

Effect of aid assistance and aid conditionalities on economic security

Aid enhances growth during conflict but may hinder post-conflict recovery and has a small effect on economic security.

Geographical region: Global

Effect size: Small effect ($g=0.052$)

Confidence in study findings: Low confidence (1 study; 11 ES)

Short summary

The impact of nation-building interventions (economic aid and military assistance) on GDP growth during conflict and post-conflict periods have small effect on economic security. Foreign aid sanctions reduce income inequality by targeting wealthy elites, enhancing economic security in aid-dependent nations. Aid conditionalities shape income distribution, potentially stabilizing economies by limiting elite financial benefits while minimizing adverse effects on lower-income groups, promoting fairer economic outcomes. We have low confidence in the cell due to a limited number of studies.

Long summary

The intervention

The intervention examines the impact of economic sanctions, specifically trade restrictions (import/export bans) and foreign aid suspensions, on income inequality in sanctioned countries. Sanctions are imposed to pressure governments for political concessions but have unintended economic consequences, affecting income distribution differently based on a country's labour endowment and aid dependence.

How the intervention is expected to work

This intervention is expected to work by exerting economic pressure on targeted governments through trade restrictions and foreign aid suspensions, forcing them to change policies. Import sanctions restrict goods entering a country, harming industries that rely on exports, often worsening income inequality in labor-abundant nations. Export sanctions limit the availability of foreign goods, potentially benefiting domestic producers but with uncertain effects on inequality. Foreign aid sanctions cut financial assistance, disproportionately affecting the wealthy elites who benefit most from aid, thereby reducing inequality. The overall impact depends on a country's economic structure, with varying effects on different income groups.

The evidence base

The cell includes one primary study that uses cross-national panel-data regression analysis on 152 countries (1974-2011), utilizing TIES and SWIID 6.0 datasets to assess sanctions' effects.

Evidence Findings

Foreign aid sanctions reduce inequality by disproportionately affecting wealthy elites, improving economic security in aid-dependent countries. Aid conditionalities influence income distribution, potentially stabilizing economies without severely harming lower-income groups.

Included studies

Jeong (2020) examines the effects of economic sanctions—trade restrictions (import/export bans) and foreign aid suspensions—on income inequality in sanctioned countries. The study covers 152 countries from 1974 to 2011, using a cross-national, panel-data regression analysis with data from the Threats and Imposition of Economic Sanctions (TIES) dataset and the Standardized World Income Inequality Database (SWIID 6.0). With a sample size of 3,436 country-year observations, the study analyses how different sanctions influence income inequality, considering factors such as labour endowment, economic aid dependence, and trade openness. The findings indicate that import sanctions increase inequality in labour-abundant countries, with a statistically significant increase in the Gini coefficient by 5.1% to 15.3% ($p < 0.05$). In contrast, foreign aid sanctions reduce inequality, particularly in countries that rely heavily on aid, leading to a Gini coefficient decrease of 3.6% to 10.7% ($p < 0.05$). However, export sanctions show no significant effect on income inequality ($p > 0.1$). The study highlights the complex distributional consequences of sanctions, with their impact depending on economic conditions in the targeted countries. The study is rated as low confidence quantitative study due to small sample size and omitting relevant variables.

Confidence assessment

Overall: Low confidence as there is a limited number of studies.

Other outcomes in the study

None