

Do Better Political Relations with the USA Improve A Country's Economic Outlook?

A. NAJAFI, A. ARIDI and H. ASKARI¹

Relations between countries rarely remain static. Even US-Western European relations, which could be generally classified as excellent and stable, have had their ups and downs since WWII, such as with France during the presidency of General Charles De Gaulle and again with France in the run-up to the invasion of Iraq. For developing countries looking for financial assistance, technology, and markets for their exports, relations with the USA could be considered as helpful in their quest for faster development and growth. Does an improvement or deterioration in political and diplomatic relations of developing countries with the USA bring significant economic and financial benefits or costs, in areas such as, trade, investments, remittances, and aid? Is there an impact on arms imports from the USA and on immigration and student flows to the USA?

There is little systematic evidence on how changed political relations of a country with other countries, in our case the USA, affects a country's economic conditions.² In this short paper, our goal is thus limited to identifying general patterns, if any, in economic and financial conditions following improved or damaged political relations with the USA. In other words, we hope to provide a very preliminary answer to the question:

¹ The authors are at respectively at the George Washington University, the World Bank, and at the George Washington University, E-mail: Askari@gwu.edu.

² While there is an extensive literature on economic sanctions (for instance see Hufbauer *et al.*, 2007, and Askari *et al.*, 2003), sanctions are targeted at specific economic and financial flows that they may be expected to impact. These studies examine the economic impact of sanctions to assess whether sanctions have affected the targeted variable(s), achieved their goal of changing the sanctioned country's objectionable policies and at what cost to the sanctioned (target) and sanctioning (sender) country? Changed political relations are broader and may not include sanctions or specific economic targets. For instance, in the case of a total embargo, direct trade is assumed to go to zero, but changed political relations may or may not affect trade.

Should countries strive to develop better political relations with the USA with the expectation of reaping economic and financial benefits? There is also an additional dimension: should variables that capture international political relations be included in models for estimating trade flows, capital flows and the like?

1. Economic Dimensions of Political Relations

While there is extensive theoretical and empirical literature on many dimensions of international economic relations, such as trade and capital flows, foreign aid, and economic sanctions, there is little empirical work on the impact of changed political relations between countries on these same variables.

A main pillar of political economy is that additional resources, or a stronger economy, increases a country's national power on the global scene. The more resources countries have and the stronger are their economies, the more influence they can potentially assert on the international stage. Since WWII, the United States has been arguably the country with the most significant economic resources at its disposal to influence and shape world politics and international relations. As a result, relations of countries with the USA may matter, and for most countries this relation may matter more than relations with other countries.

On the international level, the flows of trade, capital (including foreign direct investment), and aid are the most frequently studied in global political relations. *Trade and Capital flows* are important factors shaping international relations between countries because they affect economic development, resource transfer, job creation, and knowledge transfer. Although most international trade and capital flows are carried out by the private sector, political leaders have a major stake in directing their national trade and international capital flows. Sanctions, which are targeted, to specific variables, could limit or restrict the flow of goods and private investments, such as the sanctions on Iran and Libya under the Iran-Libya Sanctions Act (ILSA) of 1996.

Political relations shape *foreign aid*. Aid could be channeled in different forms: loans, grants, humanitarian, technical, economic, and military assistance, and through multilateral or bilateral channels. Regardless of its form, foreign aid serves the political interest of the donor, which invariably reduces the benefits for the recipient. Cibian (2008) has emphasized the importance of adopting an international relations perspective when analyzing development aid. He argues that several of the major problematic issues that face development aid today "rest on International Relations grounds." It is also important to recognize that even on the level of multilateral aid, handled by international organizations such as the World Bank, the rich countries play an influential role in directing and orienting aid programs.

On the level of *political resources*, war, sanctions, arms exports, migration, and international status are all means commonly manipulated on the global stage to serve economic or political agendas. *Sanctions* affect bilateral interactions and are intended to change the policies of those in power. The USA is the main purveyor of unilateral economic sanctions because of its economic power and the resources at its disposal. Sanctions are highly problematic and could even lead to perverse effects of strengthening rather than weakening the ruling elites (Fukuda-Parr, 2006). *Arms exports* have a multitude of effects on recipient countries, most of which are economically deleterious.

Migration or *travel facilitation or restrictions* are political resources that have been increasingly utilized, especially after September 11, 2001. Developed countries, fully aware of their status as a major attraction and destination for those living in developing countries, craft their emigration policies to serve both political and economic ends. The *international status* or level of engagement of countries in international agreements, international organizations, or diplomatic relations is a political resource that is also affected by economic resources. It is apparent that wealthy countries are more involved in international agreements and cooperation than poor countries because of their more abundant economic resources.

In our limited study, we try to understand how diplomatic relations of countries with the USA affects their access to economic resources? Answering this question is important for countries that are considering

improving their ties with the USA as well as for countries that have maintained close relations with the USA. What are the benefits of improvement in relations and what are the costs of deterioration? If work in this area is refined and continues, it may provide useful new ideas for policymakers in developing international political relations (affording insight into their economic impact) and for economists (in developing more comprehensive models of trade, capital flows, emigration and the like).

2. Methodology

To assess the implications of changes in diplomatic relations, we selected countries whose relations with the USA have changed sharply, for better or for worse, after an identifiable event or milestone. We have excluded Western Europe due to its special and historic relationship with the USA. We also excluded a number of Eastern European countries that emerged after the dissolution of the Soviet Union because of the unavailability of economic data prior to their creation as separate countries. A number of countries had to be dropped from our sample because of the lack of data during the selected event period. Finally, we excluded events where a total trade or investment embargo was imposed by the USA (as by definition, 'direct' trade and capital flows with the USA would go to zero) or multilateral sanctions were imposed (as this changes the nature of a country's global relations, such as Iran). After all of these considerations, our sample was limited to twenty-five countries. These selected countries and the corresponding events are listed in Table 1 and Table 2.

Although the identified events represent a significant change in diplomatic relations between the USA and the countries, we recognize that some events were significantly more important than others. However, in this preliminary study we could not identify a simple and quick criterion that would capture the severity of the event and allow us to rate it; say on a simple scale of 1 to 5. This shortcoming should be addressed in future research. The events that we believe contributed to improved

relations included lifting partial sanctions, restoring diplomatic relations, signing new agreements, changing regimes, and also adopting favorable policies. The opposite of these events were defined as deterioration in relations. We limited the time frame for selected events to the last twenty-five years to increase the likelihood of data availability.

Table 1 – *Countries that improved their relationship with the USA and the associated event/policy milestone*

Country	Event
<i>Africa</i>	
1 Algeria	Election of Bouteflika in July 2001
2 Nigeria	The ascendance of Obasanjo in 1999
3.South Africa	The abolition of Apartheid in 1994
<i>Latin America</i>	
4 Brazil	President Cardoso taking office 1995-2003
5 Colombia	President Bush expanding Plan Colombia in May 2001
<i>Asia</i>	
6 Cambodia	USA lifted its embargo in 1992 normalizing economic relations
7 India	Liberalization of the economy and the fall of Soviet Union in 1991
8 Pakistan	The September 11, 2001 attacks led to rapprochement with Pakistan
9 Vietnam	Normalization of diplomatic relations in 1995
10 Bangladesh	The end of dictatorial rule in 1991
11 Kazakhstan	The September 11, 2001 attacks led to rapprochement policy with Kazakhstan
<i>Middle East</i>	
12 Jordan	After the September 11, 2001 attacks Jordan became a major ally in the "War on Terror"
13 Yemen	After the bombing of USS Cole in 2000 and the 9/11 attacks Yemen turned to be an important US partner in the "War on Terror"
<i>Eastern Europe</i>	
14 Serbia	The overthrow of Milosevic government in 2000
15 Poland	The Collapse of the communist government in 1989
16 Romania	Congress' restoration of most favored nation status to Romania in 1993

Table 2 – *Countries that experienced deteriorating relations with the USA and the associated event/policy milestone*

Country	Event
<i>Africa</i>	
1 Nigeria	General Abacha's take over and nullification of the presidential election in June, 1993
2 Sudan	Severe deterioration after October, 1997 when the USA imposed comprehensive economic, trade, and financial sanctions
3 Zimbabwe	The March 2002 presidential elections
<i>Latin America</i>	
4 Venezuela	The failed coup attempt against President Chavez in 2002
<i>Asia</i>	
5 Cambodia	1997 fighting and Hun Sen attempt to depose First Prime Minister Ranariddh
6 Indonesia	The 1999 violence in East Timor after the referendum favoring separation
7 Uzbekistan	After the Color revolutions in Ukraine and Georgia in 2003 and 2005 the government sought to limit US influence
<i>Middle East</i>	
8 Yemen	As a result of Yemen's tilt towards Iraq when Saddam invaded Kuwait in 1990
<i>Eastern Europe</i>	
9 Belarus	The 2004 US Belarus Democracy Act

We chose a set of economic indices that reflect economic ties between a developing country and the United States: total trade, imports, and exports to and from the USA, capital outflows from the USA to the country, both economic and military assistance (separately) provided by the USA, flow of students to the USA, US arms export to each country, and military expenditures relative to the country's GDP. Although we wanted to include other indices such as remittances, tourist flows and their expenditures, and capital outflows broken down by FDI and portfolio, we were limited by data availability for all or the majority of

the countries selected.³ We monitored the selected variables for five years before and for five years after a specific event that led to an improvement or deterioration in diplomatic relations with the USA. We believe that the five-year period is the appropriate time span to capture the effects of the event while limiting the effect of fluctuations due to other driving factors (and to meet the minimum number of data required to apply the Mann-Whitney U-test technique, discussed below). We tried to assess the significance of the change in each economic variable after improved, or damaged, relations with the USA.

Our data was derived from a number of different sources: the World Bank's World Development Indicator (WDI) database for data on nominal and real GDP, nominal and real aggregate imports and exports, and military expenditures as percentage of GDP; the US Census Bureau for US imports/exports in current US dollars; the US Agency for International Development (USAID) for US economic assistance; the US Bureau for Economic Analysis for investment inflows to each country from the USA; numbers of foreign students in the USA from Open Doors Report; and military expenditures in constant US dollars from Stockholm International Peace Research Institute (SIPRI) database.

To construct comparable figures for the changes in relations across countries, we created an appropriate time series dataset for each variable. In the dataset, for imports, exports and total trade data, we calculated the US share of each country's aggregate import, export, and total trade and then used them as proxies for import, export and total trade. With respect to students studying in the USA, we included in the dataset both the raw number of students from each country and each country's share of students studying in the USA. With respect to capital flows, military expenditures (percentage of GDP and constant values), military and economic assistance, and US arms export, we included exactly the same data culled from the databases already mentioned. And finally, using constant dollar time series, we also calculated GDP growth rates. Thus,

³ We could not find reliable remittances data that list the remittances transferred from the USA to the selected countries. It was also the case for tourist flows and expenditures, and other critical indices not included in this analysis.

the final dataset used in this analysis consisted of fourteen time series for each country starting in 1985.

As already stated, we used the non-parametric Mann-Whitney U-test⁴ to measure the significance of change in each variable before and after each event. The general form of the Mann-Whitney is a statistical test to assess whether two independent observations, here the values of each variable before and after an event, have significantly different values. The test, which itself is the general form of the Wilcoxon rank-sum test (Sprent and Smeeton, 2001), usually applies a normal distribution to investigate the significance of the difference between two samples. When the sample size is small, e.g. 5 in this case, one cannot tell if they are part of a normal distribution, although we already know that almost all the variables, under investigation, could not be distributed normally. The Mann-Whitney U-test is an appropriate test for such situations. This test can be used for very small samples (at least 5 and up

⁴ Non-parametric statistic refers to a statistic whose interpretation does not depend on the population fitting any parameterized distributions such as ordinary t-test. For example, statistics based on the ranks of observations, which are used in the Mann-Whitney U-test, are one example of such statistics. Here the *Mann-Whitney U-test* is applied since the small sample size makes it unclear whether the population behaves normally or not. First, we set up H_0 and H_1 hypothesis. H_0 for both improvement and deterioration cases are the same; value of index does not change after event. However H_1 for improvement cases has exactly the opposite direction of deterioration cases. For improvement, it says: value of index increases after the event, while for deterioration it decreases after event.

Then we let n_1 and n_2 as the size of sample before and after each event, which is 5 here, and rank all the values for both samples from the smallest (=1) to the largest (=10). Then we define R_1 and R_2 as the total rank of each sample. The U statistic of this test is defined as:

$$U_1 = n_1 n_2 + \frac{n_1(n_1 + 1)}{2} - R_1$$

$$U_2 = n_1 n_2 + \frac{n_2(n_2 + 1)}{2} - R_2$$

The critical values of the directional U test for $\alpha = 0.05$ and 0.01 , and $n_1 = n_2 = 5$ are 1 and 4 respectively. Now for improvement cases if $U_2 \leq C_{\text{critical}}$, we can reject the null hypothesis and accept H_1 . For deterioration cases if $U_1 \leq C_{\text{critical}}$, we can reject the null hypothesis and accept H_1 . In this analysis we are interested in whether the opposite direction of H_1 for both improvement and deterioration cases is statistically significant or not. Tables (1) and (2) have summarized the significance tests for all the events and indices.

to 20). Using the annual value of each index five years before and five years after each event and applying the Mann-Whitney U-test technique, we tested the significance of change in the value of each index. The final result of the analysis, which will be discussed later, is indicated in Table 3 and Table 4.

In addition to the fact that we do not assess the severity of each event, there are at least two other major limitations that must be acknowledged up front. It is important to recognize that changes in these variables could be misleading if taken out of their historical context. Improvement in a country's diplomatic relationship with the USA today is significantly different than during the Soviet containment era. Moreover, the information conveyed in each variable is dependent on the strategic importance of the country to the USA; for example, the September 11 attacks did not severely harm the relationship between the USA and Saudi Arabia, although fifteen out of the nineteen hijackers were Saudis.

3. Countries and Milestones

The selected time period was 1985 to 2008. Some of the countries are represented in both categories, improvement and deterioration, of relations with the USA. Additionally, some of the countries have witnessed similar events in different time periods leading to deterioration or improvement of their relationship; events with more accurate and available data were selected. The countries and the events selected are in Table 1 and Table 2. A more detailed description of the selected events is included in an Appendix that is available from the authors on request.

4. Results

In this section, using the result of the Mann-Whitney U-test (Table 3 and Table 4), we examine the impact of each event on the fourteen selected economic variables.

Table 3 – Change in Economic Indices for Cases of Improved Relations

Country	Trade with U.S.				Test of Significance of the Change in Indices for Improvement Cases									
	Export	Import	Total Trade	Country's Agg. Export	Country's Agg. Import	Student No.	Student Share	Capital Flow	Mill. Exp.	Mill. Exp. (% of GDP)	US Arms Export	Mill. Assistance	Econ. Assistance	Real GDP
Africa	n.s.	n.s.	n.s.	*	***	(***)	(***)	n.s.	***	n.s.	n.s.	*	***	n.s.
	n.s.	n.s.	n.s.	***	***	***	***	n.s.	***	-	n.s.	***	***	n.s.
	*	n.s.	n.s.	***	***	n.s.	(**)	*	(***)	(***)	n.s.	***	n.s.	n.s.
South America	n.s.	*	n.s.	***	***	***	***	***	***	n.s.	-	n.s.	***	n.s.
	n.s.	(***)	n.s.	***	***	***	***	n.s.	***	***	n.s.	n.s.	*	n.s.
	-	-	-	-	-	(***)	(***)	-	-	-	-	***	***	-
South&East Asia	n.s.	n.s.	n.s.	***	***	***	***	***	n.s.	-	n.s.	n.s.	n.s.	n.s.
	n.s.	n.s.	n.s.	***	n.s.	***	n.s.	*	***	(*)	n.s.	n.s.	n.s.	n.s.
	n.s.	n.s.	n.s.	***	***	n.s.	n.s.	n.s.	-	-	n.s.	n.s.	***	n.s.
	n.s.	(*)	*	***	*	***	***	*	***	-	n.s.	n.s.	***	n.s.
	n.s.	n.s.	n.s.	***	*	n.s.	n.s.	n.s.	***	n.s.	n.s.	***	n.s.	n.s.
Middle East	***	n.s.	***	***	***	n.s.	(*)	n.s.	*	(*)	n.s.	n.s.	*	*
	-	-	-	***	*	n.s.	(*)	n.s.	***	n.s.	n.s.	***	n.s.	n.s.
Eastern Europe	-	-	-	***	***	n.s.	n.s.	n.s.	-	-	-	n.s.	*	n.s.
	-	-	-	-	-	-	-	-	-	-	n.s.	*	n.s.	-
	-	-	-	***	n.s.	***	***	n.s.	***	(***)	***	***	***	*

H⁰ : value of index doesn't change after event
H¹ : value of index increases after event
- : data is not available
*** : Significant $\neq \alpha 0.01$
* : Significant $\neq \alpha 0.05$
n.s. : not significant
() : opposite of H¹ is accepted

Table 4 – Change in Economic Indices for Cases of Deteriorated Relations

Test of Significance of the Change in Indices for Distribution Cases														
Trade with U.S.														
Country	Export	Import	Total Trade	Country's Agg. Export	Country's Agg. Import	Student No.	Student Share	Capital Flow	Mill. Exp.	Mill. Exp. (% of GDP)	US Arms Export	Mill. Assistance	Econ. Assistance	Real GDP
Africa	Nigeria	*	*	n.s	(*)	***	***	n.s	n.s	-	(*)	n.s	n.s	*
	Sudan	*	***	***	(***)	***	***		(***)	(***)	n.s	n.s	n.s	n.s
	Zimbabwe	n.s.	n.s	-	***	-	-	n.s	n.s	-	n.s	n.s	(***)	-
South America	(***)	***	n.s	*	n.s	-	-	n.s	n.s	n.s	n.s	*	n.s	n.s
South&East Asia	Cambogia	-	-	-	(***)	(***)	(*)	-	n.s	*	-	*	n.s	-
	Indonesia	n.s	***	n.s	n.s	***	***	n.s	n.s	n.s	n.s	n.s	(***)	n.s
Central Asia	n.s	*	*	(***)	(***)	-	-	n.s	-	-	-	*	n.s	(***)
Middle East	-	-	-	-	-	***	***	-	-	-	-	n.s	***	-
Eastern Europe	-	-	-	(***)	(***)	-	-	-	-	-	-	n.s	(***)	(***)

H⁰ : value of index doesn't change after event
 H¹ : value of index increases after event
 - : data is not available
 *** : Significant $\pm \alpha 0.01$
 * : Significant $\pm \alpha 0.05$
 n.s. : not significant
 () : opposite of H¹ is accepted

4.1. Trade

Relations Improvement: Out of the eleven countries with available data for the selected events, the exports of only three countries increased significantly after the identified event (the first three columns of Table 3). For the rest of the countries the change was statistically insignificant. The results for imports from USA are even more surprising. While only one country (Brazil) out of eleven witnessed a statistically significant rise in imports from the USA, two countries experienced a significant decline in their imports from USA. Also, except for two countries (Bangladesh and Jordan), the change in total trade after each specific event was not significant.

In conclusion, after improved relations, the majority of the countries in our sample did not witness a statistically significant positive effect on imports from/export to the USA, and consequently in total trade; this stands in contrast with our prior expectations. The conclusion looks even more surprising when we consider the fact that in almost all cases of improved relations, both aggregate (with all countries including the USA) exports and imports (columns four and five in Table 3) increased significantly after the selected events.

Relations Deterioration: Six countries out of nine that fell into this category had available data (the first three columns of Table 4). When relations deteriorated, the imports of five countries from the USA decreased significantly and the change in imports was insignificant for only Zimbabwe. The data on exports was considerably less congruent with expectations; only two countries experienced an increase in their exports to the USA while the change in exports for three countries was not statistically significant and for one country (Venezuela) the result contradicted our expectations.⁵ The total trade of three countries decreased significantly after the event, while in two countries the change in total trade was not significant.

⁵ We believe that this result is mainly due to Venezuela's oil exports to the United States, which is usually not affected by political quarrels between the two countries.

In sum, the results (except for imports from the USA) are not generally in accordance with the expectation that a country's exports to/imports from the USA declines as its political relations with the USA deteriorate.

4.2. Capital Inflows

Relations Improvement: Out of the fourteen countries with available data (column eight of Table 3), nine countries experienced neither a positive nor a negative change (that is had an insignificant change) on their capital inflow from the USA. Five countries had a statistically significant increase. Thus, these results may be reasonably considered as inconclusive.

Relations Deterioration: Perhaps the most surprising and inconclusive results are for capital inflows from the USA after deterioration in relations. Except for one case (Sudan) where the change was positive and significant (thus not as expected), capital inflows from the USA to the other countries in the sample did not change significantly. Thus, based on these results, the quality of the political relations of countries with the USA does not have a significant effect on the size of capital inflows from the USA.

4.3. Flow of Students

Relations Improvement: We considered both the share of students and the raw number of students of each country in the USA. The share of students from six out of the fifteen countries increased after improved relations with the USA; for five countries, the share decreased after the improvement event and the change was insignificant for the rest of the countries (column seven of Table 3). The raw number of students from each country increased significantly in only seven cases, did not change significantly in six cases, and decreased in two cases. In conclusion, the mixed results do not support the expectation that improvement in political

relations usually leads to more opportunities for students to study in the USA.

Relations Deterioration: perhaps the most conclusive result, and with the highest congruency with the expectations, are those of student share and number in cases where relations with the USA deteriorated. Almost all the countries with available data, except for Cambodia, witnessed a significant decline in their student share and in absolute number of students after relations deteriorated, leading us to the conclusion that deterioration in political relations between the USA and a country can quickly, and of course negatively, affect the opportunities for students to study in the USA. The interesting conclusion here is that while restoring or improving relations with USA may not necessarily improve opportunities for student flow (at least within a short span of five years), deterioration in relations decisively and adversely affects such opportunities for students.

4.4. Military Expenditures

Relations Improvement: Ten out of twelve countries had a statistically significant decrease in military expenditures after improving their relations with the USA. Since we believe that military expenditures as percentage of GDP was a more representative measure, we used the WDI database (with data for nine countries) to examine changes in military expenditures as percentage of GDP. Four of the nine countries decreased their military expenditures/GDP, while only one country, Colombia, increased it and for the rest, the change was statistically insignificant. These results suggest that improved relations with the USA may afford countries more security (possibly military assistance from the USA, see below), resulting in a decline in their military expenditures and in few cases even a decline in the share of military expenditures in GDP.

Relations Deterioration: These results were not symmetrical to the case of an improvement in relations. All the changes in the dollar value of military expenditures were insignificant except in one case (Sudan) where the trend was increasing. When examining the share of military

expenditures in a country's GDP, only Cambodia increased its military expenditures significantly after relations with the USA deteriorated. Sudan, again, showed a growth in military expenditures/GDP and in the case of the other two countries where data were available the change was not significant.

4.5. Economic Assistance

Relations Improvement: Nine out of the sixteen countries received increased economic assistance after relations improved. For the rest of the countries the change in the economic assistance was insignificant. Overall, we can see that the effect of improved relations on economic assistance is positive.

Relations Deterioration: Five out of the nine countries had insignificant change in the value of economic assistance after their specific events. For three countries, the change was unexpectedly positive; that is the amount of USA economic assistance to these countries increased after relations deteriorated. Only in one case, Yemen, the value of US economic assistance decreased significantly. The results suggested that while improvement in relations with the USA has generally a positive impact on flow of economic assistance to countries, worsening relations do not significantly alter the flow of economic assistance from the USA.

4.6. Military Assistance

Relations Improvement: For nine countries the change was positive and significant and for the remaining seven countries it was statistically insignificant.

Relations Deterioration: In three cases the change was a significant decline and for the rest of the countries it was insignificant.

These results are similar to the conclusion on economic assistance. While improving relations with USA had significant positive effects on US military assistance, the opposite was not true when relations deteriorated.

4.7. *US Arms Exports*

Relations Improvement: It seems that a country's improved relations with the USA does not have a significant effect on the export of US arms to the country. Except in one case (Romania), the change in the value of US arms export to these countries was insignificant.

Relations Deterioration: Except for Nigeria, where arms exports from the USA increased, the change in this variable was insignificant.

The results of both improved and deteriorated relations suggest that the quality of political relations with the USA does not significantly affect US arms exports to countries, at least in the short and medium terms.

4.8. *Growth in GDP*

Although we recognize that there are a myriad of factors that contribute to economic growth and that improved or deteriorated relations with the USA should not be an overriding factor, we thought it would be interesting to see how overall growth was affected by changed political relations with the USA. We monitored at the trend in annual growth rate in real GDP five years before and five years after the selected event for each country. For cases of improved relations, only four out of fourteen countries experienced a significant increase in growth rates and the rest did not see a significant change. In the cases where relations with the USA deteriorated, only Nigeria out of the six countries witnessed a decline in growth rate. In two cases (Uzbekistan and Belarus) change was positive and in the case of three other countries the change was insignificant.

Table 3 and Table 4 show the changes in economic variables for all countries after improved and deteriorated relations with the USA.

5. Re-examining Countries in both Samples

In the sample of the countries, two countries, Yemen and Nigeria, experienced both improving and deteriorating relations with the USA since 1985. A reexamination of the variables from these countries'

perspective may provide us with additional information since we are able to control for country-specific, idiosyncratic factors. Namely, do improved and deteriorated relations with these countries result in symmetrical movements in each of the variables?

In the case of Nigeria, when the political relations improved the flow of students, military expenditures, and military and economic assistance increased significantly while the change in other indices was not significant. Also when the relations deteriorated student flow and GDP growth rate both declined significantly while US arms export increased and the rest of the indices remained statistically unchanged.

As for Yemen, only US military assistance and the dollar value of military expenditures increased when the relations improved. The rest of the variables either did not change significantly or in one case, student flow even decreased. When the relations with USA worsened, again student flow, both in share and raw number, and also US economic assistance declined significantly. For the other variables, where data was available for Yemen, there was no significant change after the deterioration in relations with the USA.

The results here are again inconclusive. In both countries, the dollar value of military expenditures and US military assistance are the only common variables that increased in value after improvement in relations with the USA. Student flow is the only common variable that declined after deterioration. Nevertheless, the conclusion supports our two prior conclusions that first, better political relations with USA may provide more opportunities for receiving more military assistance, and second, deterioration in relations may decisively and adversely affect the flow of students.

6. Conclusion

In this brief paper, we have taken a preliminary look at the question, "Do better political relations with the USA improve a county's economic conditions?" We have looked at a diverse set of variables that may enter into assessing economic conditions and economic relations between

developing countries and the USA. Data limitations reduced our sample size and restricted the economic variables that could be examined. Additionally, it should be noted that the events that were identified as milestones, in improving or deteriorating relations with the USA, varied greatly in their importance and thus in their relative impact on the selected economic variables. Moreover, vastly different international political and economic climates during this twenty-five year period mean that similar events in different international settings could be expected to have very different impacts on the selected economic variables. Finally, we have implicitly assumed that the strategic importance of all countries for the United States in our sample are the same; this is clearly not the case and as a result US policies will differ from country to country. Despite these important limitations, there are interesting, though very preliminary, patterns that emerge.

For countries improving their diplomatic relationship with the USA, we found that in the majority of the cases the countries' total trade, exports, and imports from the USA did not change significantly. While in almost all cases a country's aggregate imports and exports grew significantly in the five years after the event; this result contradicts the conventional belief that when countries improve their relations with the USA they also increase their trade dependency. For countries whose relations with the USA deteriorated, the results were inconclusive. In three cases the total trade declined after the event while in two cases the change was not significant. However the results of imports from USA showed that in four out of five cases of deterioration, the value declined after the events as expected.

We also found that while restoring or improving the relations with USA may not necessarily improve the opportunities for student flow, deterioration in political relations would significantly and negatively affect these opportunities. Whether an increase in the number of a country's students in the USA is a good thing or not depends on a number of other factors, such as the return of students to their country of origin. There is more evidence that increasing trade, and especially exports, is beneficial for countries; the extent of this benefit would also depend on the category of exports and imports. In this preliminary paper, we did not

examine the type (goods or services) and category of imports, exports or trade. This could be another area for future examination.

As for capital inflows, US arms exports and military expenditures, the results were generally inconclusive, although improved relations with the USA may afford countries added security and in turn reduce their military expenditures. However, the analysis of economic and military assistance trends revealed that, at least in our limited sample, while improving relations with the USA seems to have some significant positive effects on both US economic and military assistance, deteriorating relations do not have a significant effect on these trends. Finally, the analyses of the GDP growth trends as to be expected suggest that the events, both improvements and deteriorations, do not have a significant effect on the overall growth rate.

In conclusion, we would like to re-emphasize that our results – even those that support conventional beliefs – are very preliminary because of the differential severity of the considered events, country specific factors and global macro-economic trends before and after any political event. Nevertheless, we believe that this line of research could be fruitful for further investigation and may enhance our appreciation of international political-economic relations among countries and our ability to build more comprehensive theories of trade, capital flows and the like.

References

- ASKARI, H., FORRER, J., TEEGEN, H., YANG, J. (2003), *Economic Sanctions: Examining Their Philosophy and Efficacy*, New York (NY): Praeger.
- CIBIAN, S. (2008), "An International Relations Theory Perspective on Development Aid and Its Role in Shaping the Post-1945 World Order", *Europolis, Journal of Political Science and Theory*, vol. 3, pp. 149-183.
- FUKUDA-PARR, S. (2007), "Rethinking the Policy Objectives of International Development Cooperation: From Economic Growth to Conflict Prevention", *UN WIDER Research Paper*, n. 2007/32.
- HUFBAUER, G., SCHOTT, J., ELLIOTT, K., OEGG, B. (2007), *Economic Sanctions Reconsidered*, Washington (DC): The Peterson Institute.
- ILCHMAN, W., UPHOFF, N. (1976), *The Political Economy of Change*, New Brunswick (NJ): Transaction Publishers.
- SPRENT, P., SMEETON, N.C. (2001), *Applied Nonparametric Statistical Methods*, Boca Raton (FL): Chapman & Hall/CRC.