

**Regional Organizations and International Politics:  
Trading Asian Development Bank Loans for United Nations Security Council Votes**

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**Abstract** Japan has consistently sought influence over the United Nations Security Council (UNSC), a platform from which it seeks to shape global affairs. As Japan has a privileged position in the governance of another international organization – the Asian Development Bank (ADB) – we investigate whether Japan leverages its power in this financial institution to facilitate project loans for the UNSC’s elected members in exchange for their favorable votes. Analyzing panel data of ADB loan disbursements to 24 developing member-countries from 1968-2002, we find evidence that temporary UNSC membership increases a typical country’s share of ADB loans by approximately 25 percent.

## **1. Introduction**

Discontent with the political manipulation of global institutions by Western Powers has led some prominent statesmen to advocate the regionalization of global governance. In the immediate aftermath of the Cold War, Malaysian Prime Minister Mahathir Mohammed urged the Association of Southeast Asian Nations (ASEAN) to form a Japan-led East Asian Economic Group (Rozman 2007). He argued that a regional arrangement would afford the small countries of ASEAN “a bigger say” (Severino 2007: 6). Mahathir’s proposal was ahead of its time and received lukewarm responses from Japan and most Asian countries, but since the East Asian Financial Crisis, Japan has successfully spearheaded, and most Asian countries have favored, greater coordination through regional organizations.<sup>1</sup> This significant about-turn in collective regionalist sentiment finds reflection in the formal establishment of the Chiang Mai Initiative, a major step towards the development of an Asian alternative to the IMF. Asia represents but one example of a global proliferation in regional financial institutions. In 2009, Latin America established the Banco del Sur as an alternative to the World Bank and IMF; the African Union countries signed an agreement commissioning the headquarters of the African Monetary Fund in Cameroon. In Europe – where regionalization is most advanced – Germany continues to spearhead the creation of a European Monetary Fund.

Some advocates in Latin America and Asia – especially since the East Asian Financial Crisis – contend that the United States’ dominance in global institutions allows it to willfully impose its preferred policies, and that regional organizations would better safeguard their interests. Yet, skeptics – some from middle powers like the Republic of Korea – question if a

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<sup>1</sup> See Lipsky (2003) for an overview of Japanese initiatives to spearhead greater regional organizations.

move from global to regional governance would simply shift the locus of political manipulation from the global to the regional level. If the world were to embrace regionalism as the new form of global governance, would political manipulation cease greasing the wheels of international institutions? Or would regional organizations, just like their global counterparts, remain subject to political manipulation, promoting the foreign policy preferences of regional, rather than global, hegemons?<sup>2</sup>

Our study addresses these questions by focusing on political manipulation within the international financial architectural framework. Specifically, we consider political manipulation at the Asian Development Bank (ADB). As an “open” regional organization, the membership of this institution includes Western Powers, particularly the United States, yet it privileges Asian countries. The country most privileged in the governance of the ADB is Japan. We investigate whether Japan leverages its influence to facilitate project loans for countries it considers politically important.

To measure political importance, we use temporary membership on the United Nations Security Council (UNSC), a body in which Japan has invested significant international political capital. Influence on the Security Council has long been a top foreign policy goal for Japan, exhibited by its failed campaigns for a permanent seat and its repeated successful election to the body on a temporary basis. Japan’s exclusion from UNSC discussions of major international security issues is generally perceived as incommensurate with its status as an economic power, a reality regarded by many within the Japanese government as a national humiliation. Japan also has intense preferences over the perennially discussed issues concerning North Korea.

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<sup>2</sup> For the seminal piece on the political manipulation of the IMF, see Thacker (1999). For work on the manipulation of the World Bank, see Fleck and Kilby (2006), Kilby (2008, 2009).

The literature on the trading of UNSC votes for foreign aid focuses on the United States and its political manipulation of international organizations. We build on and make two explicit contributions to this literature. First, we explicate the causal mechanism of global horse-trading through international financial institutions, adopting a principal-agent framework and disaggregating the state into its Ministry of Finance and Ministry of Foreign Affairs. Second, we present the first systematic evidence of global horse-trading by a regional hegemon at the regional level.

Our argument, then, is that Japan engages in global-horse trading through the ADB, exchanging ADB loans for countries' favorable votes at the UNSC. Note that Japan and the United States – the second most powerful country at the ADB – are close allies and hardly ever oppose one another on the UNSC. We therefore suspect that it is easy for them to agree on the political importance of temporary UNSC members.

As for whether Japan takes the lead, previous studies that focus on the US-Japan relationship dynamic have found evidence that Japanese foreign policy is generally formulated as a reaction to US pressure (*gaiatsu*) (see Miyashita 1999, Drifte 2000).<sup>3</sup> For example, Japan had “yielded to the United States” in withholding its support for the formation of the East Asian Economic Grouping and abandoning the idea of establishing an Asian Monetary Fund. One could therefore argue that Japan’s close alignment with the United States on the UNSC reflects *gaiatsu*,

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<sup>3</sup> Drifte (2000: 2-3) provides an excellent summary of Japanese reactive state arguments:

“multilateral diplomacy has been subordinated to American foreign and security policies and developed in a rather reactive way...it is still lacking in political ideas, concepts, and personnel input.”

and consequently interpret political manipulation at the ADB as resulting from US, rather than Japanese, efforts.

Still, previous studies (Kilby 2006, 2010), our analysis of the formal control of the ADB, and evidence from our interview with a former Director-General at the institution all point to the conclusion that American influence at the ADB goes through channels controlled by Japan, the senior partner at this international organization.<sup>4</sup> Moreover, recently Japan has spearheaded several initiatives at the United Nations (UN) without explicit American prodding.<sup>5</sup>

Our main conclusion is therefore that the ADB – a regional organization that Japan dominates – is subject to political manipulation, and its lending practices favor countries that are strategically important to Japan. We rely on both qualitative and quantitative evidence to support our claims. Qualitatively, an interview with a former Director-General at the ADB suggests that the ADB is de facto “funded by the Japanese, controlled by the Japanese, and run by the Japanese” (Bello 2000). Primary and secondary historical sources corroborate this interpretation. The key contribution of our study, however, is quantitative. We consider a panel of ADB loan shares disbursed to 24 developing member-countries from 1968-2002. We begin with a propensity score matching approach that involves pairing countries that served on the UNSC with comparable countries that did not, and then comparing the average difference in ADB loan shares. Next, we use standard regression analyses, accounting for country and year fixed effects and auto-correlated error terms as well as a range of control variables suggested by the seminal

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<sup>4</sup> 17 August 2010, hereafter referenced as “interview.”

<sup>5</sup> These include the streamlining UN administrative processes, the initial proposal for an international arms trade treaty (Erfat 2010), and the dispatch of UN peacekeeping troops to Cambodia in 1992 (Dore 1997).

study of Kilby (2006). We find that temporary UNSC membership increases a typical country's share of ADB loan disbursements by approximately two percentage points. Given that the average ADB loan share is about 7.5 percent, this represents a substantial increase for the typical country. Robustness tests further suggests that it is indeed Japanese influence that accounts for the effect of UNSC membership on ADB lending.

The rest of the paper proceeds as follows. Section 2 provides an overview of the ADB as well as evidence of the politics behind ADB lending gathered from an interview with a former ADB Director-General. Section 3 presents a brief background on the UNSC. Section 4 outlines our argument, while section 5 details our empirical results. Section 6 concludes.

## **2. Japan and the ADB**

The ADB was founded on December 19, 1966 as an Asia-Pacific version of the World Bank.<sup>6</sup> Unlike the “closed” regional organizations that have been emerging in Asia that have exclusively Asian membership, the ADB is an “open” regional organization with prominent Western members.<sup>7</sup> Still, its governance privileges Asian countries, especially Japan.

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<sup>6</sup> For an overview of the historical developments leading up to the ADB's establishment in 1966, see Kappagoda (1995). For an overview of the politics of ADB lending (as well as those of other regional development banks), see Strand (2011).

<sup>7</sup> For an overview of “open” as opposed to “closed” regional organizations, see Bulmer-Thomas (1998). For work on the closed organization of ASEAN Plus Three, see Rozman (2007). For work on the Chiang Mai Initiative, see Lipsy (2003), Eichengreen (2003), Henning (2009), and Grimes (2010a,b).

The Board of Governors, which includes representatives from all member-countries, sits at the apex of the ADB hierarchy and delegates operational responsibilities to a smaller Executive Board of Directors.<sup>8</sup> Voting power is related to each member's share of capital subscription to the ADB, which, in turn, is related to the economic size of the country and whether it is located in Asia. Asian countries contribute a significantly higher proportion to the ADB's subscription share (63 percent) than they do, for example, at the World Bank (22 percent), in return for a greater share of the votes (65 percent vs. 22 percent).<sup>9</sup>

The United States and Japan hold equivalent voting power (12.8 percent each), and are by far the ADB's most influential members (Kilby 2006). Japanese and American nationals occupy many of the ADB's senior management posts, with the most powerful positions going to Japan. The Director-General heading the Budget, Personnel, and Management Systems Department is the second most powerful person at the ADB and has always been from Japan.<sup>10</sup> Most importantly, all eight of the Presidents of the ADB have come from Japan, with seven of them coming directly from the Ministry of Finance (MOF).

As a former Director-General at the ADB explains: "the ADB is like a state, and the ADB President is like its emperor."<sup>11</sup> The President of the ADB acts as the Chairman of the Executive Board and wields enormous influence. According to the voting procedure, the President may, in the absence of a request for a formal vote, "ascertain and announce to the meeting the sense of

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<sup>8</sup> <http://www.adb.org/About/management-staffing.asp>

<sup>9</sup> <http://siteresources.worldbank.org/BODINT/Resources/278027->

[1215524804501/IBRDCountryVotingTable.pdf](http://www.adb.org/About/membership.asp), <http://www.adb.org/About/membership.asp>

<sup>10</sup> Interview, 17 August 2010. Also see Kappagoda (1995).

<sup>11</sup> Interview, 17 August 2010.

the meeting with regard to any matter and the board shall be deemed in accordance with the announcement by the Chairman without the necessity of taking a formal vote.”<sup>12</sup> Put differently, the ADB endows its President with agenda-setting power; he alone determines which projects are brought to the Board of Directors for a vote. Should the occasion for a formal vote arise, the ADB President can make proposals that effectively function as “no-action default” policies, making him the “conditional agenda setter.”<sup>13</sup> If an Executive Board Director wishes to oppose a proposal made by the President, he must undertake a series of costly actions, such as requesting a formal vote and putting together a coalitional majority to win the vote. Collective action problems and psychological inertia render this task an uphill battle (Korobkin 1998, Camerer et al. 2003, Thaler and Sunstein 2008).

So, whose interests does the President represent? Officially, he reports to the Chairman of the Board of Governors. Yet he appears to make most of his decisions in consultation with the Japanese MOF, which acts through the Japanese representative on the Board of Directors.<sup>14</sup> Now, the ADB Presidency is a sunset post for officials from the Ministry of Finance – the mandatory retirement age for Japanese civil servants is 60, and many ADB Presidents were appointed in their late fifties. From a principal-agent perspective, this raises potential concerns about the extent to which the ADB President’s preferences could diverge from the Japanese MOF’s. We suspect that agency slack is minimized for two reasons. First, potential candidates for the ADB

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<sup>12</sup> See the Asian Development Bank Board Rules, Section 5(a), pp2-3. Available: [Hhttp://www.adb.org/BOD/Rules\\_Procedure\\_Brd\\_Dir\\_ADB.pdf](http://www.adb.org/BOD/Rules_Procedure_Brd_Dir_ADB.pdf).

<sup>13</sup> See Tsebelis (1994), Tsebelis and Kreppel (1998), Stone (2011), Ayres and Gerner (1989), Johnson and Goldstein (2003). Also see the ADB *Articles of Agreement*, Article 33(3).

<sup>14</sup> Interview, 17 August 2010.



Presidency are drawn from a small pool of candidates with significant ties to the MOF. The MOF is thus aware of their preferences, and would likely appoint agents with similar preferences to its own ex-ante. Second, the MOF reserves the right to remove an ADB President ex-post. For example, Masuo Fujioka (1981-1989) was replaced in part because his authoritarian style; his successor, Kimimasa Tarumizu (1989-1993), was replaced because of his poor leadership.<sup>15</sup>

Thus the dynamics of the Executive Board of Directors appear to accord the Japanese government – acting mainly through the ADB President – tremendous influence over the loan approval process. A lot of backroom dealing goes on, and all projects require Japanese support; otherwise, they do not go through to the Board of Directors for approval. Interestingly, even when the United States and some other countries occasionally object to a particular loan, it may be approved if it has Japanese backing.<sup>16</sup>

In terms of systematic evidence, the only other quantitative studies on the political manipulation of the ADB (of which we are aware at the time of writing), show that countries deemed important to Japan and the United States receive favorable treatment from the ADB (Kilby 2006, 2010). Specifically, countries receiving a greater share of bilateral foreign aid from Japan are more likely to receive loans from the ADB. They also receive a larger allocation of total ADB lending. Countries receiving a greater share of bilateral foreign aid from the United States are also more likely to receive loans from the ADB, although the size of the allocation appears unaffected. Kilby tests other measures of importance – vote alignment with the United States and Japan at the United Nations General Assembly and the strength of trade ties – but the results are either not robustly significant across all specifications or do not have the expected

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<sup>15</sup> *New York Times* (2 July 1993) “ADB Chief Quits Amid Mounting Criticism of Role.”

<sup>16</sup> Interview, 17 August 2010.

signs. These ambiguities, however, do not negate the credibility of the findings on bilateral aid, particularly those that demonstrate “the tighter link (when compared to the United States) between ADB lending and Japanese aid” (Kilby 2006: 192). In short, Kilby’s findings suggest that it may be Japanese, rather than American, influence that explains the international politics of ADB lending.

The connection that Kilby establishes between ADB lending and Japanese foreign aid is convincing, though it remains possible that both are driven by other concerns. Tuman et al. (2009), for example, find little evidence that Japanese foreign aid is driven by economic or security interests; they instead find that it is driven by humanitarian concerns. It is thus conceivable that the correlation between Japanese and ADB aid is driven by economic, not political, factors. That said, we believe that Kilby’s interpretation is correct. As argued by Morgenthau, “the transfer of money and services from one government to another performs here the function of a price paid for political services rendered or to be rendered” (1962: 302). The veracity of this interpretation would be even more convincing if a more exogenous measure of political importance could be employed.

Japan has consistently displayed interest in the Security Council; one need only look to its failed attempts to gain a permanent seat (Weiss 2008) and its successful campaigns to win temporary membership. We suspect that Japan also seeks to extend its influence over the UNSC through the other elected members. Recent work corroborates our hypothesis – Frankel and Gibbons (2010) find that a country’s temporary UNSC membership status has a positive and statistically significant impact on the share of Japanese Official Development Assistance received. We investigate whether Japan might also wield its influence over aid flows to developing countries at the ADB to further its foreign policy objectives at the UNSC.

### **3. Japan and the United Nations Security Council**

The United Nations (UN) was established in 1945 by the victors of World War II with the maintenance of international peace and security as its primary *raison d'être*.<sup>17</sup> Within the UN architecture, the UNSC is the most powerful organ. Article 39 of Chapter VII of the UN Charter grants the UNSC the power to determine if there has been a threat or breach to the peace, or if an act of aggression has taken place. Articles 41 and 42 permit the UNSC to apply economic and diplomatic sanctions and to authorize the use of military force.

Today's UNSC comprises five permanent members and ten non-permanent members. The composition of the permanent members has remained unchanged since the UN's founding – China, France, the Soviet Union (now Russia), the United Kingdom, and the United States. These five countries possess veto power over UNSC resolutions. The ten non-permanent members represent designated regions and are selected in staggered elections held every October for two-year (limited) terms beginning January 1 the following year. A two-thirds majority vote is required from the UN General Assembly to win election. Since 1966, there are three seats for Africa and two for Asia (with at least one of these five seats going to an Arab country), one for Eastern Europe, two for Latin America, and two for Western Europe.<sup>18</sup> Winning election to the UNSC is no accident – Malone (2004) reports that there is extensive competition for seats. Still, patterns of election appear to be idiosyncratic and term limits assure the exogeneity of exit (Dreher and Vreeland 2010).

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<sup>17</sup> See the UN Charter, Article 1.

<sup>18</sup> The Western Europe group includes “others,” like Canada, Australia, and, recently, Turkey. For more on the UNSC, see Russett (1997).

How important are these elected UNSC members? Article 27 of the UN Charter stipulates that absent a veto from a permanent member, nine out of fifteen votes are required for a Security Council resolution to pass. This means that at least four out of the ten elected members must vote in favor of a resolution for it to pass, more if any of the permanent members abstain. Because they lack veto power, O'Neill (1996) finds that non-permanent members control less than two percent of total voting power.<sup>19</sup> Yet, the political importance of each non-permanent member may derive from the legitimacy that its votes can confer (Voeten 2001, 2005, Chapman 2007, Hurd and Cronin 2008, Chapman forthcoming). As Hurd (2007) explains, the elected members serve the purpose of giving voice to the "rest of the world" on the Security Council. Legitimacy may derive from the representational role that the elected members play, or from the informed nature of their decisions. Members of the UNSC have access to sensitive documents and private discussions regarding the importance of taking international action.<sup>20</sup> And the legitimizing effect of the Security Council may extend beyond the international level into domestic politics (see Chapman and Reiter 2004).

As a defeated power in World War II, Japan was excluded from the United Nations until 1956.<sup>21</sup> It therefore comes as no surprise that it was not awarded a permanent seat on the Security Council by the victorious powers. A global power before and during the war, Japan rose again in

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<sup>19</sup> Also see Strand and Rapkin (2010). Note that this ignores the possibility that oversized coalitions may be sought. On the logic of buying extra votes, see Volden and Carrubba (2004). For a contrasting view, see Saiegh (2011).

<sup>20</sup> For more on the informational story, see Fang (2008), Chapman (2007), and Thompson (2006).

<sup>21</sup> Japan gained admission on 18 December 1956. Article 53 of the UN Charter hints at the bias held by the Allies against the Axis powers.

the decades that followed. Japan grew to become a top five economy by the time it regained its independence in 1952; it was the second largest economy in the world by 1964.<sup>22</sup> It has since sought a position on the global stage equivalent to its economic standing. Japan's aspirations of becoming a true global power are, however, constrained by Article 9 of its constitution, which renounces "war as sovereign right of the nation and the threat or use of force as a means of settling international disputes" (Dore 1997: 106). Article 9 further specifies that Japan will never maintain "land, sea and air forces, as well as other war potential" (Dore 1997: 106). To have a presence in matters of global security, Japan can act legitimately only through the UN Security Council. The Yoshida Doctrine's emphasis of Japan's UN-centered foreign policy (alongside US bilateralism) reflects this general desire. Indeed, the Japanese MOFA has consistently sought an important role for Japan in the institution. Japan first served on the UNSC in 1958-1959, two years after gaining accession to the United Nations. Shortly after serving its second term in 1966-1967, the MOFA revealed its desire for Japan to be "regarded as a major UN member state" by announcing that it would seek election to the UNSC "as often as possible" (Dore 1997: 29). While it has waged unsuccessful campaigns to obtain a permanent seat (Heenan 1998, Weiss 2008), it is arguably the most successful in winning election. Since its accession to the United Nations, it has been elected to serve a total of ten times, more so than any other country in the world save Brazil (with which it is tied). Winning election to the UNSC is no accident – Malone (2004) reports that there is extensive competition for seats. Given Japan's interest in participation, we suspect that it also seeks to extend its influence over the UNSC through the other elected members.

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<sup>22</sup> Source: Penn World Table 6.2 – Real GDP per capita (Constant Prices: Chain series) × Population.

#### **4. A Theory of Global Horse-Trading**

##### *Overview*

Trades of political influence for money are possible because governments sometimes have divergent preferences. Though developing countries that are elected to the UNSC for a two-year term have the opportunity to vote on globally important issues, they typically care more about loans than they do about most UNSC votes. In contrast, the hegemonic major vote-holders at the International Financial Institutions (IFIs) often care more about the activities of the UNSC. Governments can therefore maximize their respective preference functions by seeking out trades.

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Even so, why would the hegemon choose to employ an IFI as a vehicle for securing political influence in the UNSC when it can achieve the same outcome through the use of bilateral aid? We identify three advantages that an IFI may offer.

The first involves obfuscation. As suggested by economists like Vaubel (1986) and political scientists like Abbott and Snidal (1998), international organizations can be used to “launder” the “dirty work” of governments. Hegemons typically have a checkered history of imperialism, and often try to avoid projecting a neo-imperialist image in their dealings with developing countries. Trading loans for votes through an IFI allows them to better mask their influence.

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<sup>23</sup> Political Scientists have shown that these trades might be detrimental to developing countries in the long-run. Bueno de Mesquita and Smith (2010) find that countries that win election to the UNSC subsequently experience a substantial decrease in their economic and democratic performance.

The second centers on cost sharing (Dreher 2009a,b). Rather than provide individual assistance, the major vote-holders can take advantage of the common resource pool that the IFI offers. They can also leverage the IFI's infrastructure to more effectively raise funds on international capital markets, disburse loans, and manage repayments. All these reduce the cost of issuing loans from the hegemon's perspective.

The IFI's infrastructure offers a third advantage: technical assistance. Aid from the IFI does not just involve lending. It also involves policy advice as well as assistance in identifying, developing, and implementing a project. For example, developing countries that wish to develop their financial infrastructure might lack the requisite technical knowledge to undertake the optimal sequence of reforms that will allow them to do so. IFIs have often accumulated extensive expertise on these and other types of development challenges. They can therefore more effectively assist these developing countries compared to donor countries that simply offer a lump sum of money.

Articles published in economics journals provide evidence that trades of IFI loans in return for UNSC votes take place. The United States appears to use its influence in IFIs to increase aid flows to elected UNSC members. Temporary UNSC members have been found to receive more UN Development Program aid through UNICEF than non-members (Kuziemko and Werker 2006). They also enjoy more project-loans from the World Bank, and more IMF loans with fewer conditions attached from the IMF (Dreher et al. 2009a,b, 2010).

Though these articles establish a statistically significant correlation between UNSC membership and IFI loans, they do not explicate the causal mechanism that links UNSC membership to IFI loans. How exactly does a country leverage its influence at an IFI to increase its influence at the UNSC? Does the negotiation required to facilitate global horse-trading occur

primarily at the international or domestic level? We present a theory of global horse-trading that focuses on domestic bargaining.<sup>24</sup>

### *Actors and Preferences*

We consider the state as disaggregated into its Ministry of Finance (MOF) and its Ministry of Foreign Affairs (MOFA), and focus on the international dimensions of their operations.<sup>25</sup> The hegemon's representatives at an IFI are the agents of the MOF, whereas those at the UNSC are the agents of the MOFA. Each ministry selects a policy option to maximize its international objective function. The MOF chooses a loan policy option to maximize expected returns on its IFI capital contributions. The MOFA chooses a foreign policy option to maximize the hegemon's national interests. We focus on the multilateral aspect of the MOFA's foreign policy options, specifically those that involve international institutions such as the UNSC. The MOFA often seeks to attain a unanimous vote for UNSC resolutions that concern its national interests. Maximizing its national interests thus comprises two sequential steps – (1) choosing how to vote on a specific UNSC resolution, and (2) persuading other members on the UNSC to cast a similar vote. We examine how the MOFA may use IFI loans to win favor with temporary UNSC members.

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<sup>24</sup> For a domestic approach that looks at US foreign aid policies, see Milner and Tingley (2010a,b).

<sup>25</sup> Our motivation for doing so derives from Liberal IR theory, which conceives of states as comprising groups that possess heterogeneous preferences (see, e.g., Moravcsik 1997, Lim 2010).



### *Mechanism*

The functional specialization of government bureaucracies implies that any attempt to use the IFI as a vehicle through which to engage in global horse-trading involves bargaining among the relevant government ministries. Specifically, to maximize its international objective interests at the UNSC, the MOFA would need to convince the MOF to issue a loan through an IFI to the UNSC member whose vote it sought. The MOF's and the MOFA's interests, however, may conflict – the provision of loans based on political rather than economic criteria may decrease the expected returns on IFI capital contributions. The mechanism that governs global horse-trading is therefore a circuitous one that requires the MOFA to expend political capital to get the MOF to facilitate favorable loans for elected UNSC members. Because of the costs involved, the MOFA will only seek to do so when it has a specific agenda.

A reverse logic applies from the perspective of a developing member-country – its MOF must expend political capital to get its MOFA to vote accordingly at the UNSC. Since a typical country rarely serves on the UNSC, the MOF will seek to capitalize on the one-off windfall.

Should a significant issue come up during the tenure of such a temporary UNSC member, it behooves Japan to have the country in its debt, and ADB loans are a low-cost way to achieve this goal. Thus, we suspect that the representatives of the MOF are made aware by the MOFA of the potential importance of developing countries serving on the UNSC. If temporary UNSC members request a loan, the Executive Board and the Management facilitate approval, with the perhaps vague implication that the loans will be cut off if they misbehave on the UNSC. It is best to put the temporary UNSC members in a position of owing Japan favors.<sup>26</sup>

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<sup>26</sup> The logic of the incentive approach to gaining policy favors is explored by Dorussen (2001).

We thus formulate two hypotheses to test in the subsequent sections: (1) Temporary UNSC members receive a greater share of ADB loan disbursements than non-members; (2) It is Japanese, rather than American, political manipulation that accounts for the effect of UNSC membership on ADB lending.

## **5. Quantitative Evidence**

In this section, we present quantitative evidence supporting our two hypotheses. We begin by describing the data and presenting descriptive evidence of our broad hypothesis that UNSC members receive a greater share of ADB lending. We then test the hypothesis using more rigorous methods. Finally, we present suggestive evidence in favor of our second hypothesis, that it is Japanese political manipulation of the ADB that accounts for the effect of UNSC membership.

Note that the initiation of the exchange of favors may be idiosyncratic. Just as Japan may use its leverage at the ADB to gain influence over the UNSC, elected members of the UNSC may use their leverage to gain influence over the ADB. The quantitative approach we adopt in this paper certainly does not allow us to distinguish between who approaches whom, and we recognize that both avenues are possible. Our goal is to establish that there is a robustly significant correlation between UNSC membership and ADB lending.

### *5.1 The share of ADB lending and UNSC participation*

Our dataset comes from Kilby (2006) and covers 24 developing member-countries from 1968 to 2002 for a total of 467 country-year observations. The panel is unbalanced due to varying dates of country independence and eligibility for ADB lending. The share of ADB loan disbursements

that countries receive varies from 0.0001 to 0.52. The mean allocation is 0.07, and the median is 0.04. All eligible countries receive some funding every year.<sup>27</sup>

Turning to our independent variable of interest, Table 1 lists the countries in Asia that have served (or not) on the UNSC. Only nine of the twenty-four countries in our sample serve on the UNSC between 1968 and 2002: Bangladesh, India, Indonesia, Nepal, Pakistan, South Korea, Malaysia, Philippines, and Thailand.<sup>28</sup> Of these countries, most have served multiple terms on the UNSC, with India and Pakistan serving five and four terms, respectively. South Korea and Thailand have each served only once.

Does temporary membership UNSC membership influence ADB lending? Figure 1 presents descriptive evidence suggesting that it does. Consider first the left-hand part of the figure. The average share of annual lending that goes to countries not serving on the UNSC is about 0.07, while the average share going to elected members of the UNSC is 0.12. A t-test indicates that this difference is significant at the 0.01 level (t-statistic=3.01). The two-sample Kolmogorov-Smirnov (KS) test also rejects the null hypothesis of equality between the empirical

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<sup>27</sup> Note that we use data on loan disbursements not commitments because the former are more readily available, although results might be crisper using commitment data. New research suggests that international politics can have direct influence on ADB commitments and indirect and informal influence through the ADB staff, who actually disburse the loans (Kilby 2010). This may influence the timing of disbursements, which we address below.

<sup>28</sup> Singapore served on the UNSC from 2001-2002, but we have excluded it from our analysis because we only have ADB loan data for Singapore until 1997. As for China, as it is a permanent member of the UNSC, we do not code our UNSC variable 1. When we do, however, the main results hold (results available on request).

distribution functions of ADB loan share for UNSC members and non-members at standard levels of significance (p-value=0.002).

More convincing is the pattern over time, presented on the right-hand part of Figure 1. Two years before election to the UNSC, the average share of annual ADB lending is similar to that of non-member-countries: about 0.08. The share is slightly lower the year before election: 0.07. In the election year, the share goes up to about 0.10. During the first and second years of membership on the UNSC, the share of annual ADB lending rises to 0.11 and 0.12. Then exogenous term limits force members to step down. The share of lending drops back to 0.10 and 0.09 in the first and second years after the UNSC term ends. It remains constant at about 0.09 in the third year after before returning to almost pre-UNSC levels of 0.08 in the fourth year.

The peak in the share of ADB loans received during the second year of UNSC membership appears to be driven by the ADB's project lending cycle, which is illustrated in Figure 2.<sup>29</sup> The ADB's project lending cycle comprises five main stages: (1) Country Strategy Partnership, (2) Preparation, (3) Appraisal/Approval, (4) Implementation, and (5) Evaluation. Stages 2 and 3 concern the time required to put together a project, and hence the most relevant to our analysis.

The average duration from project proposal to disbursement of ADB loans ranges from 1.5 to 2.5 years. If the ADB expedites the project loan process after a country is elected to the UNSC (three months before its term begins), then the average time of 18 months before ADB loans are disbursed accounts for the peak in ADB loan shares during the second year of

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<sup>29</sup> See [Hhttp://www.adb.org/projects/cycle.asp](http://www.adb.org/projects/cycle.asp)H for a general overview of the ADB Project Cycle. Our Director-General interview confirms this. For details, see the "Business Processes For The Reorganized ADB" (2001).

membership on the UNSC. This schedule helps to explain both the peak in the second year as well as the lag before lending returns to levels prior to UNSC membership. Note that from a game-theoretic point of view, it is important that the ADB (or Japan and the United States through the ADB) move last when it comes to the trade of loans for votes. For the elected member of the UNSC, the two-year term is essentially a one-shot game, since governments serve rarely. Japan and the United States play this game repeatedly with each new UNSC member, and thus have a reputation at stake.

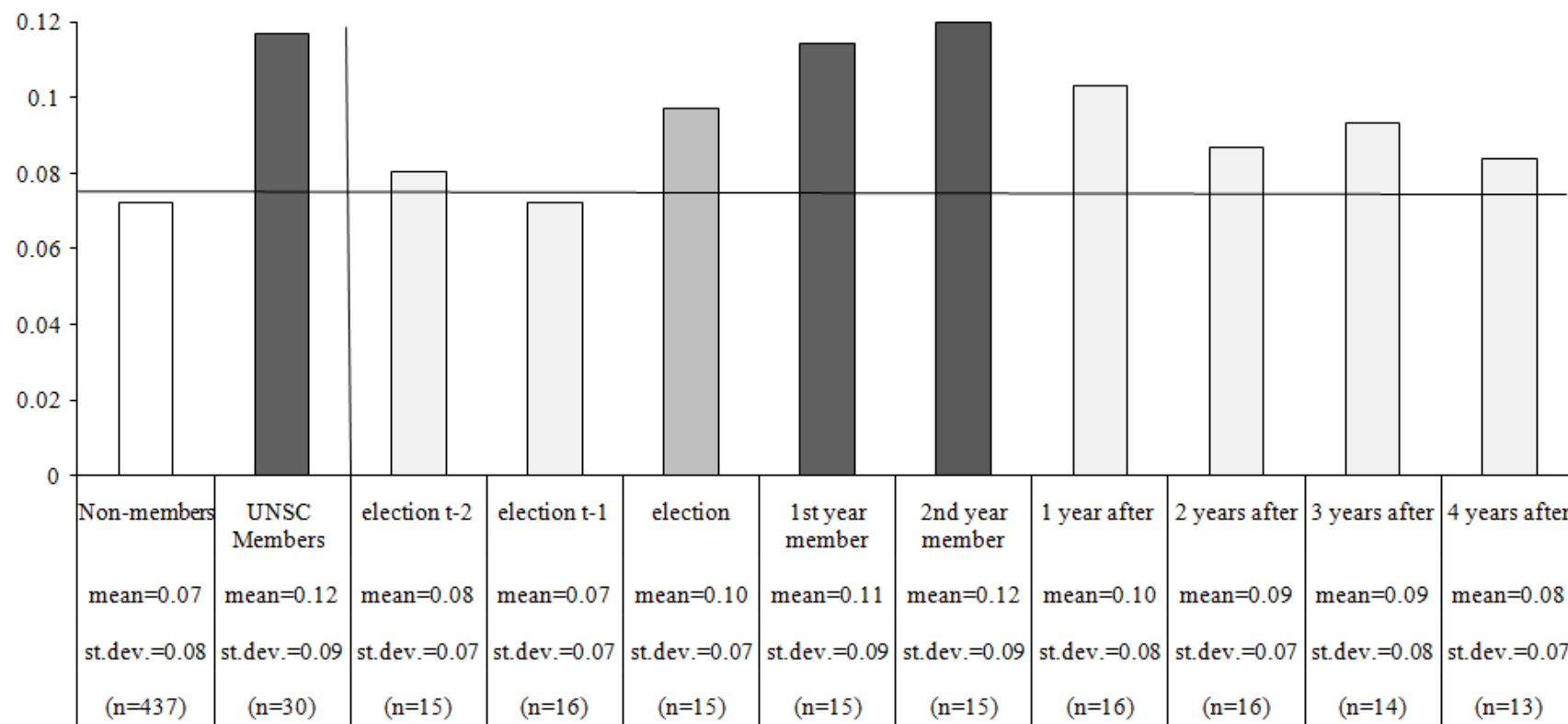
**Table 1: UNSC participation for the Asian Group**

<b>Country</b>	<b>Served on UNSC</b>	<b>Eligible for ADB lending</b>	<b>Non-UNSC Ave. ADB share</b>	<b>UNSC Ave. ADB share</b>	<b>Fits hypothesis?</b>
Japan	1958-9, 1966-7, 1971-2, 1975-6, 1981-2, 1987-8, 1992-3, 1997-8, 2005-06	No	n/a	n/a	n/a
<b>India</b>	<b>1950-1, 1967-8, 1972-3, 1977-8, 1984-5, 1991-2</b>	<b>After 1987</b>	<b>0.11</b>	<b>0.15</b>	<b>Yes</b>
<b>Pakistan</b>	<b>1952-3, 1968-9, 1976-7, 1983-4, 1993-4, 2003-04</b>	<b>Yes</b>	<b>0.14</b>	<b>0.15</b>	<b>Yes</b>
<b>Philippines</b>	<b>1957, 1963, 1980-1, 2004-05</b>	<b>Yes</b>	<b>0.10</b>	<b>0.18</b>	<b>Yes</b>
<b>Bangladesh</b>	<b>1979-80, 2000-01</b>	<b>Yes</b>	<b>0.078</b>	<b>0.084</b>	<b>Yes</b>
<b>Thailand</b>	<b>1985-6</b>	<b>Yes</b>	<b>0.09</b>	<b>0.12</b>	<b>Yes</b>
<b>S.Korea</b>	<b>1996-7</b>	<b>Yes</b>	<b>0.14</b>	<b>0.16</b>	<b>Yes</b>
<b>Malaysia</b>	<b>1965, 1989-90, 1999-2000</b>	<b>Yes</b>	<b>0.06</b>	<b>0.02</b>	<b>No</b>
<b>Nepal</b>	<b>1969-70, 1988-9</b>	<b>Yes</b>	<b>0.02</b>	<b>0.02</b>	<b>No</b>
<b>Indonesia</b>	<b>1973-4, 1995-6, 2007-08</b>	<b>Yes</b>	<b>0.16</b>	<b>0.15</b>	<b>No</b>
Syria	1947-8, 1970-1, 2002-03	No	n/a	n/a	n/a
Iraq	1957-8, 1974-5	No	n/a	n/a	n/a
Jordan	1965-6, 1982-3	No	n/a	n/a	n/a
Turkey	1951-2, 1954-5, 1961	No	n/a	n/a	n/a
Bahrain	1998-9	No	n/a	n/a	n/a
Iran	1955-6	No	n/a	n/a	n/a
Kuwait	1978-9	No	n/a	n/a	n/a
Lebanon	1953-4	No	n/a	n/a	n/a
Oman	1994-5	No	n/a	n/a	n/a
Qatar	2006-07	No	n/a	n/a	n/a
Singapore	2001-02	Yes	n/a	n/a	n/a
Sri Lanka	1960-1	Yes	n/a	n/a	n/a
U.A.Emirates	1986-7	No	n/a	n/a	n/a
Yemen	1990-1	No	n/a	n/a	n/a
Vietnam	2008-09	Yes	n/a	n/a	n/a

**Never members** (for those eligible for ADB lending, the average ADB share is 0.01; those not eligible are marked with \*): Afghanistan, Armenia, Azerbaijan, Bhutan, Brunei Darussalam, Cambodia, Cyprus\*, North Korea\*, Georgia, Israel\*, Kazakhstan, Kiribati, Kyrgyzstan, Laos, Maldives, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Palau, Papua New Guinea, Samoa, Saudi Arabia\*, Solomon Islands, Tajikistan, Timor-Leste, Tonga, Turkmenistan, Tuvalu, Uzbekistan, Vanuatu.

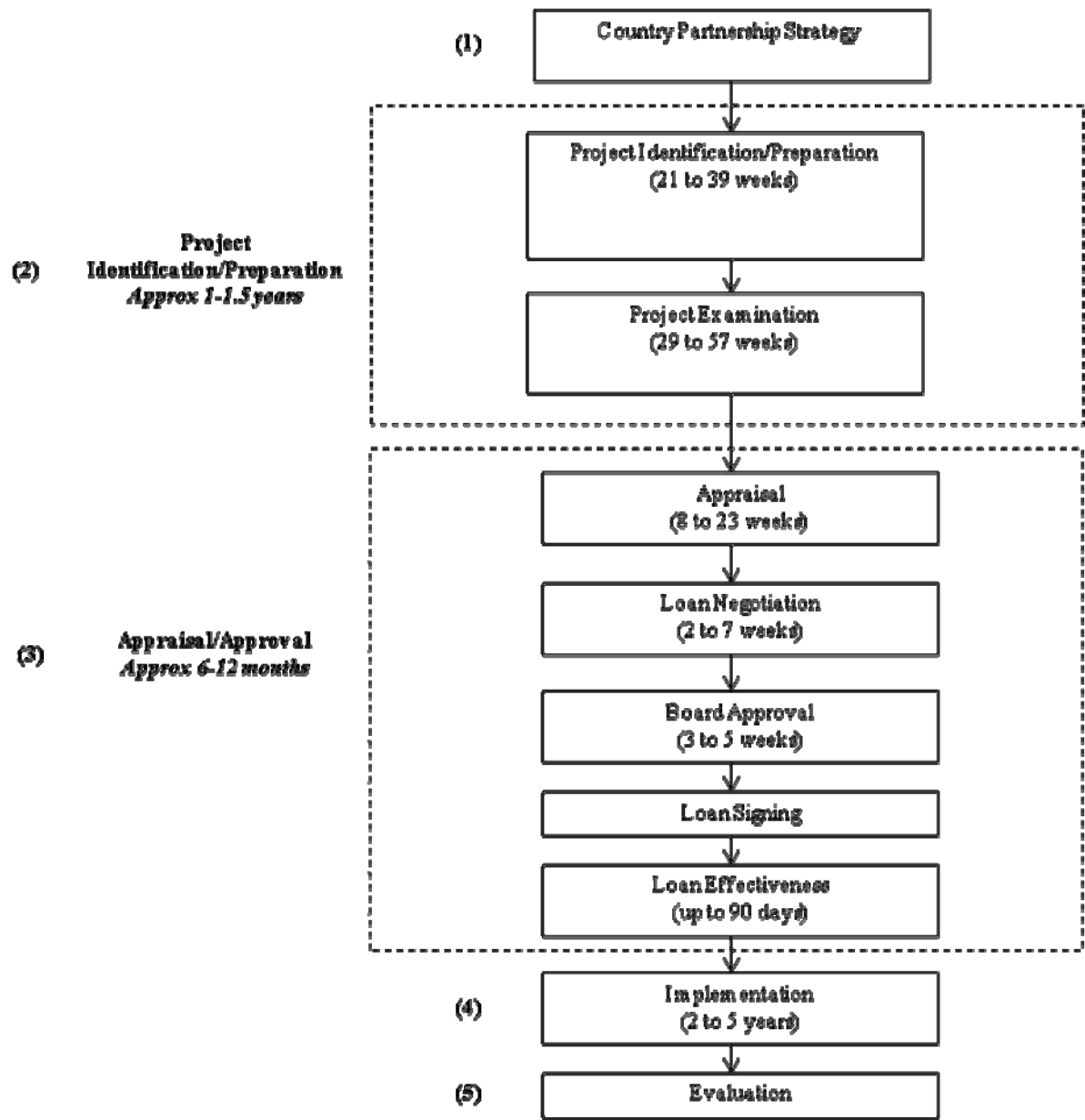
Sources: <http://www.un.org/sc/members.asp>, <http://www.adb.org/Documents/Manuals/Operations/OMA1.pdf>

**Figure 1: Allocation of ADB lending by UNSC membership over time**



Note: The horizontal line shows the mean share of ADB lending across the entire sample (0.075, n=467).

**Figure 2: ADB Project Lending Cycle**



Note: From initiation until disbursement takes approximately 1.5 to 2.5 years.



## *5.2 The selection problem*

Table 1 raises an obvious question: Who gets elected to the UNSC? Considering that large and strategically important countries like Japan, India, and Pakistan have been elected the most often, one might ask if perhaps important countries are both more likely to serve on the UNSC and to receive a larger share of loans from the ADB. If so, our analysis may suffer from a problem of non-random selection.

There are several reasons to believe that it does not. First, even if important countries are more likely to be selected, the United Nations observes strict two-year term limits so that the termination of UNSC participation is exogenously enforced. This also means that while reelection is influenced by a country's size, the timing of reelection remains idiosyncratic. Additionally, we control below for population in our analysis of ADB lending, and like Kilby, find that larger countries do not receive the largest allocation – instead, the effect of population follows an inverted U-shape for the share of ADB lending. The selection of populous countries onto the UNSC thus should not be reflected in more loans from the ADB.

Still, to address the possibility of a selection problem, we consider a propensity score matching approach suggested by Rosenbaum and Rubin (1983), using a Gaussian-Kernel

estimator suggested by Heckman et al. (1998).<sup>30</sup> Implementing the Gaussian-Kernel matching estimator consists of two steps.<sup>31</sup>

We first calculate the propensity score of UNSC membership. Estimating the propensity scores is not straightforward because country-year observations of UNSC and non-UNSC members are not independent. According to UN rules, only two countries may represent the Asian region each year. We thus use a conditional logit model to estimate the probability of UNSC membership conditioned on the fact that only two countries can be selected each year.

As determinants of UNSC membership, we include population share (proxy for country size) and the average monthly manpower provided by countries to UN peacekeeping missions (proxy for UN General Assembly norm of choosing countries committed to peace, from Heldt and Wallensteen 2006).<sup>32</sup> Some argue that only reliable predictors should be employed.<sup>33</sup> We

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<sup>30</sup> Following Bueno de Mesquita and Smith (2010), we initially tried a nearest-neighbor matching model (Abadie et al. 2001), but we only had one match (compared to Bueno de Mesquita and Smith's four). Furthermore, we decided to use propensity score matching since matching suffers from the well-documented dimensionality problem (Heckman et al. 1998).

<sup>31</sup> We use the `psmatch2` program by Leuven and Sianesi (2003). See Nichols (2007) for an excellent overview of causal inference in Stata. For an approach that explicitly combines matching with regression analysis see Imai and van Dyk (2004). Also see Smith and Todd (2005) and Dehejia (2005). For another method, see Ho, Kosuke, King, and Stuart (2007).

<sup>32</sup> Our choice of control variables for UNSC selection follows Dreher and Vreeland's (2010) study. Like them, we find selection onto the UNSC to be rather idiosyncratic. At least we find that prior share of ADB loans does not predict UNSC selection (See 2a, Column 1).

<sup>33</sup> See Hopkins and Simmons (2005) and Ho, Kosuke, King, and Stuart (2007).

find the effect of both controls to be positive and statistically significant at the 0.01 level (see Table 2a, column 2). We also tested other potential determinants including: a variable measuring length of time since last UNSC service, IMF program participation, World Bank programs, share of US loans, share of US grants, per capita income, civil war, international war, debt service, US voting in UN General Assembly, USSR/Russia voting in General Assembly, percent of the population that is Muslim, percent Catholic, a measure of shared regional ideology, British colonial legacy, and a Democracy indicator. None of these robustly predicts UNSC membership for the Asian region.

Next, we match each UNSC member against a non-UNSC member with a similar propensity score, and obtain 29 matches.<sup>34</sup> We then estimate the effect of UNSC membership on share of ADB loans received – the average effect of the treatment on the treated – by taking the

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<sup>34</sup> Our sample contained 30 treated observations and 437 untreated observations. We applied the Gaussian-Kernel estimator and selected a bandwidth parameter of 0.025. In other words, we defined the subset of control observations for each treated observation to be those untreated observations with a propensity score that fall within a 0.025 interval of the treated observation's propensity score. Consequently, we obtain 29 treated observations and 325 control observations. Each of these 29 treated observations was matched to at least one control observation, though Stata does not allow us to distinguish how many controls were matched to each of the 29 treated observations. One could say that we obtained 29 “composite” matches. Note that all the matches fulfill the common support assumption. Visual inspection of the distribution of the treated and untreated observations used in the analysis confirms that the sample is appropriately balanced. The figure, not included due to space constraints, is available on request and with the replication materials.

average difference across these matched observations. Using the parsimonious model of UNSC selection, we find that UNSC membership increases the share of ADB lending by about 0.032 (a relatively large effect considering the mean share is 0.075), an effect that is statistically significant at the 0.05 level (t-statistic=2.12). They are presented in Table 2b in bold. Using the full set of predictors, the estimated effect is similar (0.036, t-statistic=2.18). We also report the differences for the “unmatched” samples, which are larger, indicating that failing to account for systematic differences in the samples creates an upward bias for the effect of UNSC membership on ADB loan share.

Table 2c and 2d present diagnostics showing the balance of our samples with respect to the variables used to predict selection (for the parsimonious and full samples, respectively). The differences in means between the treated and control groups are statistically significant for the unmatched sample but statistically insignificant for the matched sample. The result from this balancing test indicates that we have successfully controlled for observable heterogeneity between the treated and untreated observations in our matched sample.

**Table 2: Results using Gaussian-Kernel propensity score matching estimator**

**a) Estimating the propensity of UNSC membership (conditional logit, conditioned on year)**

Variable	Significant predictors with lagged ADB Share	Only significant predictors	Full controls
ADB share (t-1)	1.81 (2.19)		3.937 (-2.711)
Population share (t-1)	5.02*** (1.44)	5.06*** (1.41)	8.925*** (-2.088)
Peacekeeping troops (log)	0.20*** (0.08)	0.21*** (0.07)	0.246*** (-0.091)
British colonial legacy			0.028 (-0.475)
Hostility level			-2.054** (-1.005)
IMF program participation			0.666 (-0.451)
GDP per capita			0.061 (-0.065)
One year after UNSC			-16.528 (-1798.744)
Two years after UNSC			-15.872 (-1950.61)
Number of observations:	388	401	376
Log likelihood:	-76.97	-77.65	-67.76
Pseudo R2:	0.12	0.12	0.20

**b) Comparison of mean ADB share (with and without propensity score matching):**

	Only significant predictors		Full controls	
	Unmatched sample:	Matched sample:	Unmatched sample:	Matched sample:
UNSC members	0.109	0.109	0.114	0.113
non-UNSC members	0.066	0.078	0.066	0.077
Difference	0.044	<b>0.032</b>	0.048	<b>0.036</b>
(std. error)	0.014	<b>0.015</b>	0.014	<b>0.016</b>
t-statistic	3.21***	<b>2.12**</b>	3.47***	<b>2.18**</b>

**c) Balancing test for matching variables: Only significant predictors (325 untreated, 29 treated)**

		Mean UNSC obs.	Mean non-UNSC	t-statistic	p-value
Population share (t-1)	Unmatched sample:	0.051	0.028	1.96**	0.05
	Matched sample:	0.051	0.044	0.30	0.76
Peacekeeping troops (log)	Unmatched sample:	3.80	2.01	3.26***	0.00
	Matched sample:	3.80	2.52	1.52	0.13

**d) Balancing test for matching variables: Full controls (308 untreated, 28 treated – 1 treated off support)**

		Mean UNSC obs.	Mean non-UNSC	t-statistic
ADB share (t-1)	Unmatched sample:	0.097	0.068	2.09**
	Matched sample:	0.094	0.077	0.88
Population share (t-1)	Unmatched sample:	0.052	0.028	1.96**
	Matched sample:	0.042	0.05	-0.35
Peacekeeping troops (log)	Unmatched sample:	3.31	1.95	2.38***
	Matched sample:	3.32	2.47	1.01
British colonial legacy	Unmatched sample:	0.429	0.481	-0.53
	Matched sample:	0.407	0.488	-0.58
Hostility level	Unmatched sample:	0.036	0.065	-0.61
	Matched sample:	0.037	0.045	-0.14
IMF program participation	Unmatched sample:	0.464	0.429	0.36
	Matched sample:	0.444	0.421	0.17
GDP per capita	Unmatched sample:	3.58	3.39	0.36
	Matched sample:	3.65	3.26	0.44
One year after UNSC	Unmatched sample:	0	0.292	-0.92
	Matched sample:	0	0.004	-0.33
Two years after UNSC	Unmatched sample:	0	0.036	-1.02
	Matched sample:	0	0.005	-0.36

### *5.3 Regression analysis*

We now turn to testing our hypothesis using regression analysis. We start with a simple bivariate ordinary least squares (OLS) estimator, regressing shares of ADB loans on UNSC membership. We then introduce fixed effects for year and for the various regions of Asia (East, Central and West, Pacific, Southeast, and South). After that, we introduce fixed effects for both country and year. Finally, we extend the country and year fixed effects specification to correct for first-order autoregressive error components. Our motivation for doing so derives from Kilby (2006), who posited two reasons for expecting autocorrelation among the error terms: (1) the gradual and phased timing of loan disbursements render them susceptible to autocorrelation; (2) institutional inertia generated by annual budgeting and defensive lending (see Devarajan et al. 1999, Birdsall et al. 2002, Marchesi 2003, and Marchesi and Missale 2004).

We include as control variables all of the factors that Kilby (2006) finds to be statistically significant determinants of ADB lending – either for the decision to allocate any funds to a country or for the share of ADB lending going to a country. Descriptive statistics and data sources are reported in the appendix. One of Kilby’s strongest findings is that a country’s share of Japanese foreign aid positively and significantly predicts the share of ADB loans that it receives. In contrast, the share of US foreign aid does not predict the share of ADB lending, though it does positively influence the binary decision to allocate ADB funds to a country. Since donor countries typically channel bilateral aid to strategically important countries, Kilby’s findings provide evidence that the ADB allocates loans along the strategic preferences of Japan and the United States. The share of world exports entering a country is also found to have a positive effect on the binary decision to lend, while the share of world imports has a positive effect on the share of ADB lending. These findings imply that countries important to global

economic activity receive more attention from the ADB. The share of Japanese imports from a country further predicts the decision to lend (share of Japanese exports to a country does not have a statistically significant effect).<sup>35</sup> Kilby also finds, strangely, that the share of US exports to the country has a negative effect on the decision to lend (share of US imports has no statistically significant effect).<sup>36</sup> Beyond these measures of the strategic and economic importance of ADB loan recipients, Kilby finds that population has an inverted U-shaped effect on ADB loan allocation. He also finds that per capita income has a negative effect – poorer countries receive larger allocations. Democracy does not have a statistically significant impact on share of ADB lending, though it has a positive and statistically significant effect on the binary decision to lend.

Our OLS analysis (table 3, column 3), broadly confirms the effects of these control variables. When we introduce fixed country effects and control for autocorrelation (table 3, columns 4 and 5, respectively), the statistical significance of most of the coefficients drops.

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<sup>35</sup> Note that bilateral trade flows capture both economic interest and security concerns. Gowa and Mansfield (1993) find that political-military alliances significantly influence bilateral trade intensity, and that this effect is strongest in bipolar systems.

<sup>36</sup> We consider imports and exports separately following Kilby's (2006) work, although it may be better to combine imports and exports into one trade variable, following Kilby (2010), because the two components are typically highly correlated. Our core results are unchanged when we do this (results are available in the replication materials).



Additionally, we find that the effect of democracy is surprisingly negative.<sup>37</sup> The most robust effect of the control variables – and the most important for our paper – is that of Japanese foreign aid. It is positive and statistically significant throughout, indicating the important of Japanese political influence over the ADB.<sup>38</sup>

Turning to our independent variable of interest, UNSC membership is positive and significant across all specifications at the 0.10 level of significance or better. Our preferred specification is the most conservative (table 3, column 5), where we control for country and year fixed effects, autocorrelation in the error term, and all control variables. We estimate that the effect of UNSC membership is to increase a country’s share of ADB lending by 1.8 percentage points, and we can say with 90 percent confidence that the true effect is between 0.2 and 3.3 percentage points. Considering that the average share of ADB lending is 7.5 percent, our point estimate of 1.8 represents an increase of nearly 25 percent.

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<sup>37</sup> This effect is not robust, however, to other measures of democracy. When we include the Cheibub et al. (2010) measure of democracy, the coefficient is positive and not statistically significant (results available on request).

<sup>38</sup> Kilby (2006) convincingly shows that Japanese aid does not simply proxy for economic need, by including a variable measuring the aid provided by “small donors,” that are well known to disburse aid on a need-basis. When we include this variable, our core results are unchanged (results available in the replication materials).

**Table 3: The effect of UNSC membership on share of annual ADB lending**

	(1)	(2)	(3)	(4)	(5)
	OLS	OLS	OLS	Fixed country effects	Fixed country effects with AR(1)
UNSC	0.045*** (0.015)	0.039*** (0.014)	0.022* (0.011)	0.021* (0.011)	0.018* (0.010)
Japan aid share			0.322*** (0.064)	0.329*** (0.075)	0.165** (0.074)
US aid share			0.159*** (0.048)	0.052 (0.051)	-0.023 (0.050)
World exports			0.773*** (0.233)	0.507 (0.379)	-0.186 (0.413)
World imports			0.102 (0.214)	-0.077 (0.273)	0.289 (0.427)
Japan imports			-0.148 (0.111)	0.074 (0.143)	-0.235 (0.240)
US exports			-0.343** (0.151)	-0.894*** (0.252)	-0.009 (0.296)
Population			1.308*** (0.226)	4.464 (3.190)	8.300 (5.394)
Population-squared			-3.857*** (0.595)	-11.926** (4.699)	-15.338** (7.635)
GDP/capita			-0.007*** (0.002)	-0.007** (0.003)	-0.007 (0.005)
Polity			-0.0001 (0.001)	-0.002*** (0.001)	-0.002* (0.001)
Constant	0.072*** (0.004)	0.116*** (0.034)	0.172*** (0.033)	0.074 (0.106)	-0.205*** (0.079)
Asian-Region fixed effects	NO	YES	YES	NO	NO
Country fixed effects	NO	NO	NO	YES	YES
Year fixed effects	NO	YES	YES	YES	YES
Number of observations	467	467	467	467	443
Number of countries	n/a	n/a	n/a	24	23
(Adjusted) R2	0.02	0.16	0.48	0.15	0.20

**Table 4: The Impact of UNSC membership on Share of ADB Loans Allocated Over Time**

	(1) OLS	(2) Fixed country effects with AR(1)	(3) Fixed country effects with AR(1)
UNSC member (2 years before election)	0.012 (0.021)	-0.014 (0.013)	
UNSC member (1 year before election)	0.004 (0.020)	-0.035** (0.015)	-0.023** (0.010)
UNSC member (election year)	0.029 (0.021)	-0.010 (0.016)	
UNSC member (1st year)	0.046** (0.021)	-0.003 (0.016)	
UNSC member (2nd year)	0.051** (0.021)	0.03* (0.016)	0.031*** (0.011)
UNSC member (1 year after)	0.034* (0.020)	0.000 (0.015)	
UNSC member (2 years after)	0.018 (0.020)	-0.014 (0.014)	
Japan aid share		0.196** (0.076)	0.166** (0.072)
US aid share		-0.020 (0.050)	
World exports		-0.134 (0.410)	
World imports		0.217 (0.423)	
Japan imports		-0.213 (0.237)	
US exports		-0.068 (0.294)	
Population		9.398* (5.365)	11.502** (5.368)
Population-squared		-17.099** (7.644)	-17.426** (7.554)
GDP/capita		-0.005 (0.005)	
Polity		-0.002* (0.001)	-0.002* (0.001)
Constant	0.069** (0.004)	-0.248*** (0.079)	-0.341*** (0.072)
Country fixed effects	NO	YES	YES
Number of observations	467	443	443
Number of countries		23	23
(Adjusted) R2	0.016	0.194	0.154

#### *5.4 Participation over time*

Next, we extend our analysis following UNSC membership over time, as depicted in Figure 1. We include separate indicator-variables for: the first and second years before UNSC election, the year of UNSC election, the first and second years of actual UNSC membership, and the first and second years following UNSC membership. First we analyze the effects of these variables by themselves in an OLS model, then we introduce country and year fixed effects, our control variables, and control for autocorrelation of the error term. Finally, we analyze this model again, dropping the variables that are not statistically significant at conventional levels. Table 4 presents the results.

The pattern that emerges from this analysis broadly confirms the pattern in Figure 1, as well as our understanding of the ADB project lending cycle, which we discussed in section 5.1. The most robust effect is that of the second year of UNSC membership. We suspect that this is because of the time required to prepare an ADB project. Note that in the more efficient model, where we drop the independent variables that are not statistically significant at conventional levels, the effect of the second year of UNSC membership is statistically significant at the 0.05 level. The point estimate of the effect is 3.2 percentage points, and we can say with 95 percent confidence that the effect is between 0.7 and 5.6 percentage points.

Of further interest is the statistically significant effect that we detect one year before election to the UNSC. This effect is unexpected, and we find it strange. Countries that eventually get elected to the UNSC receive smaller shares of ADB loans in the year before they run for election. We doubt that the ADB anticipates which countries will be elected and systematically lowers their share of lending. Rather, we suspect that countries suffering from a lack of international attention may be systematically more likely to run for UNSC election – that said,

we did not detect such an effect in our analysis of the determinants of UNSC selection (Table 2 above). We are reassured by this finding, however, that it is not countries generally preferred by the ADB that are elected to the UNSC. If this were the case, we would not expect differences in the coefficients of UNSC membership over time – and we certainly would not find negative effects, as we do for the year before election.

### *5.5 Japan*

Does the United States or Japan exert greater political influence at the ADB? Note that the United States and Japan may tend to agree on the political importance of UNSC members and thus coordinate their political pressure. In a cursory review of 274 resolutions passed by the UNSC when Japan served with ADB-eligible countries, the United States and Japan never voted against each other, although Japan voted for four resolutions where the United States abstained.

Still, it is striking that while the effect of Japanese bilateral aid on ADB lending is so robust, we do not detect a similar effect for US bilateral aid on ADB lending (also see Kilby 2006). As explained in Section 4, the United States is the top vote-holder at more powerful international institutions – the IMF and the World Bank – and thus may expend its efforts there, while Japan enjoys supremacy only at the ADB. As the ADB President also comes from the Japanese Ministry of Finance (MOF), Japan is in a particularly strong position to exert influence. Recall that the causal mechanism we propose is circuitous: to win favor with countries on the UNSC, the Japanese MOFA must petition the Japanese MOF to use its power at the ADB. The MOFA may only be willing to expend such political capital when it has an active UNSC agenda – that is, when its representatives currently serve on the UNSC.

To test this, we decompose our independent variable of interest into two separate variables: UNSC membership while Japan is also a member, and UNSC membership when Japan is not. For the former, we have but six country-year observations, which derive from the five countries – India, Nepal, Pakistan, Philippines, and South Korea – that have served together with Japan on the UNSC. Note that the UNSC terms for these five countries partially overlap with those of Japan’s, such that Japan serves only one year out of its two-year term with each of them. The Philippines (1981), Nepal (1988), India (1972), and South Korea (1997) have each served with Japan on one occasion, whereas Pakistan (1976, 1993) has served with Japan during two different UNSC terms.<sup>39</sup> The dearth in the number of observations and the fact that each country serves with Japan for only a one-year window present us with a hard test case. We therefore consider the results suggestive at best.

We begin by presenting the descriptive evidence (Figure 3). We then analyze the same set of econometric regressions that we did above (Table 5).

Figure 3 shows that while the average share of ADB lending to countries not on the UNSC is about 7 percent, it is about 11 percent for UNSC members not serving with Japan on the UNSC, and nearly 16 percent for countries serving with Japan on the UNSC. For the subset of developing member-countries that served with Japan on the UNSC, the average share of ADB lending received is about 10 percent two years prior to service and 12 percent one year prior to service. The share is about 15 percent the year after service, and drops to less than 11 percent the

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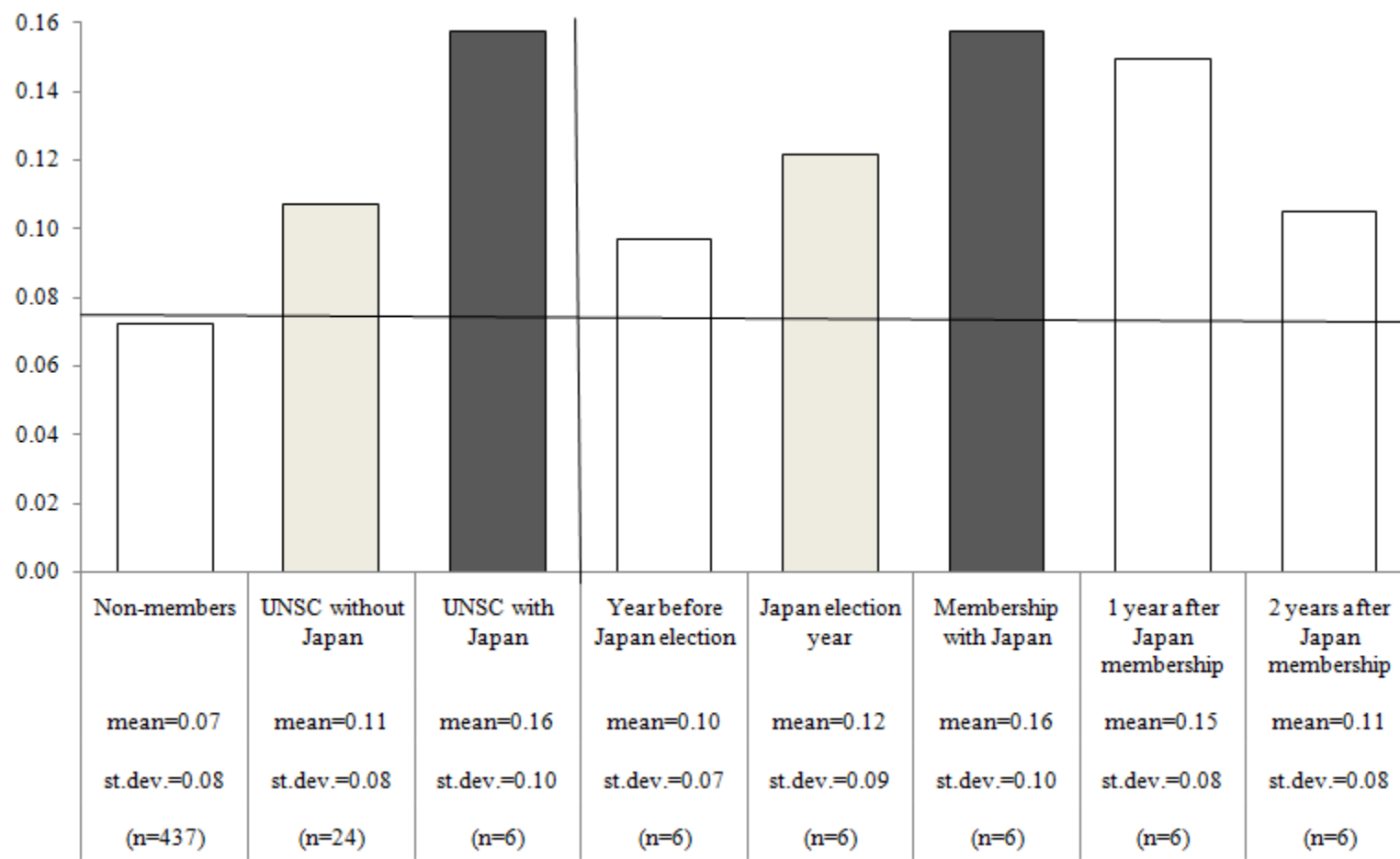
<sup>39</sup> India also served with Japan in 1972, but, at that time, India was not eligible for ADB loans due to Japanese concerns that India’s size and the extent of its poverty would lead it to “consume too large a share of the institution’s resources and, in a sense, dominate the institution (Kilby 2006).” See also Withol (1988).

year after. Figure 3 also makes clear that our evidence is driven by a few observations – our regression analysis is thus highly tentative at best.

Table 5 shows that the effect of UNSC membership with Japan is positive and statistically significant at the 0.05 level or better. The effect holds in the presence of year and region fixed effects, year and country fixed effects, and controlling for first-order autocorrelation of the error term with country and year fixed effects. Note that all these regressions include our set of control variables. The effect of UNSC membership without Japan is not robustly statistically-significant at conventional levels. We should note, however, that these results are sensitive to the presence of outliers. The prominent outlier that is dropped is South Korea 1997, where the East Asian Financial Crisis loomed large. If we trim the upper and lower bounds of the distribution of ADB lending, the significance switches – UNSC membership with Japan is no longer statistically significant, while UNSC membership without Japan is statistically significant. The latter is consistent with the robustness of the overall results presented in section 5.3 above. As for the loss of significance when we drop observations here, considering that we began this analysis with only six observations of UNSC members participating with Japan, we are not surprised that the result does not hold when we drop even one additional observation in the tail of the distribution.

Though history has yet to provide us with ample data, our results suggest that the effect of UNSC membership on ADB lending to developing member-countries may be influenced more when Japan is a member of the UNSC than when it is not. Considering that the United States is a permanent and consistently active member of the UNSC, we take this as preliminary evidence that political pressure on the ADB to assist UNSC members may come more systematically from Japan.

**Figure 3: Allocation of ADB lending by UNSC membership – with and without Japan on the UNSC**



Note: The horizontal line shows the mean share of ADB lending across the entire sample (0.07, n=467).



**Table 5: The effect of UNSC membership – with and without Japan – on ADB lending**

	(1)	(2)	(3)	(4)	(5)
	OLS	OLS	OLS	Fixed country effects	Fixed country effects with AR(1)
UNSC with Japan	0.085*** (0.032)	0.081*** (0.031)	0.079*** (0.025)	0.081*** (0.023)	0.036** (0.017)
UNSC without Japan	0.035** (0.017)	0.028** (0.016)	0.007 (0.013)	0.006 (0.012)	0.013 (0.011)
Japan aid share			0.332*** (0.064)	0.334*** (0.074)	0.169** (0.074)
US aid share			0.156*** (0.047)	0.050 (0.051)	-0.027 (0.050)
World exports			0.803*** (0.232)	0.537 (0.376)	-0.162 (0.413)
World imports			0.112 (0.213)	-0.106 (0.271)	0.264 (0.425)
Japan imports			-0.156 (0.111)	0.077 (0.141)	-0.225 (0.239)
US exports			-0.365** (0.151)	-0.889*** (0.250)	-0.026 (0.295)
Population			1.312*** (0.224)	4.670 (3.162)	8.225 (5.348)
Population-squared			- (0.591)	- (4.658)	- (7.577)
GDP/capita			0.007*** (0.002)	-0.008** (0.003)	-0.007 (0.005)
Polity			-0.0002 (0.001)	-0.002*** (0.001)	-0.002* (0.001)
Constant	0.072*** (0.004)	0.119*** (0.034)	0.174*** (0.033)	0.071 (0.105)	-0.202** (0.079)
Asian-Region fixed effects	NO	YES	YES	NO	NO
Country fixed effects	NO	NO	NO	YES	YES
Year fixed effects	NO	YES	YES	YES	YES
Number of observations	467	467	467	467	443
Number of countries	n/a	n/a	n/a	24	23
(Adjusted) R2	0.019	0.164	0.491	0.163	0.201

## 6. Conclusion

Our main results show that when a developing country rises to political prominence by being elected to the UN Security Council, its share of loans from the Asian Development Bank increases by about two percentage points. As ADB projects take some time to be put together, the effect during the second year of the two-year UNSC term is stronger: share of ADB loans increases by three percentage points. This effect may be as high as four percentage points if a country happens to be serving when Japan is also a UNSC member. Considering that the average share of ADB lending for a typical country is about 7.5 percent, these effects are substantial – increasing a country’s share by upwards of 25 percent of what it would obtain in the absence of UNSC membership. We take this as evidence that the major vote-holders at the ADB – mainly Japan – use their leverage over it to influence the UNSC’s voting patterns.

It is difficult to know the effectiveness of this vote-buying strategy – we do not know what the counterfactual world with no political manipulation would look like. But we can at least report that Asian countries have never voted against Japan in the 274 resolutions passed during their period of concurrent service on the UNSC. Asian countries have abstained on a resolution supported by Japan only eight times, and voted for a resolution where Japan abstained twice. Larger countries Pakistan (1976, 1993) and India (1992) – which may be more difficult to influence – comprise these exceptions. The others – Philippines (1981), Nepal (1988), and South Korea (1997) – voted with Japan one hundred percent of the time. Interestingly, while these Asian countries collectively voted with Japan 96 percent of the time, on these same resolutions, they voted slightly less often with the United States (94 percent of the time). Of course, there is massive selection bias in what resolutions go forward at the UNSC, and, moreover, Asian

countries sometimes vote together out of shared regional interests – so this evidence should be taken as purely suggestive.

The United States has traditionally played the role of “system maker and privilege taker” – its role as creator, maintainer, and defender of the liberal economic order has allowed it to avoid costly economic adjustments at the expense of other countries (Mastanduno 2009). Most countries stuck with this arrangement because the United States was all-powerful; it took what it could, while they suffered what they had to. This implicit bargain may unravel as US relative power continues to decline. The recent proliferation of regional initiatives and the growing number of regional organizations reflect this shift in the locus of global governance. Regional organizational structures accord emerging market countries a greater and more representative share of voting power, and thus may possess greater legitimacy vis-à-vis their global counterparts (see, Lipsky 2006). They are generally perceived as better than global organizations in safeguarding developing country interests.

A move from global institutions to regional ones does not, however, circumvent the fundamental issue of political manipulation. It is likely that where global hegemony like the United States once reigned supreme within global organizations, regional hegemony will eventually rise to take their place in an increasingly multi-polar world, dominating regional organizations. This political manipulation may not be a bad thing. For, a world without politically manipulated international organizations might be a world without any organizations at all, and thus less international cooperation. Political manipulation may thus be something the world must live with in order to have forums for coordination to address issues that cross borders. And it may be appropriate to see the rise of regional hegemony taking their place as the principal manipulators in a multi-polar world. So, in closing, we emphasize the importance of

understanding that political manipulation is likely to continue even if global power becomes decentralized along regional lines. The change will be a shift in hegemons, from global to regional. It is, thus, no wonder that rising powers, notably China, are investing in regional organizations as a solution to what they perceive to be the failures of global alternatives.

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## Appendix: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max	Unit	Original source	# of obs.
ADB share	0.075	0.080	0.0001	0.52	Share	OECD Development Assistance Committee (2004)*	467
UNSC	0.064	0.245	0	1	Binary	<a href="http://www.un.org/sc/members.asp">http://www.un.org/sc/members.asp</a>	467
UNSC-Japan	0.013	0.113	0	1	Binary	<a href="http://www.un.org/sc/members.asp">http://www.un.org/sc/members.asp</a>	467
UNSC-No Japan	0.051	0.221	0	1	Binary	<a href="http://www.un.org/sc/members.asp">http://www.un.org/sc/members.asp</a>	467
Population (t-1)	0.044	0.094	0.0002	0.43	Share	Heston et al. (2002), World Bank (2004)*	467
Peacekeeping troops	2.094	2.910	0	8.98	Log	Heldt and Wallenstein (2006)	455
Japan aid share	0.067	0.074	0	0.34	Share	OECD Development Assistance Committee (2004)*	467
US aid share	0.064	0.079	0	0.39	Share	OECD Development Assistance Committee (2004)*	467
World exports (t-2)	0.053	0.058	0	0.33	Share	International Monetary Fund (2004)*	467
World imports (t-2)	0.053	0.066	0	0.41	Share	International Monetary Fund (2004)*	467
Japan imports (t-2)	0.059	0.086	0	0.44	Share	International Monetary Fund (2004)*	467
US exports (t-2)	0.051	0.065	0	0.30	Share	International Monetary Fund (2004)*	467
GDP/capita (t-1)	3.262	2.606	0.41	14.79	\$000 PPP 1996	Heston et al. (2002), World Bank (2004)*	467
Polity (t-1)	0.698	6.509	-9	10	-10 to 10	Marshall and Jaggers (2000)*	467
East Asia	0.131	0.337	0	1	Binary	<a href="http://www.adb.org/Countries/default.asp">http://www.adb.org/Countries/default.asp</a>	467
Central & Western Asia	0.113	0.318	0	1	Binary	<a href="http://www.adb.org/Countries/default.asp">http://www.adb.org/Countries/default.asp</a>	467
Pacific Islands	0.113	0.318	0	1	Binary	<a href="http://www.adb.org/Countries/default.asp">http://www.adb.org/Countries/default.asp</a>	467
Southeast Asia	0.396	0.490	0	1	Binary	<a href="http://www.adb.org/Countries/default.asp">http://www.adb.org/Countries/default.asp</a>	467
South Asia	0.246	0.431	0	1	Binary	<a href="http://www.adb.org/Countries/default.asp">http://www.adb.org/Countries/default.asp</a>	467

\*Taken from Kilby (2006)