The Effect of Leader's Visits on Foreign Aid

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Abstract

This paper examines the effect of the number of visits by U.S. officials to a country, and the number of visits of the country's leaders to the United States, on foreign aid. To achieve our objective, we compile novel variables that indicate the number of official visits from 1960-2015 from the historical archives of the U.S. State Department. To deal with potential endogeneity, we introduce novel instrumental variables for the official visits variables, namely aviation safety, capital distance, and urban distance. The 2SLS estimations provide evidence that the visits by the U.S. leaders to the country, and the visits of the country's leaders to the United States, have a statistically significant negative effect on multilateral aid, but an insignificant effect on bilateral aid flows from the United States. This indicates that other donors take the visits by U.S. Presidents as a signal that the country does not need aid either due to the costly reception of the American dignitary or because they assume that the country will be able to secure aid from the U.S. and will be less in need of their assistance. This also indicates that the costly official visits by the country's leadership to the United States cause the donors to become reluctant to provide aid as these types of expenditure send a negative signal that the country is not administering its finances adequately to avoid the need for aid.

JEL Code : F35, H11
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1. Introduction

This paper examines the effect of the number of visits by U.S. Presidents and Secretaries of State to a country on the level of foreign aid inflows. To be specific, we investigate whether the official visits by either U.S. Presidents or Secretaries of State allow the country to be able to attract foreign aid from the United States or from other donor countries. The paper also complements this analysis with an examination of the effect of the number of visits by the country's leader to the United States on foreign aid. This is the first attempt in the literature to consider the number of official visits by the donor country's leadership to the recipient country, and the number of official visits by the recipient country's leadership to the donor country, as a determinant of foreign aid.

According to the Encyclopaedia Britannica, "foreign aid is the international transfer of capital, goods, or services from a country or international organization for the benefit of the recipient country or its population." Foreign aid can, thus, be perceived as the funds that one country voluntarily transfers to another in the form of a gift, a grant, a loan or concessional credit. The objective of foreign aid can be either to provide economic assistance, to combat poverty, to promote development efforts, to offer military support, or to furnish humanitarian relief.

The intuition of this paper is straightforward. The visits of U.S. officials are usually taken as a chance to make a case for the country to secure U.S. capital, loans or aid. The visits of U.S. Presidents or Secretaries of state is a rare opportunity for the officials in the recipient country to show the visiting dignitary the economic conditions in their country on the ground, to stress the need for aid to deal with these conditions, and to exhibit how the people of their country who live in these conditions can benefit from aid flows. This effort is likely to be more effective to entice the visitor to recommend the donation of aid after what they saw in the ground with their own eyes, compared to hearing about these conditions or reading about

them in a report. Thus, we should expect that the visits by U.S. officials to have a positive effect on foreign aid. On the other hand, welcoming a U.S. President or a Secretary of state is costly. U.S. Presidents travel with a large entourage, and host countries need to make costly accommodations to ensure the comfort of the visiting official and their retinue. The expensive reception could send a wrong signal that the country does not need economic assistance. Thus, we should expect that the number of visits by U.S. officials to have an adverse effect on foreign aid.

We also examine the effect of the number of visits by the country's leaders to the United States of America. Leaders travel abroad to seek economic assistance by attracting foreign capital, bringing foreign aid or borrowing foreign loans. In the context of this paper, these foreign trips allow the leaders to present to the donor country the development projects that can be funded by official development assistance, to highlight the economic needs in their country that can be satisfied with foreign aid, to stress the future benefits of foreign aid for their efforts to develop their economy, and to reassure the donors of the ability of the country to repay the aid in case it takes the form of loans. Foreign donors can also take the visit of the head of the state as a strong signal from the highest levels of a country's leadership for their serious commitment to use foreign aid funds properly to finance development projects and to fight poverty in their country. Thus, we would expect that the number of leaders' trips to be positively associated with foreign aid.

On the other hand, the travel of the leader of the country to the United States is costly. A large entourage usually accompanies these leaders when they travel, and the need to cover the cost of traveling, lodging, security, transportation, and meetings of the leaders and their companions cause these trips to be a budgetary burden. Thus, the leaders' trips can reallocate resources away from productive spending that would lessen the country's need for foreign aid. These trips can also send a negative signal as it reflects how the leadership of the country

is administering its finances, and displays a lack of fiscal austerity in a country in need of foreign aid or official development assistance. In this case, donors would be reluctant to extend aid. Thus, we would expect the leaders' trips to have an adverse effect on attracting foreign aid.

Given that the effect of the visits of U.S. officials to the country, or alternatively the visits of the country's leaders to the United States, on foreign aid is inconclusive, an empirical analysis is warranted. To achieve its objective, the paper uses novel variables that indicate the number of visits by U.S. Presidents to the country, the number of visits by U.S. Secretaries of state to the country, and the number of visits by the leader of the country to the United States of America. These variables are derived from the archives of the U.S. Department of State.

The paper examines the effect of these variables on official development assistance and on bilateral foreign aid flows from the United States. However, the key difficulty in determining a causal effect is the issue of endogeneity. As much as the country can attract more foreign aid after the visits of U.S. officials, U.S. Presidents and Secretaries of state may be tempted to visit the recipients of aid flows as well. This is either to ensure the proper use of aid funds, to witness the economic effects of aid flows, to use aid as leverage for foreign policy objectives, or to demand payback in return for the donated foreign aid. According to the Congressional Research Service[1] "*Foreign assistance is the largest component of the international affairs budget and is viewed by many as an essential instrument of U.S. foreign policy. On the basis of national security, commercial, and humanitarian rationales, U.S. assistance flows through many federal agencies and supports myriad objectives. These include promoting economic growth, reducing poverty, improving governance, expanding access to health care and education, promoting stability in conflict regions, countering*

[1] https://fas.org/sgp/crs/row/R40213.pdf

terrorism, promoting human rights, strengthening allies, and curbing illicit drug production and trafficking."

When it comes to the effect of the country's leader's trips to the United States, we also deal with potential endogeneity. As much as the leader's trips may attract foreign aid, it is also possible that leaders are tempted to visit countries that are considered major donors. In this case, the United States is one of the countries with a significant outflow of foreign aid. Thus, leaders would be tempted to visit the United States to request foreign aid. This indicates an issue of reverse causality.

To deal with potential endogeneity, we use novel instrumental variables. For the number of visits by U.S. Presidents and Secretaries of state, we use aviation safety and capital distance as instruments. The first instrument captures the number of aircraft accidents in the country, as U.S. officials are more likely to visit countries with a higher level of aviation safety. The second instrument captures the distance between Washington D.C. and the location of the Presidential residence of a country, as U.S. officials are more likely to visit countries that are closer to their capital. For the number of leader's trips to the United States, we use an instrument called urban distance which captures the gap between the level of urban development in the leader's country and that of the United States.

The Two Stage Least Squares estimations show that the number of visits of U.S. Presidents, and Secretaries of state, has a statistically significant negative effect on multilateral aid, but an insignificant effect on bilateral aid flows from the United States. The Two Stage Least Squares estimation also shows that the leader's trips to the United States has a statistically significant negative coefficient on multilateral aid, but insignificant effect on bilateral aid flows from the United States. The results are robust even after the inclusion of control variables.

The analysis provides evidence that the sum of the official visits has an insignificant effect on bilateral aid flows from the United States, and a negative effect on multilateral aid that loses its significance after adding control variables. The results also show that the interaction term of the two official visits variables has an insignificant effect on bilateral aid flows from the United States, and a statistically positive effect on multilateral aid that loses its significance after adding the control variables.

The remainder of the paper is organized as follows: section 2 discusses the literature survey, section 3 includes the description of the data, section 4 includes the empirical estimation and the robustness tests, and section 5 concludes. References, tables and figures are included thereafter.

2. Literature

This paper contributes to the literature on the determinants of foreign aid. Studies in this literature focus on either the effect of the features of the recipient country, or the characteristics of the donor country, on the amount of aid flows.

The first set of studies focus on the features of the recipient. For instance, Maizels and Nissanke (1984) investigate the objective of the allocation of aid in terms of satisfying the needs of the recipient countries or the interests of the donor countries. The authors provide evidence that aid was geared toward the recipient's needs over the 1970s, while in the 1980s aid was directed toward satisfying the interests of donors.

Alesina and Dollar (2000) provide evidence that aid flows are determined by political and strategic considerations. The authors find that countries that are inefficient, mismanaged, non-democratic, and politically friendly to former colonizers, receive more foreign aid than other countries with a similar level of poverty. The authors also find that even though some donors give aid considering income levels and good institutions, others give aid to former

colonies tied by political alliances regardless of other factors. Alesina and Weder (2002) provide evidence that less corrupt governments do not receive more foreign aid or debt relief. The authors also find significant differences across donors, where Scandinavian countries reward less corrupt recipients while the United States favor democracies without paying attention to the quality of government of the recipient country.

Bruck and Xu (2012) explore if aid accelerations are associated with policies and shocks in the recipient countries. The authors find that favorable regime changes and wars are significant predictors of aid accelerations, and that neighbors of war-torn countries are likely to get large aid inflows.

Bermeo and Leblang (2015) examine the association between the immigrants from a recipient country residing in a donor country and aid flows. The authors provide evidence that donors use foreign aid to improve the living conditions in migrant-sending areas in order to decrease the demand for entry into the donor country, and that the migrants in the donor country also lobby for additional aid for their countries of origin.

The second set of studies focus on the features of the donor countries. For instance, Chong and Gradstein (2008) examine the factors affecting voter support for aid provision in donor countries. Their analysis shows that satisfaction with own government performance is positively associated with willingness to provide foreign aid, and that aid is adversely affected by own government lack of efficiency. Kaufmann et al. (2019) that individual preferences for official development assistance in donor countries are negatively correlated with relative income within a country-year, and positively associated with inequality at the country level. The authors also show that official development assistance is significantly lower where policymakers are more susceptible to lobbying.

Heinrich and Kobayashi (2020) show that the public in donor countries have a strong aversion to providing aid to "nasty" governments that violate human rights, rig elections, and crack down on media, but also appreciates the benefits that aid achieves. Their analysis shows that this aversion can be reversed if the donor government engages more with the "nasty" one. Heinrich et al. (2016) argue that donor countries' voters place a lower priority on aid during economic downturns and politicians react by cutting aid. Their analysis demonstrates that economic downturns lead to diminished public support for helping the poor abroad. Heinrich et al. (2018) argue that citizens in donor countries do not wholeheartedly support cutting aid to countries that abuse political rights when those states offer benefits. Their findings suggest that aid donors selectively punish repressive countries with aid cuts due to the preferences of the self-serving voters.

Knack (2013) investigates the determinants of the donor's decision to trust or bypass country systems. The analysis shows that the use of recipient country systems is positively associated with the donor's share of aid provided to the recipient, the extent of corruption in those systems, and public support for aid provision in donor countries. Acht et al. (2015) argue that donors resolve the issue of giving aid to countries who lack proper institutions by delivering aid through non-state actors. Their analysis shows that bypassing state institutions via non-governmental organizations and multilateral agencies comes as a reaction to weak recipient state institutions.

Our paper's contribution to the literature is that it is the first attempt to examine the effects of leaders' visits on foreign aid. The second contribution is that this paper proposes a new way of looking at proximity between countries which have been identified in previous studies as a factor that determines financial flows between economies. This complements our work on the effect of leader's visits on foreign investment in Kodila-Tedika and Khalifa

(2020a), on foreign debt in Kodila-Tedika and Khalifa (2020b), on democracy in Kodila-Tedika and Khalifa (2020c), and on conflict in Kodila-Tedika and Khalifa (2020c).

3. Data

The countries included in the analysis are Taiwan, Canada, Liberia, Rwanda, Thailand, Czech Republic, Niger, Belize, USA, Guyana, St. Vincent and the Grenadines, Costa Rica, Malta, Ethiopia, Lao PDR, Libya, China, Turkey, Mongolia, Latvia, Guatemala, Uruguay, Republic of Moldova, Tajikistan, Saudi Arabia, Greece, Burundi, Tanzania, Portugal, Malawi, Netherlands, Antigua and Barbuda, Macao, Gabon, Nigeria, Cuba, Swaziland, Tunisia, Bermuda, Mozambique, Oman, Bhutan, Nepal, Georgia, Angola, Armenia, Mali, Denmark, Burkina Faso, Papua New Guinea, Venezuela, Uganda, Comoros, Syria, Lebanon, Bosnia and Herzegovina, Equatorial Guinea, Pakistan, Brunei, Kuwait, Algeria, Congo, Bangladesh, Mauritius, Eritrea, Honduras, Sierra Leone, Solomon Islands, Haiti, Suriname, Benin, Germany, Norway, Lesotho, Central African Republic, Bahamas, Azerbaijan, Sao Tome and Principe, Singapore, Yemen, Fiji, Korea, Timor-Leste, Colombia, Albania, Djibouti, Nicaragua, Belarus, Jamaica, Madagascar, Brazil, Democratic Republic of Congo, Ireland, Iran, France, Egypt, Turkmenistan, Mexico, Sri Lanka, Maldives, Peru, Vietnam, Zimbabwe, New Zealand, Bahrain, Gambia, Zambia, El Salvador, Ukraine, Spain, Croatia, Iraq, Grenada, Jordan, Kenya, Cote d'Ivoire, Hong Kong, Russia, Belgium, Micronesia, Guinea-Bissau, Iceland, Dominica, Qatar, Luxembourg, Slovak Republic, Indonesia, Macedonia, Austria, Lithuania, Chad, Afghanistan, Slovenia, Tonga, Cameroon, Chile, Poland, Cyprus, Argentina, Singapore, Romania, Sudan, Israel, Philippines, Ecuador, Barbados, Panama, Palau, Somalia, Seychelles, St. Lucia, Finland, Estonia, Cape Verde, Paraguay, Vanuatu, United Kingdom, Australia, Italy, Montenegro, Kazakhstan, Cambodia, Kiribati, Guatemala, Guinea, Japan. Table 1 presents the descriptive statistics for all the variables used in the analysis.

The dependent variables in our analysis are two indicators of foreign aid. The first is net bilateral aid flows from the Development Assistance Committee (DAC) of OECD, United States, as a percentage of Gross National Income. This variable is denoted bilateral aid US hereinafter. The second indicator is net official development assistance ODA received as a percentage of Gross National Income. This variable is denoted multilateral aid hereinafter. The two variables are derived from the World Development Indicators.

The variables of interest are the number of visits by U.S. Presidents and Secretaries of state to the country, and the number of visits by the country's leaders to the United States of America during the period 1960-2015. This data is derived from the Office of the Historian, which is affiliated to the Department of Sate of the United States of America.[2] Figures 1-3 show world maps of the number of visits of U.S. Presidents to each country, the number of visits of U.S. Secretaries of state to each country, and the number of each country's leader's trips to the United States, respectively.

We include some control variables that are identified by the literature as determinants of foreign aid. The first is an overall indicator of institutional quality measured as the sum of the six sub-indices from World Bank Governance Indicators (WBGI) for 1996: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Countries with higher values on this index have institutions of better quality.

We include the level of development measured by Gross Domestic Product per capita, PPP (constant 2011 international $) which is derived from the World Development Indicators. Countries with a lower level of GDP per capita is expected to be more in need of foreign aid. We also include the size of the country, as proxied by the area of the country in square

[2] https://history.state.gov/departmenthistory.

kilometers and the country's population. Finally, we include imports of goods and services as a percentage of GDP, derived from the World Development Indicators. Countries that rely on importing their needs will also be in need of foreign aid.

4. Estimation

4.1. Visits of U.S. Officials

4.1.1. Baseline Results

We conduct an empirical estimation of the effect of the number of official visits by the U.S. Presidents and Secretaries of state to the country on foreign aid flows during the period 1960-2015. To explore this relationship we use the following equation

$$Aid_i = \theta + \delta_i OfficialVisits_i + \aleph_i \gamma + \mu_i \quad (1)$$

Aid_i is the amount of bilateral aid or multilateral aid attracted by country i. $OfficialVisits_i$ is the number of visits by U.S. Presidents or Secretaries of state to country i. $\aleph_i$ is a vector of control variables and μ_i is the error term.

The vector of control variables includes those commonly identified in the literature as determinants of foreign aid. Thus, we control for the logarithm of GDP per capita as the country's level of economic development is likely to determine its need for foreign aid. We also control for the country's size using land area and its population. Larger countries are expected to be more in need for aid. We include institutional quality as countries with better institutions are more likely to be less in need for aid, or are better equipped to use aid funds properly. Finally, we include imports of goods and services as a percentage of Gross Domestic Product. Countries that rely on importing a large portion of their needs are expected to be also in need of foreign aid. The study is a cross-country analysis and applies the Ordinary Least Square (OLS) estimation technique since our variable of interest is only available in cross-section. Figure 4 shows the relationship between the official visits variables and foreign aid.

The OLS results are shown in table 2. In columns 1 and 2, the dependent variable is multilateral aid and the variable of interest is the number of visits of U.S. presidents. In columns 3 and 4, the dependent variable is bilateral aid flows from the U.S. and the variable of interest is the number of visits of U.S. presidents. In columns 5 and 6, the dependent variable is multilateral aid and the variable of interest is the number of visits by the U.S. secretaries of state. In columns 7 and 8, the dependent variable is bilateral aid flows from the U.S. and the variable of interest is the number of visits by the U.S. secretaries of state.

The Ordinary Least Squares estimation, in column 1 of table 2, shows that the number of visits of U.S. Presidents has a statistically significant negative coefficient on multilateral aid. This is the case even after adding other control variables as shown in column 2. Column 3 shows that the number of visits of U.S. Presidents does not have a statistically significant effect on bilateral aid flows from the U.S., even after controlling for other factors that determine aid as in column 4.

The Ordinary Least Squares estimation, in column 5 of table 2, shows that the number of visits by the U.S. secretaries of states have a statistically significant negative coefficient on multilateral aid, but loses its significance once we include other control variables as shown in column 6. Column 7 shows that the number of visits by the U.S. secretaries of state does not have a statistically significant effect on bilateral aid flows from the U.S., even after controlling for other factors that determine aid as in column 8.

These results imply that the number of visits by U.S. officials have an adverse effect on the ability of the host country to attract foreign aid flows from other donor countries, but has no effect on bilateral aid flows from the U.S. This seems to indicate that other donors take the visits by U.S. Presidents as a signal that the country does not need aid either due to the expensive reception lavished upon the American visitors or because the donors assume that

the country will be able to secure aid from the U.S. and thus will be less in need of their assistance.

In terms of bilateral aid flows from the U.S., the analysis shows that visits by U.S. officials do not have a significant effect. This indicates that either these visits are focused on discussing other issues than U.S. aid flows to the country, or that U.S. aid is determined by strategic factors that are not correlated with the economic conditions of the country that visitors observe during their official visits.

The results also show that the size of the country, proxied by area or population, has an insignificant effect on aid flows. On the other hand, institutional quality has a statistically significant negative coefficient with multilateral aid, but insignificant coefficient with bilateral aid flows from the United States. This implies that countries with better institutions are probably the ones that are less in need of foreign aid from donor countries. Finally, imports of goods and services have a statistically significant positive effect on multilateral aid, but an insignificant effect on bilateral aid flows from the United States. This implies that countries that are importers of a large portion of their needs are usually those in need of foreign aid as well.

It is also worth noting that bilateral aid flows from the United States is not affected by any of the factors included in the analysis. This implies that aid from the United States flows for factors, other than the economic conditions of the country. This confirms the findings of some previous studies that show that aid flows from the United States to countries that are of significance to the strategic interests of the United States. This is not captured by any of the variables included in the analysis.

4.1.2. Endogeneity

The OLS estimation assumes that the official visits are exogenous to foreign aid. However, the problem of endogeneity cannot be ignored. First, the association may be

spurious due to the failure to account for an unobserved factor which could be affecting both aid flows and official visits. Second, as much as the country can attract more foreign aid during the official visits of American dignitaries, U.S. Presidents and Secretaries of state may be tempted to visit countries that receive foreign aid from the United States. This is either to ensure the proper use of aid funds, to witness the economic effects of aid flows, to check if the purpose of assisting the country is fulfilled, to use aid as leverage for other objectives, or to demand payback in return for their assistance.

To deal with potential endogeneity, we need a source of exogenous variation in the number of official visits by using an instrumental variable approach. We compile two new instruments, namely aviation safety and capital distance. The first is aviation safety which is the number of aircraft accidents that occurred in the country from 1960 to 2015. We collected the raw data[3] and aggregated the data for each country. We use another instrument called capital distance, which is the distance in km from Washington D.C. to the official place of presidential residence in every country around the world. We use the site https://www.movable-type.co.uk/scripts/latlong.html for the distance calculations. For reasons of robustness or reliability, we use others site to check the conformity of the calculated distance. These include: https://www.nhc.noaa.gov/gccalc.shtml, and https://gps-coordinates.org/distance-between-coordinates.php.

This identification strategy is based on the intuition that U.S. Presidents and Secretaries of state are more likely to visit countries if the trip is sufficiently safe to undertake. A worse aviation safety record will dissuade U.S. officials from travelling to that country. This variable serves as a proper instrument because foreign aid is not likely to affect aviation safety. For the second instrument, U.S. officials are more likely to visit countries whose capital cities are closer to that of the United States, which is their place of residence. The

[3] https://aviation-safety.net/database/country/.

proximity between capitals also decreases the cost of the trip. This variable serves as a proper instrument as foreign aid does not affect the distance between capital cities.

In this context, the first stage of the Two Stage Least Squares estimation is described as follows

$$OfficialVisits_i = \theta + \delta_i Distance_i + \sigma_i Safety + e_i \qquad (2)$$

Where $Distance_i$ is the distance between the presidential residence in country i and Washington D.C.,while $Safety_i$ is the aviation safety record in country i.

Table 3 shows the effect of official visits on foreign aid, corrected for endogeneity using the instrumental variables. Columns 1 and 2 of table 3 include the results of the second stage of the 2SLS using multilateral aid as our dependent variable, while columns 3 and 4 show the results of the second stage of the 2SLS using bilateral aid flows from the United States as our dependent variable. Columns 1 and 2, of table 3, show that the number of visits of U.S. Presidents and Secretaries of state has a statistically significant negative effect on multilateral aid. Columns 3 and 4, of table 3, show that neither of these variables have a significant effect on bilateral aid flows from the United States. This confirms our previous finding that the number of visits by U.S. officials sends a negative signal to other donor countries, but has no effect on aid flows from the United States.

4.2. Leaders' Trips to the U.S.

We also explore the impact of the number of the country's leader's trips to the United States on foreign aid. In this case, we also deal with potential endogeneity. As much as the leader's trips may attract foreign aid, it is also possible that leaders are tempted to visit countries that are considered major donors such as the United States. This indicates an issue of reverse causality.

To deal with this issue, we need a source of exogenous variation in leader's trips by using an instrumental variable approach. We use a novel instrument that we refer to as urban

distance, defined as the logarithm of the degree of urban development in a country divided by the logarithm of the degree of urban development in the United States. We measure the degree of urbanization by the urban land area in square kilometers.

This identification strategy is based on the intuition that the gap between the urban development in the leader's country and that in the United States justifies a leader's trip to the U.S.A. The less urbanized the country the more the leader will be tempted to travel to the United States to enjoy the urban amenities and to take advantage of the ample financial and economic opportunities in the urban centers of one of the most developed countries. In addition, government aid agencies are usually located in urban areas such as capital cities of donor countries.

Figure 5 shows the relationship between the leader's trips and foreign aid. Table 4 includes the results of the OLS estimation in columns 1 and 2 and the 2SLS estimation in columns 3 and 4, where the variable of interest is the number of leader's trips to the United States. The 2SLS estimation shows that the leader's trips to the United States has a statistically significant negative effect on multilateral aid, but an insignificant effect on bilateral aid flows from the United States. This also indicates that the costly official visits by the country's leadership send a negative signal to the donors that the country is not administering its finances adequately to avoid the need for foreign aid.

4.3. Interaction Terms

Table 5 includes the results after adding two variables to our Two Stage Least Squares estimation. The first is the summation of the number of visits of U.S. Presidents and Secretaries of state. The second is the interaction term between the number of visits of U.S. Presidents and the number of visits of U.S. Secretaries of state. Columns 1-4 of table 5 show that the sum of the official visits has an insignificant effect on bilateral aid flows from the

United States. On the other hand, the sum of the official visits has a negative effect on multilateral aid that loses its significance after adding control variables.

Columns 5-8 of table 5 include the results after adding the interaction term, in addition to the two official visits variables used so far. The results show that the interaction term and the two official visits variables have an insignificant effect on bilateral aid flows from the United States. However, the two official visits variables have a significant negative effect while the interaction term has a statistically positive effect on multilateral aid. These coefficients, however, lose their significance after adding the control variables.

Finally, we add other interaction terms to our analysis. We include the interaction term between the leader's trips and the visits of the U.S. Secretaries of state, the interaction term between the leader's trips and the visits of the U.S. Presidents, and the interaction term between the three variables. The results are included in table 6.

In columns 1-3, we have multilateral aid as our dependent variable. In column 1 we include the visits of U.S. Secretaries of state, the leader's trips to the United States, and the interaction term between the two variables. In column 2 we include the visits of U.S. Presidents, the leader's trips to the United States, and the interaction term between the two variables. In column 3 we include the three official visits variables and the interaction term between the three variables.

The results show that neither the number of visits of U.S. Secretaries of state, nor the number of leaders' trips to the United States, have a significant coefficient in all specification. On the other hand, column 2 shows that the number of visits of U.S. Presidents has a significant negative coefficient while the interaction term with the leader's trips is significantly positive. This implies that the visits of U.S. Presidents send a negative signal to donor countries, unless it is complemented by a higher number of visits by the country's leader to the United States.

In columns 4-6, we have bilateral aid flows from the United States as our dependent variable. In column 4 we include the visits of U.S. Secretaries of state, the leader's trips to the United States, and the interaction term between the two variables. In column 5 we include the visits of U.S. Presidents, the leader's trips to the United States, and the interaction term between the two variables. In column 6 we include the three official visits variables and the interaction term between the three variables. The results show that none of these variables has a significant effect on bilateral aid flows from the United States.

5. Conclusion

This paper examines the effect on foreign aid of the number of visits by U.S. Presidents to the country, the number of visits of U.S. Secretaries of State to the country, and the number of visits of the country's leader to the U.S. To deal with potential endogeneity, we introduce novel instrumental variables for the three official visits variables, namely aviation safety, capital distance and urban distance. The 2SLS estimations provide evidence that the visits by the U.S. leaders to the country, and the visits of the country's leader to the United States, have a statistically significant negative effect on multilateral aid, but no effect on bilateral aid flows from the United States. This indicates that other donors take the visits by U.S. Presidents as a signal that the country does not need aid either due to the costly reception of American officials or because they assume that the country will be able to secure aid from the U.S. and thus will be less in need of their assistance. This also indicates that the costly official visits by the country's leadership to the United States send a negative signal to the donors that the country is not administering its finances properly.

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Figure 1. World Map of the number of Visits of U.S. Presidents

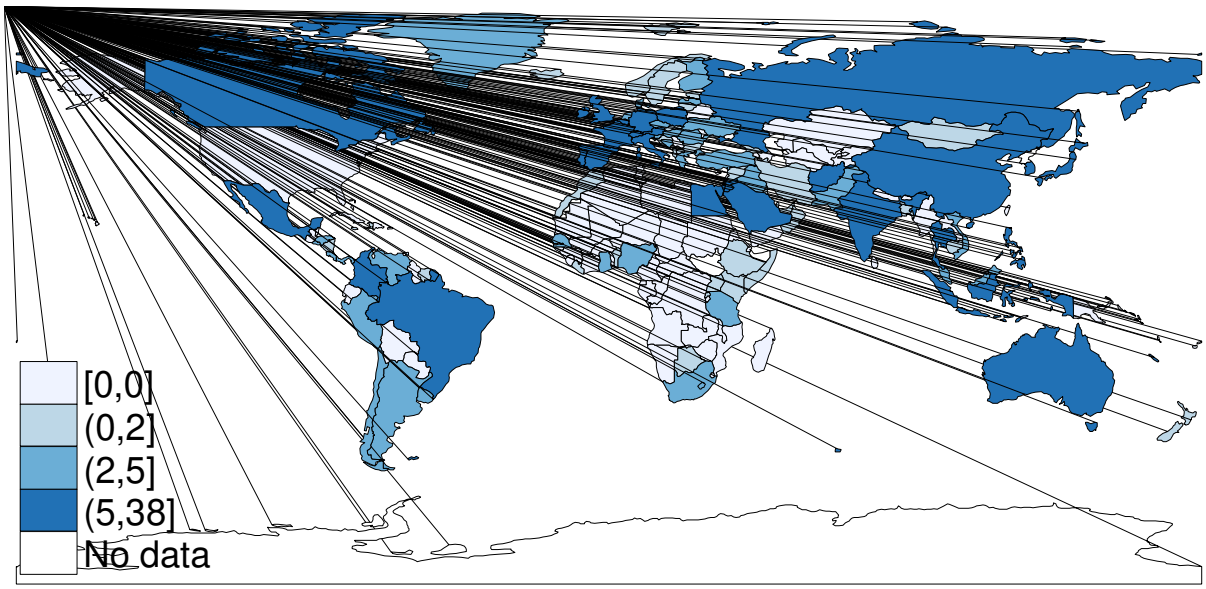

Figure 2. World Map of the number of Visits of U.S. Secretaries of State

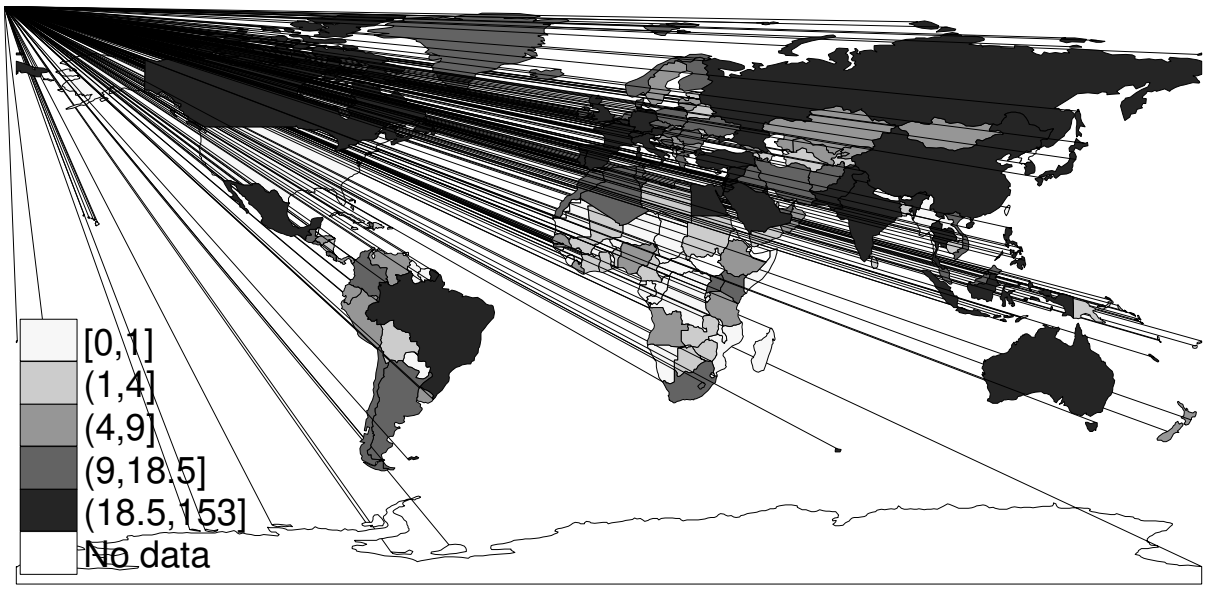

Figure 3. World Map of Leader's Trips to the United States

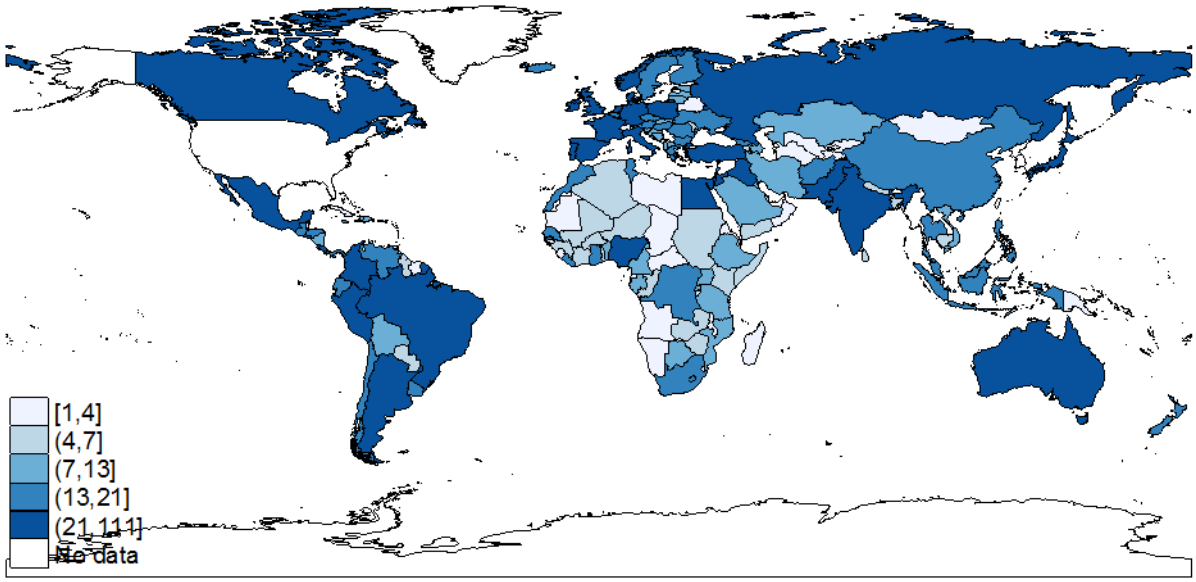

Figure 4. Official Visits of U.S. Presidents, and Secretaries of State, and Foreign Aid

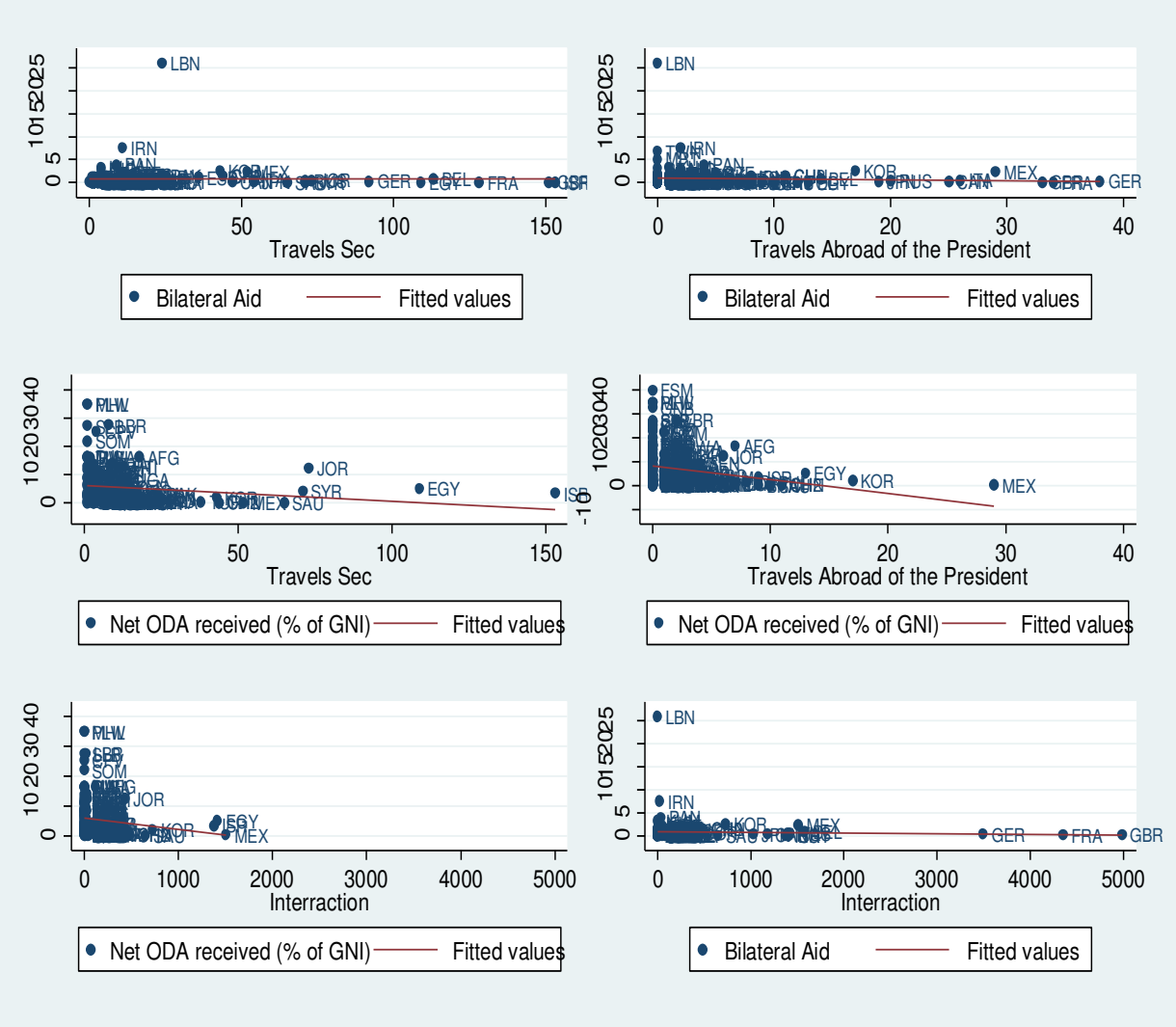

Figure 5. Leader's Trips to U.S.A., Interaction Terms, and Foreign Aid

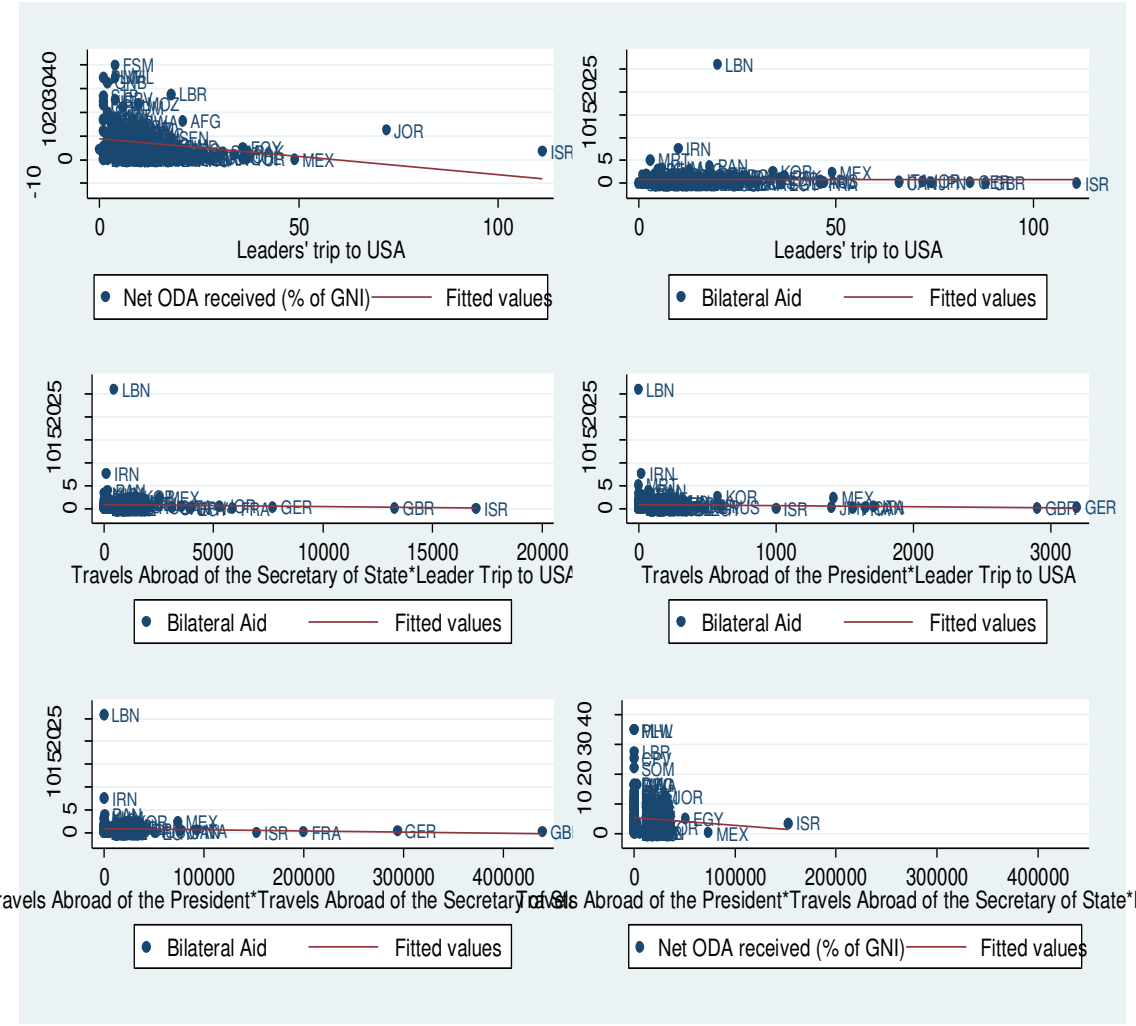

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Multilateral Aid	158	7.189585	8.078572	.0082085	39.64924
Bilateral Aid US	139	.8817021	2.424122	0	25.8567
Capital Distance	191	8899.076	3743.188	0	16360
Visits of U.S. President	195	3.112821	6.149142	0	38
Visits of U.S. Secretary of State	157	16.36943	26.63266	0	153
Aviation Safety	181	21.1989	40.49025	0	392
Area	123	381.1329	1020.2	.122	8600.387
GDP per capita	190	15482.4	18713.82	638.0007	117382.1
Imports of goods and services (% of GDP)	191	44.59668	24.64515	5.043709	162.475
Population (log)	123	16.52971	63.1074	13.54	612.363
Institutions	181	-.1398731	2.206965	-4.893744	4.592062

Table 2. OLS Estimates of the Effect of Official Visits on Foreign Aid

	Multilateral Aid		Bilateral Aid US		Multilateral Aid		Bilateral Aid US	
Visits of U.S. President	-0.588***	-0.168*	-0.017	-0.002				
	(0.153)	(0.092)	(0.017)	(0.013)				
Visits of U.S. Secretary of State					-0.055**	0.011	-0.000	-0.002
					(0.026)	(0.012)	(0.003)	(0.002)
Area		-0.000		-0.000		-0.001		-0.000*
		(0.001)		(0.000)		(0.001)		(0.000)
GDP per capita		-0.000**		-4.630		-0.000**		-3.930
		(0.000)		(7.782)		(0.000)		(7.423)
Imports of goods and services (% of GDP)		0.060**		-0.002		0.060**		-0.003
		(0.024)		(0.006)		(0.026)		(0.007)
Population		-0.005		0.000		-0.003		0.001
		(0.005)		(0.001)		(0.004)		(0.001)
Institutions		-0.723**		-0.066		-0.750**		-0.074
		(0.332)		(0.064)		(0.285)		(0.067)
Cons	8.272***	4.822***	0.948***	0.992***	6.240***	3.334***	0.839***	0.916***
	(0.753)	(1.154)	(0.260)	(0.290)	(0.765)	(1.182)	(0.228)	(0.294)
Number of observations	158	85	139	81	123	73	114	73
R2	0.069	0.358	0.003	0.043	0.026	0.323	1.043	0.045

note: .01 - ***; .05 - **; .1 - *;

Table 3. 2SLS Estimates of the Effect of Official Visits on Foreign Aid

	Multilateral Aid		Bilateral Aid US	
Visits of U.S. Secretary of State	-0.378*		-0.003	
	(0.218)		(0.008)	
Visits of U.S. President		-0.969**		-0.010
		(0.436)		(0.024)
Area	0.000	0.001	-0.000	-0.000
	(0.001)	(0.001)	(0.000)	(0.000)
GDP per capita	-0.000	-0.000***	5.646	4.072
	(0.000)	(0.000)	(0.000)	9.426
Imports of goods and services (% of GDP)	0.022	0.017	-0.004	-0.004
	(0.096)	(0.030)	(0.009)	(0.007)
Population	0.012	-0.003	0.001	0.000
	(0.011)	(0.007)	(0.001)	(0.001)
Institutions	0.388	0.129	-0.110	-0.094
	(0.940)	(0.403)	(0.077)	(0.079)
_cons	9.559*	8.463***	0.880**	1.009***
	(5.645)	(1.910)	(0.355)	(0.326)
Number of observations	71	82	70	77
R2	-3.644	0.046	0.056	0.051
Endogeneity test (p-value)	0.0192	0.0000	0.4402	0.7385
Kleibergen-Paap rk LM statistic)	4.346	6.030	6.218	9.801
Cragg-Donald Wald F statistic	0.340	10.283	3.980	17.028

note: .01 - ***; .05 - **; .1 - *;

Table 4. Estimates of the Effect of Leaders' Trips to the United States on Foreign Aid

	OLS		2SLS	

			Panel A : Two-Stage Least Squares	
	Multilateral Aid	**Bilateral Aid US**	**Multilateral Aid**	**Bilateral Aid US**
Leaders' trips to USA	-0.024	-0.004	-0.248**	0.016
	(0.034)	(0.004)	(0.114)	(0.022)
Area	-0.001	-0.000	0.000	-0.000
	(0.001)	(0.000)	(0.001)	(0.000)
GDP per capita	-0.000**	-4.890'	-0.000**	-2.509
	(0.000)	9.588	(0.000)	8.072
Imports of goods and services (% of GDP)	0.073**	-0.003	0.051	0.004
	(0.028)	(0.007)	(0.062)	(0.007)
Population	-0.006	0.000	-0.006	0.000
	(0.005)	(0.001)	(0.004)	(0.001)
Institutions	-0.830**	-0.093	-0.269	-0.187
	(0.347)	(0.075)	(0.463)	(0.151)
Cons	4.292***	1.059***	8.196**	0.452
	(1.452)	(0.331)	(3.748)	(0.583)
Number of observations	82	77	67	65
R2	0.348	0.055	-0.226	-0.028
			Panel B : First Stage Estimates for Leaders' Trips to USA	
Urban Distance			7.116***	10.601***
			(2.188)	(2.328)
Endogeneity test (p-value)			0.0002	0.3492
F(excluded instruments)			10.58	20.72

Table 5. Official Visits, Interraction Terms, and Foreign Aid.

	Bilateral Aid US		Multilateral Aid		Bilateral Aid US		Multilateral Aid	
Visits of U.S. Secretary of State + Visits of U.S. President	-0.001	-0.001	-0.054**	0.007				
	(0.002)	(0.002)	(0.023)	(0.011)				
Visits of U.S. Secretary of State * Visits of U.S. President					-0.001*	-0.000*	0.015***	0.004
					(0.000)	(0.000)	(0.005)	(0.005)
Visits of U.S. Secretary of State					0.013	0.000	-0.110**	0.000
					(0.016)	(0.004)	(0.050)	(0.046)
Visits of U.S. President					-0.006	0.041	-0.776***	-0.317
					(0.053)	(0.029)	(0.222)	(0.217)
Area		-0.000*		-0.001		-0.000**		-0.001
		(0.000)		(0.001)		(0.000)		(0.001)
GDP per capita		-4.451'		-0.000**		2.593		-0.000**
		7.430		(0.000)		7.206		(0.000)
Imports of goods and services (% of GDP)		-0.003		0.060**		-0.001		0.048
		(0.007)		(0.027)		(0.008)		(0.030)
Population		0.001		-0.003		0.001		-0.003
		(0.001)		(0.004)		(0.001)		(0.004)
Institutions		-0.074		-0.747**		-0.102		-0.589*
		(0.067)		(0.285)		(0.067)		(0.332)
Cons	0.854***	0.913***	6.358***	3.361***	0.766***	0.731**	7.574***	4.436**
	(0.248)	(0.299)	(0.781)	(1.208)	(0.252)	(0.343)	(1.032)	(1.708)
Number of observations	114	73	123	73	114	73	123	73
R2	0.000	0.044	0.033	0.322	0.009	0.062	0.082	0.345

note: .01 - ***; .05 - **; .1 - *;

Table 6. All Variables

	Multilateral Aid			Bilateral Aid US		
	I	**II**	**III**	**IV**	**V**	**VI**
Visits of U.S. Secretary of State	0.008		0.041	0.002		-0.003
	(0.025)		(0.035)	(0.005)		(0.005)
Leaders' trips to USA	-0.111	-0.082	-0.072	0.009	-0.004	0.001
	(0.073)	(0.050)	(0.064)	(0.011)	(0.006)	(0.006)
Visits of U.S. President		-0.755***	-0.189**		0.012	0.023
		(0.214)	(0.087)		(0.038)	(0.025)
Visits of the Secretary of State*Leaders' trips to USA	0.001			-0.000		
	(0.001)			(0.000)		
Visits of U.S. President *Leaders' trips to USA		0.016***			-0.000	
		(0.005)			(0.000)	
Visits of U.S. President * Visits of U.S. Secretary of State *Leaders' trips to USA			0.000			-2.347
			(0.000)			2.229
Area	-0.001	-0.000	-0.001	-0.000	-0.000	-0.000
	(0.001)	(0.001)	(0.001)	(0.000)	(0.000)	(0.000)
GDP per capita	-0.000**	-0.000**	-0.000**	2.808	-6.428	3.647
	(0.000)	(0.000)	(0.000)	(0.000)	9.772	(0.000)
Imports of goods and services (% of GDP)	0.044	0.049*	0.045	-0.002	-0.003	-0.002
	(0.037)	(0.029)	(0.034)	(0.009)	(0.008)	(0.009)
Population	-0.004	-0.002	-0.004	0.001	0.000	0.001
	(0.004)	(0.004)	(0.004)	(0.001)	(0.001)	(0.001)
Institutions	-0.647*	-0.545	-0.590*	-0.126	-0.098	-0.127
	(0.333)	(0.379)	(0.336)	(0.079)	(0.077)	(0.079)
Cons	5.366**	6.724***	5.088**	0.743*	1.019**	0.828**
	(2.340)	(1.858)	(2.191)	(0.440)	(0.394)	(0.406)
Number of observations	71	82	71	70	77	70
R2	0.359	0.398	0.356	0.074	0.056	0.072

note: .01 - ***; .05 - **; .1 - *;