dissertation’s analytical framework explains varied outcomes from one policy channel to the next as a product of the interaction between security-motivated demands for policy change and differential lines of domestic (or international) resistance.

Security Motivations across Non-Military Channels of Post-9/11 U.S. Foreign Policy

Demands for security have shaped post-9/11 U.S. foreign policy patterns well beyond the military channels of counterterrorism strategy, but how should we explain the relationship between security and varied outcomes across non-military channels? My argument draws on a simple functionalist logic to differentiate among the president’s security-motivated demands for policy change. Broadly speaking, the president wanted the executive branch to exercise greater discretionary authority over foreign economic policy issues relative to the \textit{status quo} and tighter but less discretionary authority over regulatory policy issues. That is to say, the president’s expectations about how a given issue-area should be linked to post-9/11 security goals shaped demands for policy change.

Chapters 3 and 4 show that shifting bilateral security goals motivated the president to seek greater policy discretion, relative to the \textit{status quo}, over foreign aid allocation and the administration of trade preferences. Enhanced discretion strengthened policymakers’ capacity to use these foreign economic policy tools as strategic side payments, sometimes with corollary development aims, as the United States began to rely on a growing number of allies and partners to conduct wars in Afghanistan, Iraq, and subsidiary operations...
elsewhere. If this causal mechanism linking outcomes and security motivations holds, patterns of aid allocation and preferential trade should be positively correlated with salient bilateral security goals. The evidence clearly demonstrates that, as the foreign aid budget surged after 9/11, USAID’s directly-controlled share of aid resources decreased while the Departments of State and Defense gained controlled an increasing share. Where the domestic structure of aid allocation shifted most dramatically, under the State Department, I find that U.S. informal allies have been associated with higher levels of aid allocation, but I do not find the same pattern under USAID. In the trade channel, the evidence is also mixed: on average, allies have been associated with higher levels and higher ratios of trade eligible for nonreciprocal trade preferences, but this stands in contrast to prominent post-9/11 cases in which U.S. efforts to expand allies’ trade benefits were blocked. Security dynamics thus account for striking patterns in U.S. foreign economic policy, but they do not tell the whole story.

Chapters 5 and 6 show that shifting national security goals motivated the president to seek decreased policy discretion, relative to the status quo, with regard to visa issuance policy and the observance of international anti-money laundering standards. In the case of visa issuance, highly accommodating procedures enacted by the Department of State to facilitate tourism, commerce, and exchange left open the risk of terrorist entry. After 9/11, as the new Department of Homeland Security gained oversight of visa policy, visa applicants faced an increasingly stringent security regime that explains severe declines in visa issuance levels. I find that countries-of-origin perceived by U.S. officials as posing a higher risk of terrorism have been associated with lower visa issuance levels in the post-9/11 period, controlling for a wide range of explanatory factors. At the same time, the State Department retained direct control of the consular bureaucracy, thereby insulating certain discretionary features of the visa issuance function from security pressures. In addition to
flows of people, the weakness of the international regime for scrutinizing cross-border flows of funds also left open the risk of terrorist financing. The PATRIOT Act set in motion a U.S.-led strategy to broaden and deepen the observance of standardized anti-money laundering policies in foreign jurisdictions. Despite their history of resistance, I find that jurisdictions posing a higher risk of money laundering, such as offshore financial centers, have actually been associated with a higher likelihood of adopting these policy standards compared to other countries.

In isolation, these striking patterns buttress the interpretation that “securitization” defines both the process and outcomes of post-9/11 U.S. foreign policy. However, such an interpretation needs to confront another body of evidence demonstrating that security-motivated policy changes in some channels encountered considerable opposition. My analysis therefore uses political economy theories to identify the most salient lines of resistance and their observable implications for policy patterns.

**Differential Lines of Resistance**

Chapters 3 and 4 show that efforts to use foreign aid and preferential trade as tools of post-9/11 U.S. foreign policy met differential lines of resistance. In the aid channel, USAID’s capacity to adapt its allocation priorities to the post-9/11 setting was heavily constrained by decades of Congressional restrictive mandates and rigid budgetary earmarks. The president’s strategy to shift foreign aid policy authority and resources to the Departments of State and Defense was therefore not a response to security exigencies alone, but also to the need for policy discretion greater than the *status quo* allocation structure could offer. The combination of demand for increased discretion and *status quo* constraint explains why allocation patterns have differed under USAID: informal U.S. allies have received higher aid levels relative to other countries under non-USAID agents,
but not under USAID. In the trade channel, the president’s strategy of expanding allies’ eligibility for nonreciprocal trade preferences was principally constrained by domestic import-competing industries. Backlash arose whenever the president contemplated trade concessions that threatened these sensitive industries. As a result, post-9/11 U.S. foreign aid policy toward Pakistan has been characterized by extraordinary flexibility, while preferential trade policy toward Pakistan has been shallow and piecemeal. Such varied outcomes are hard to explain as a function of security alone.

Beyond foreign economic policy issues, Chapters 5 and 6 examine the factors driving post-9/11 U.S. efforts to regulate cross-border flows of people and funds. The push for enhanced visa security, for example, faced countervailing pressures, since increasingly rigid scrutiny of visa applicants threatened millions of legitimate travelers, students, and workers. A coalition consisting of business groups, educational institutions, and diplomats argued that the Department of State should retain direct control of the consular bureaucracy in order to protect non-security objectives of visa policy. As a result, the delegation of authority over visa policy to the Department of Homeland Security was fragmented across agencies with different mandates. Post-9/11 visa patterns are thus significant both because high-risk countries-of-origin experienced dramatic drops in visa issuance levels and because the visa system simultaneously sought to insulate commercially and diplomatically important bilateral relationships from the effects of the 9/11 shock. In contrast, the U.S.-led push for high-risk jurisdictions such as offshore financial centers to adopt international anti-money laundering standards strategically linked the network of government regulators (Financial Action Task Force) with the major international financial institutions so powerfully that pushback against standardization has been relatively limited. These four cases stress that post-9/11 policy variation stems from the interaction of the functionalist mechanism, which differentiates among the
president’s security-motivated demands, and political economy mechanism, which specifies the conditions under which such demands met resistance.

7.2. Scholarly Contributions

This study’s primary contribution is that it develops an original multi-issue, multi-causal, and multi-method analysis of post-9/11 U.S. foreign policy patterns. The multi-issue research design facilitates the identification of empirical patterns in a disaggregated manner, both within and across issues, thereby expanding the total number of observations that are relevant to the theoretical argument. In particular, by focusing on four non-military issues, this study substantially broadens the scope of descriptive inference relative to existing research about presidential authority during the War on Terror. The multi-causal analytical framework demonstrates how one set of arguments about the widespread effects of shifting security pressures on policy patterns relate to a second set of arguments about the political economy of resistance to policy changes. The advantage of using a multi-causal approach to structure the empirical inquiry is that it seeks to systematically explain contrary evidence (eg. patterns of pushback that limit presidential capacity to change policies) rather than selecting evidence to confirm a single causal pathway (eg. “successful” security linkages). This approach shows that domestic political constraints represent more than just residual variance in many channels, because the president’s security-motivated demands are partially endogenous to anticipated lines of resistance. Finally, the multi-method approach helps to increase confidence in the argument by bringing both qualitative case study evidence and “large-N” statistical evidence to bear in each issue-area.

The second major contribution of this study is that it brings empirical research about post-9/11 policy patterns into much-needed dialogue with “mid-range theories” about the relationship among national security goals and economic interests (Moravcsik 1998, 19).
Security demands interacted with the preferences of multiple stakeholders and existing coalitions, on whose support the president depended in order to mobilize resources and adapt policies. In this way, studying multiple channels of post-9/11 linkage strategy under a common theoretical framework underscores the varying intensity of the “political problem of mobilizing support” (Gourevitch 1986, 238). The president enjoyed far greater discretion over foreign aid allocation compared to the administration of trade preferences, yet in both channels, we nevertheless observe a tendency to adjust policies along paths less likely to provoke backlash in Congress and among powerful interest groups. Similarly, attempts to tighten scrutiny over visa issuance in the name of homeland security had to account for countervailing commercial and diplomatic pressures in favor of facilitation. In contrast, as the U.S.-led regulatory network leveraged the international financial institutions to promulgate AML-CFT standards on a global scale, many historically resistant jurisdictions rushed to comply. The pattern of policy outcomes observed across and within these channels therefore echoes Krasner’s (1978) earlier work, which “emphasizes the domestic constraints that are imposed on the state” and the contingent “ability of a state to overcome domestic resistance,” as well as international resistance.

Thirdly, this study crafts a “synthetic interpretation of change” that bridges the disciplinary divide between security-oriented foreign policy analysis and international political economy (IPE) research (Keohane 2009). Scholars within IPE – a subfield that features expansive and highly specialized literatures on foreign aid, preferential trade, and immigration – “now have a much harder task because the volume of work is so much greater and our knowledge of the complexity of these systems is so much richer” (Keohane 2009, 40). Meanwhile, the vast majority of American foreign policy analysis focuses on the use of force, leaving aside non-military realms of policy choice. As this study demonstrates, pushing against these dual tendencies can yield substantial analytic gains. Scholars
interested in matters of national and international security cannot afford to lose sight of the globalization context, in which flows of funds, goods, and people represent channels of potential influence and risk. Likewise, political economy scholars can productively apply insights from issue-specific literatures to study critical junctures of foreign policy choice, including security shocks, economic crises, or mass social movements. More of this kind of boundary-crossing work would bring international relations scholarship into greater dialogue with real world policy issues that do not necessarily fall neatly into existing disciplinary silos.

The preceding chapters also raise a host of questions that warrant further research. Firstly, I have chosen to focus largely on the causes of policy patterns – how aid gets allocated, how trade preferences are administered, how visas are issued, and how standards for anti-money laundering spread internationally – while only gesturing towards questions about policy effectiveness. The policy patterns examined here should nevertheless help researchers to “cast the analysis [of effectiveness] in comparative terms” – that is, “to consider not only the immediate costs and effectiveness of such measures but also the other policy goals that could have been promoted with the resources saved” (Baldwin 1985, 122-3). Secondly, I have had to select a limited number of non-military policy issues. Including a larger range of issues may bring the overarching argument’s scope conditions into sharper focus. Specifically, I have chosen to table patterns of the use of force since 9/11, which can certainly be examined with the same core mechanisms of executive discretion and domestic political constraints (Howell & Pevehouse 2007). It will be an important next step to bring

---

2 Herbert Simon (1976, 179) thus writes, “An administrative choice is incorrectly posed, then, when it is posed as a choice between possibility A, with low costs and small results, and possibility B, with high costs and large results. For A should be substituted with a third possibility C, which would include A plus the alternative activities made possible by the cost difference between A and B.”

3 Here, the U.S. government has become “smart,” too, albeit with a dark side. Across a dozen nations beyond Afghanistan and Iraq, the Obama administration “has significantly increased military and intelligence operations, pursuing the enemy using robotic drones and commando teams, paying contractors to spy and
the military and non-military channels of post-9/11 strategy under a common theoretical framework. To take one issue, the use of unmanned drones for “targeted killings” raises vital questions about the president’s propensity and capacity to side-step constraints on the use of force typically originating from the public, Congress, and the Constitution. Some observers argue that the president possesses extraordinary discretion over targeted killings while others argue that the president’s discretion rests on a robust system of checks and balances.\textsuperscript{4} In the arena of foreign economic policy, we can look beyond foreign aid and trade preferences and ask, to what extent have multilateral loans and debt relief, or perhaps the bilateral economic policies of governments other than the United States, been influenced by post-9/11 security motivations? Even if such efforts met severe resistance, or “didn’t bark,” these would be informative cases to include in a larger study.\textsuperscript{5} In the area of regulatory enforcement, one could also pair the anti-money laundering case with other major regulatory initiatives carried out by the Bush Administration, which combined unilateralism and multilateralism in the related realms of port and container security (Container Security Initiative), transportation security (Transportation Security Administration / International Civil Aviation Association), and counter-proliferation (Proliferation Security Initiative). Thirdly, while this is obviously a U.S.-centric study, it raises questions about how other governments respond to complex security shocks. The structure of my empirical inquiry could certainly be replicated in comparative perspective.

\textsuperscript{4} For the former view, see Bruce Ackerman, “President Obama: Don’t Go There,” \textit{The Washington Post}, April 20, 2012. For the latter view, see Goldsmith 2012, who in discussing the post-9/11 toolkit of military detention, military commissions, aggressive interrogation tactics, and targeted killing, argues that “among politicians, judges, and most of the American people, there is agreement on the legitimacy of and basic constraints on these powers, especially compared to the 2001-2004 baseline. This equilibrium...is the main reason Obama continued so many Bush counterterrorism policies as they stood in 2009” (210). See also Jack Goldsmith, “Fire When Ready,” \textit{Foreign Policy}, March 19, 2012.

\textsuperscript{5} In Arthur Conan Doyle’s 1894 short story “Silver Blaze,” Sherlock Holmes brings up “the curious incident of the dog in the night-time,” curious precisely because the dog did nothing. In social science research design, cases in which outcomes diverge from our expectations can potentially help us “learn about the veracity of our theory.” King, Keohane and Verba 1994, 31.
following the example of Gourevitch (1986). Since countries vary with respect to how much authority the executive possesses over foreign economic policy relative to the legislature, as well as the configuration of social coalitions, their responses to security shocks should systematically differ. For example, a comparison with the European Union’s (collective or individual members) response to 9/11, and other terrorist incidents, would be especially interesting.\footnote{6}

Finally, it is necessary to acknowledge that my findings are necessarily subject to revision. This study was conducted approximately a decade after 9/11, drawing on a rich array of primary and secondary sources available at the time. As researchers take advantage of a longer period of analysis, better data, and improved access to archives and first-hand accounts of decision-making, our capacity to explain patterns of post-9/11 foreign policy should also sharpen.

**7.3. Implications for U.S. Foreign Policy**

The implications of this research for U.S. foreign policy hinge on one’s assessment of whether the president should have more or less latitude to forge security linkages within non-military policy channels. This section outlines the potential trade-offs associated with linkage strategy in a given policy channel. Thinking in terms of trade-offs distills the political challenge of developing a “smart” foreign policy – one that makes integrated use of policy tools beyond military power – into three basic types of obstacles: (1) Obstacles to planning and coordination that might be partially overcome through administrative reforms; (2) obstacles arising from structural conflict among groups, which are more often circumvented with the help of offsetting policies; and (3) obstacles that inhibit policymakers from anticipating how existing solutions may one day be relevant for addressing future

\footnote{6 As discussed in Chapter 4, the European Union was able to confer far greater GSP benefits on Pakistan, even in textiles and clothing, after 9/11 relative to the United States.}
problems. Seen in this light, the conventional smart foreign policy proposal emphasizing the removal of barriers to flexible policy adaptation lacks necessary nuance. Certain obstacles are removable, others are quite fixed, and policy-making in relation to complex problems will usually entail a significant amount of “muddling through” (Lindblom 1959).

**Flexibility and Rigidity in Foreign Aid Policy**

Foreign aid policy is caught between demands for flexibility and rigidity. On the one hand, the executive branch wants the capacity to use foreign aid flexibly in response to shifting strategic priorities. The paths for flexible foreign aid allocation tend to widen when the U.S. experiences sudden changes in the security rationales for giving aid. Thus, we observe that the Department of Defense and the Department of State have assumed a much larger role in allocating foreign aid during the post-9/11 period compared to the 1990s. As Secretary of State Hillary Clinton noted, the Department of Defense, in particular, has “a presumption of being able to move much more quickly. The money we give them is, in many respects, more flexible.”7 In courting Congress for resources, the executive branch must satisfy skeptical legislators that foreign aid programs in fact further the vital U.S. foreign policy interests. Under the Bush Administration, Secretary of State Condoleezza Rice created the Director of Foreign Assistance (“F-Bureau”), which integrated USAID’s budget with the State Department’s budgeting process, “to better align our foreign assistance programs with our foreign policy goals.”8 Still, Members of Congress make a wide range of demands that ultimately constrain the executive branch’s ability to spend aid flexibly. These demands come in the form of legislative “earmarks” and administrative

---


procedures that compel USAID to prioritize rigidly administered programs that will yield demonstrable results.9

From the perspective of the executive branch, an optimal foreign aid policy must therefore do several things at once. It has to vigorously demand and defend discretionary authority to spend foreign aid flexibly. It must also seek to minimize the vulnerability of foreign aid programs to legislative criticism about ineffectiveness, waste, and misguided priorities by funding programs rigidly designed to achieve their stated goals. Given these pressures, it is reasonable to ask whether the president should have more or less latitude over foreign aid policy.

The approach articulated by the 2009 Quadrennial Diplomacy and Development Review (QDDR) seems to say “both.” It acknowledges that, “Over the course of the last 15 years, USAID has lost much of its autonomy, many of its resources, and some of its key talent, which has diminished its overall effectiveness and accountability in achieving global development results” (107). The QDDR proposes to empower USAID as the lead agency for presidential initiatives on food security and global health, in addition to cultivating specialized programs that will achieve “high-impact development” in six areas: sustainable economic growth, food security, global health, climate change, democracy and governance, and humanitarian assistance. USAID would “be given the primary role in executing the budget for development programs it manages, including flexibility to shift in-country resources as needed to respond to urgent challenges and fleeting windows of opportunity” (113).

At the same time, the QDDR envisions an overarching “development diplomacy” strategy for foreign aid that hinges on alignment between USAID’s and the Department of State’s foreign assistance budgets (117-120). Practically speaking, the procedure looks no

9 This dynamic also influences patterns of democracy assistance; see Bush 2011.
different than it did under the Bush/Rice reforms. The Department of State exercises direct authority over foreign assistance budgets, whether managed by State or USAID. For example, two major development programs created under the Bush Administration, the Millennium Challenge Corporation (MCC) and the President’s Emergency Plan for AIDS Relief (PEPFAR), are managed by State. Some observers interpret this “as an effort to work around USAID dysfunction.”10 Arrangements in which USAID is essentially an implementing agency feeds “concern that the development mission will be subordinated to the short-term political pressures and diplomatic objectives of the State Department, which could undermine the achievement of key development objectives over time.”11 Indeed, the evidence from Chapter Three suggests that aid allocation levels under the State Department have been positively associated with short-term security rationales. Yet, the shifting structure of foreign aid policy can also be seen as a defensive response to the politicization of foreign aid. Unless the institutional structure of foreign aid policy ensures that development goals are tightly aligned with U.S. foreign policy priorities, the development mission could very well become even more marginalized. As such, the optimal foreign aid policy recognizes that a “division of labor” is necessary in order to ensure that foreign aid allocation responds to multiple political pressures. Yet, in order to build the capacity to secure resources that sustain foreign aid programs, foreign aid policy has to resist becoming too fragmented.

*Making the Case for Market Access*

From the perspective of linking economic “carrots” with security collaboration, it makes strategic sense to combine foreign aid with trade concessions in cases where doing so

---

11 Radelet 2009, see previous footnote.
would likely stimulate economic development and grassroots support for the incumbent
government’s stance vis-à-vis U.S. goals. Yet, as Chapter Four shows, the trade-off
between domestic pressures and international goals can be severe. In the case of Pakistan,
both the Bush and Musharraf governments repeatedly argued for the desirability of
enhancing U.S. market access for Pakistani goods, yet the Bush administration’s room for
maneuver was circumscribed by the opposing interests of beleaguered industries whose
representatives portrayed them as “pawns” manipulated on the world stage.\textsuperscript{12} Having just
secured larger wins in Congress, such as Trade Promotion Authority (TPA), the Bush
administration ultimately agreed to stop short of extending deeper trade concessions vis-à-
vis Pakistan that would threaten the U.S. textiles and clothing industries.

Past policy decisions and analyses of potential losses to U.S. industries suggest that
more could have been done. In 2000, under the Clinton administration, Congress passed
the African Growth and Opportunity Act (AGOA) which expanded the types of products eligibile under the Generalized System of Preference, including some textiles and clothing
products, and relaxed the rules of origin for African countries (except Mauritius and South
Africa). In 2002, the European Union expanded Pakistan’s eligibility under its own GSP
program, including many textiles and clothing products. Furthermore, a report by the
Center for Global Development (2011) shows that “there is very little head-to-head
competition between Pakistani exports and American production and where there is,
Pakistan generally represents a small share of overall import competition with U.S.
producers” (6). Drawing on suggestive results from general equilibrium analysis, and
similar analysis conducted in Hufbauer and Burki (2006), the report concludes, “If Pakistan
is as essential to U.S. national security as argued, and if the goal is sustainable gains in

exports and job creation to support the private sector and stimulate growth and foster political stability in Pakistan, the tool should be adequate to the task” (11).

As with foreign aid, the lowering of trade barriers on a nonreciprocal basis comes with trade-offs. As Ozden and Reinhardt (2005) argue, programs that accord nonreciprocal trade preferences may create perverse incentives for governments in developing countries to avoid liberalization. Nevertheless, policymakers should pay more attention to tensions between the short and long-term goals of a development strategy that relies heavily on foreign aid while simultaneously maintaining barriers to importing Pakistani goods (Page 2006, 12-13).

**Defending Openness while Responding to Risk**

The 9/11 attacks demonstrated that terrorists can easily exploit the openness of the U.S. visa regime. The U.S. government’s response in this issue-area underscores the potential severity of the trade-off between visa security and other important goals, including travel facilitation, commerce, diplomatic relations, educational and cultural exchange, and the symbolic value of openness itself.

First, U.S. policymakers tried to ameliorate this trade-off by pursuing a risk-management approach to visa issuance in which applicants from higher-risk countries and occupational backgrounds faced tighter scrutiny while still accommodating applicants for commercial and diplomatic reasons. Even as implemented, this approach generated backlash from domestic business groups, legislators, and foreign governments that argued that their respective constituencies had become the “losers” of post-9/11 visa security.

---

13 The trade tool would be based on three principles: (1) Expanding eligibility to allow duty-free imports from all of Pakistan, rather than imposing geographic restrictions; (2) expanding eligibility for duty-free imports from Pakistan across all products in order to encourage export diversification beyond textiles and apparel; (3) imposing no exclusions within textiles and apparel, allowing narrow caps on sensitive sectors, a flexible rule of origin.
initiatives. Second, tensions between short-term pressures and longer-term interests also shaped the way leaders approached institutional restructuring. On the one hand, the 9/11 attacks unleashed a firestorm of criticism against the State Department for presiding over a visa system poorly equipped to perform vital security functions, fueling demands that all authority over visa policies be transferred to the new Department of Homeland Security. On the other hand, the State Department and members of Congress argued vigorously that the State Department’s operational control of the visa issuance system should be left intact so that visa policies might still remain part of the diplomatic toolkit. Debates about its larger design aside, The Homeland Security Act of 2002 crafted a sensible delegation compromise in the visa channel, formally increasing the Secretary of Homeland Security’s authority in visa policy but informally leaving the visa issuance apparatus largely undisturbed. Third, policymakers turned in part to technology, especially biometric travel documents, to help them manage the tradeoff between visa security and facilitation. Figure A.1 in the Appendix shows the spread of biometric passports after the U.S. required participants in its Visa Waiver Program to implement such technology.

With respect to risk-based policies, institutional design, and technological diffusion, the U.S. response to security concerns in the visa channel has been deeply shaped by a desire to defend openness in the face of heightened threats. One DHS official noted the importance of identifying “the point at which security measures become more burdensome and the added security too marginal weighted against the costs to administer the measures” (Alden 2008, 298). Chapter 5 likewise underscores that the costs of visa security measures spilled over into many areas – commerce, education, and diplomacy – generating losses for many stakeholders beyond just the administrative costs. Indeed, as Alden (2008) argues, “The United States...needs to start matching its commitment to keeping bad people out with a bigger effort to help good people get in” (300-301). The post-9/11 period, along
with the global recession since 2008, has contributed to deep declines in visa issuance levels for travelers, students, and temporary workers; smart policies are needed to once again make the United States a welcoming place for travel, study, and work.

**Linking Government Networks and IOs**

In *A New World Order* (2004), Slaughter describes how increasing linkages among government networks and international organizations allow them to “flourish side by side” (153). Many government networks are “necessarily informal because separate government institutions have no formal standing in the international system or under international law” yet they exist “alongside the formal sector of international organizations composed of states interacting as unitary actors” (152).

The evolution of the anti-money laundering regime is an excellent example of such a linkage between government networks and IOs. The Financial Action Task Force functioned throughout the 1990s as a classic government network of regulators and law enforcement officials that sought to pressure, often by black-listing, problematic jurisdictions into adopting AML standards. After the 9/11 attacks, the PATRIOT Act prominently instructed the executive branch to strengthen international observance of AML standards because of its functional link with combatting the financing of terrorism (CFT). A central part of the Bush Administration’s strategy was to leverage the International Monetary Fund and the World Bank in monitoring country-level compliance with revised FATF standards for AML-CFT. From the U.S. perspective, the IMF had legitimacy that the FATF had struggled to establish, a legitimacy that was in part based on its reputation and expertise in conducting standardized monitoring and evaluation. Chapter 6 shows that this linkage extended the reach of the U.S.-led regulatory network and contributed to a dramatic pattern of policy standardization, thereby helping to mend
the sieve of cross-border financial supervision – albeit far from perfectly.

It will be useful to think about how existing approaches to specific policy problems might be revitalized by forging mutually beneficial linkages between government networks and existing international organizations in other realms. Yet, because these linkages will tend to reflect the interests of powerful states and private actors, treating multilateral institutions as “linkage machines” poses the risk of undermining their fragile bases of legitimacy (Alvarez 2002). As Stone (2011, 32) notes, weaker powers tolerate the “opportunistic manipulation of international organizations” only to a degree, and they may tolerate it even less as U.S. control over the agenda for international governance diffuses.

**Thinking about Smart Power**

These issue-specific tensions among security and other political economy pressures raise larger general questions about proposals to wield “smart power.” The basic proposition underlying most articulations of this concept is that policymakers need to select policy tools that are appropriate to a given problem. In a *Foreign Affairs* article, Nossel (2004) depicted a smart power approach as one that rejects preoccupation with “military power as the main tool of statecraft” and instead relies on a broader range of tools, including “trade, diplomacy, foreign aid, and the spread of American values.” Nye (2003, 2004, 2009) conceptualizes smart power as a strategic approach that combines hard power, such as the use of coercion or payment, with soft power, such as the ability of one state to attract other parties to its preferred agenda. Thus, the final report of the Commission on Smart Power (CSIS 2007) stresses five areas: (1) Strengthening alliances, partnerships, and institutions; (2) elevating the role of development in U.S. foreign policy; (3) reinvigorated public diplomacy efforts focused on building people-to-people relationships; (4) ensuring openness and the expansion of benefits from openness; (5) prioritizing technological
innovation in the areas of energy security and climate change. Most recently, Hillary Clinton stated during her Senate Confirmation Hearing for Secretary of State in 2009, “We must use what has been called smart power, the full range of tools at our disposal – diplomatic, economic, military, political, legal, and culture – picking the right tool or combination of tools for each situation.”

The post-9/11 policy patterns examined in preceding chapters underscore the political challenges of pursuing a smart foreign policy. Private actors hold strong preferences over many non-military policies, agencies fight for control over resources, and legislators’ goals in some cases differ from the president’s priorities. Not all policy “tools” are readily used. The overall strategy we observe, as a consequence, appears lopsided and incoherent. This study helps to distinguish among three sets of obstacles that tend to constrain policymakers’ capacity to make integrated use of policy tools.

First, there are obstacles that inhibit strategic planning, collaboration, and efficient use of resources. Administrative reforms can help to reduce these obstacles, thereby increasing the potential for a strategy that cuts across policy channels. The Quadrennial Diplomacy and Development Review (QDDR), initiated by Secretary of State Hillary Clinton in 2009, is a good example of how largely administrative reforms to the Department of State and USAID could strengthen the civilian tools of diplomacy and development in U.S. foreign policy. A practical goal of the QDDR was to find ways for State/USAID to secure budgets that would buttress “articulated policies, strategies, and plans” rather than allowing “budget realities and line item decisions [to] end up driving policy” (188). To accomplish this, the QDDR makes dozens of specific recommendations, such as creating a new Bureau for Counterterrorism, tightening the strategic planning and budgeting

---

processes between State and USAID, and creating a new Expert Corps to deploy civilian technical experts when crises hit.

Secondly, there are obstacles that derive from deeper “structural” trade-offs among political groups or economic interests. Mechanisms that either offset or limit the negative externalities (actual and perceived) stemming from a proposed policy change are often required to generate political support when these structural obstacles are present. In this study, trade and visa policies offer the best examples of this situation. It was very difficult for the president to apply preferential tariffs for goods imported from strategically salient developing countries like Pakistan because U.S. industries were threatened by trade policies that would increase import competition. As a result, the president largely had to avoid or make marginal adjustments in the sensitive product areas. Some experts argue that the president could have done more to use enhanced market access as a foreign policy tool vis-à-vis Pakistan (Elliott 2011). For example, the costs of such a linkage strategy to domestic “losers” may have been exaggerated, and the Administration might have pressed Congress for ways to partially offset harm to U.S. producers. This would have been a controversial and potentially costly approach (Drezner 1999). Yet, against billions of foreign aid dollars that provoked unintended backlash in Pakistan, it is striking that the Bush and Obama Administrations have been timid to make the case for greater concessions in the trade channel. In the case of visa policy, post-9/11 security concerns fueled demands to rigidly scrutinize visa applicants and thus directly provoked a coalition of businesses, educational institutions, and diplomatic actors interested in travel facilitation. Their resistance posed an obstacle to more comprehensive visa security measures but

---

15 From a transaction costs perspective, the use of economic “carrots” internationally may not pervasive because doing so often requires time-intensive and politically sensitive bargaining domestically.

16 As I discuss in Chapter 4, there were reasons under the Bush Administration's timidity in this bilateral relationship, because it was simultaneously seeking broad Trade Promotion Authority.
provided heightened impetus for concentrating on risk-based and technological innovations that would limit negative externalities. Moreover, given the need to protect countervailing goals, officials chose to leave the consulate system under the State Department’s operation control even as visa policy authority generally shifted to DHS. Policymakers could therefore ease, but not erase, the trade-off between openness and closure. Generally, the political challenge of leveraging multiple policy tools as part of a smart foreign policy approach will be most severely constrained in issue-areas where leaders face these kinds of structural trade-offs.

Thirdly, we can think about cases in which the preceding types of obstacles are relatively low, yet the ordinary policy environment constrains policymakers’ ability to recognize how existing solutions might be applied to unforeseen policy problems. This is what Wendt (2001) discusses as a limit of rational policy design, or what Cohen, et al. (1972, 16) describe as a process involving a “mix of solutions looking for problems,” wherein choices not anticipated by decision-makers at one time later become accessible. The case of international anti-money laundering illustrates this obstacle. Prior to 9/11, anti-money laundering regulations were not typically linked to the problem of terrorism, and the IMF and World Bank were not typically linked to the Financial Action Task Force. Yet, when policymakers understood that AML and the problem of terrorist financing were related, they began to see that the IMF and World Bank’s standardized monitoring capacities had both the influence, global scale, and legitimacy the FATF badly needed. Neither the government network of regulators nor the international financial institutions were created for AML-CFT purposes. Once the strategic environment shifted, constrained ways of linking solutions and problems were opened up.

Global interdependence, the “speedy movement of information, capital, goods, and people,” shapes the character of many complex policy challenges, including terrorism,
nuclear proliferation, the threat of pandemic, environmental degradation, and economic crises (QDDR 2010, iii). An optimal foreign policy response to these challenges is one that seeks to mobilize state and non-state stakeholders across the very issue-areas that make global interdependence possible in the first place. Yet, as this study shows, attempts to respond to 9/11 with “smart power” ran into different types of constraints, including coordination obstacles that mostly call for administrative reforms; structural obstacles that necessitate trading off different domestic and international goals, short and long term priorities, public and private interests; and obstacles to knowing what the appropriate mix of policy solutions will look like in advance. It is important to keep these distinctions in view, since it is easy to interpret calls for “smart power” as requiring a frictionless system that allows leaders to make flexible use of the full policy toolkit. Improving the pathways to policy change in certain policy areas may necessitate a clearing of accumulated constraints; in other areas, however, encumbrances serve the vital function of tying diverse interests together and promoting restraint.

7.4. The Final Word: Studying Funds, Goods and People in Context

The overarching purpose of this study has been to explain how U.S. policy patterns shifted as the president tightened linkages between security goals and non-military foreign policy channels following the September 11th terrorist attacks. My theoretical argument integrates two causal mechanisms, a functionalist mechanism that differentiates among strategic channels in which the president demanded either more or less policy discretion as a result of post-9/11 security motivations, and a political economy mechanism that identifies likely sources of resistance to the president’s demands. Both parts are critical. The evidence shows dramatic changes in patterns of foreign aid allocation, the administration of trade preferences, visa issuance, and international anti-money
laundering regulation that line up with functionalist expectations – yet, upon closer inspection, these patterns are uneven in ways that reflect the countervailing preferences of stakeholders and existing coalitions in a given channel. In combination with a functionalist perspective, a political economy perspective therefore stresses that the power of extraordinary security rationales to displace a “business-as-usual approach to foreign policy” remains contingent upon the configuration of political and economic interests (Walt 2001, 56).

These insights, and the specific findings of preceding chapters, are a product of embedding the analysis of funds, goods, and people in a major period of flux. One could easily abstract away from the post-9/11 U.S. context, identify different patterns, and reach another set of conclusions that have very little to do with the politics of linkage strategy. Indeed, the discipline has charted great progress by doing so, and I have drawn extensively from work carried out in that research tradition in order to craft a structured yet still synthetic interpretation of the post-9/11 period. My analysis strengthens the case for thinking that the “artificial but convenient separation of the field into security and political economy may be one of the casualties of the struggle against terrorism. Areas formerly seen as ‘non-security area,’ such as air transport, transnational finance, and migration, have become more important to security, and more tightly subject therefore to state regulation” (Keohane 2002, 284-5). Students of world politics and other foreign policy observers cannot afford to ignore the real-world blurring of such boundaries.

The functionalist strand of my argument does not imply that the same patterns of security-motivated policy demands, along with the same political constraints, would necessarily unfold should another comparable terrorist attack occur. Our knowledge in the policy realm remains probabilistic, not deterministic. Yet this study’s theoretical framework identifies causal mechanisms that will remain relevant in application to other
contexts, beyond the post-9/11 decade. As Herbert Simon (1981, 13) noted, “A bridge, under its usual conditions of service, behaves simply as a relatively smooth level surface on which vehicles can move. Only when it has been overloaded do we learn the physical properties of the materials from which it is built.” This study makes a durable contribution to understanding politics in times of crisis when multiple policy issues are similarly “overloaded” with countervailing demands for greater executive discretion and constraint.
Appendix

Table A.1. Partisan Composition of Congress, 2001 to 2013.

<table>
<thead>
<tr>
<th>Congress</th>
<th>Years</th>
<th>Senate</th>
<th>House</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Dems</td>
<td>Reps</td>
</tr>
<tr>
<td>107th</td>
<td>(2001-2003)</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>108th</td>
<td>(2003-2005)</td>
<td>48</td>
<td>51</td>
</tr>
<tr>
<td>109th</td>
<td>(2005-2007)</td>
<td>44</td>
<td>55</td>
</tr>
<tr>
<td>110th</td>
<td>(2007-2009)</td>
<td>49</td>
<td>49</td>
</tr>
<tr>
<td>111th</td>
<td>(2009-2011)</td>
<td>57</td>
<td>41</td>
</tr>
<tr>
<td>112th</td>
<td>(2011-2013)</td>
<td>51</td>
<td>47</td>
</tr>
</tbody>
</table>

Figure A.1. Country Implementation of Biometric Passports.

(Data from the International Civil Aviation Organization)
Bibliography


National Commission on Terrorist Attacks Upon the United States. 2004c. *Monograph on Terrorist Financing: Staff Report to the Commission.* Published on the website of the National Commission on Terrorist Attacks Upon the United States.


