

Foreign Aid vs. Military Support in the War on Terror.

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Abstract: This paper is an extension of Azam and Thelen (2008) confirming that foreign aid and the recipient country's level of education reduce the supply of terrorist attacks originating from each country. We compare two types of aid-policies against terrorism: supporting the local government's social policies, in education in particular, and providing military support. The theoretical model has three players: a donor, a recipient government and a terrorist organization. It determines the different types of aid that the donor offers, assuming imperfect fungibility, and the amount of repression against terrorism that the local government is performing within its sphere of influence. The empirical results presented support our theory and confirm the role of foreign aid. We test the hypotheses about the impact of foreign aid, the recipient country's level of public health expenditures and level of education on the number of terrorist events per country of origin of the perpetrators. We test the impact of a military solution to deter terrorist attacks using different proxies for foreign military intervention and support. All these tests are performed while controlling for the endogeneity of these variables, as suggested by the theoretical model. Moreover, the econometric approach followed allows us to distinguish whether the military intervention is motivated by the war on terror or by some other exogenous variables capturing some geo-strategic considerations.