AMERICAN FOREIGN AID AND TRADE: WHO REALLY BENEFITS?

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Abstract: This research looks at American foreign aid to least developed countries and looks at the effects that the aid has on trade between the two countries and economic growth in the least developed country. The research finds that American foreign aid to least developed countries helps to increase American exports to the least developed country, but that the American aid does not increase American imports from least developed countries. This research also finds that American aid decreases economic growth in the least developed country. These findings show the need for increased research into the impact of foreign aid on American trading relationships with least developed countries and why American aid is hurting economic growth in least developed countries.

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CHAPTER I

INTRODUCTION

Foreign aid did not become commonplace in the international community until after World War II, when the United States implemented the Marshall Plan to help rebuild western Europe (Marshall, 1947). This helped to change international politics regarding aid and now American foreign aid is widespread, with the United States spending $55.9 billion on aid in 2018 (McCarthy & Majahan, 2018). This research looks at the United States and the economic aid that it gives to least developed countries across the globe. There are 47 countries that are designated as least developed countries by the United Nations, with the plurality of them located in sub-Saharan Africa ("UN List of Least Developed Countries"). The least developed countries according to the United Nations are "low-income countries confronting severe structural impediments to sustainable development. They are highly vulnerable to economic and environmental shocks and have low levels of human assets ("Least Developed Countries (LDCs)")."

The United States spends billions in foreign aid every year, but it is not clear whether this assistance has the desired impact. According to Lawson & Morgenstern (2019), one major rationale for US aid programs is the promotion of national commercial interests. Specifically, aid policies aim to cultivate markets for US exports and to "improve the global economic environment" to the benefit of American companies (4). Extant scholarship (Helble et al., 2009; Lundsgaarde, Breunig, & Prakash, 2007) does not offer conclusive findings with respect to the impact of aid on the volume of trade between donor and recipient countries, and few cross-national studies focus on the impact of US aid specifically. This study aims to clarify the nature of this aid-trade relationship with a focus on US aid to least developed countries (LDCs).

The U.S. Agency for International Development oversees the distribution of most of the United States' economic aid (Lawson & Morgenstern, 2019). Two of the domestic goals for the United States with the economic aid that they give out are to create more markets for U.S. exports and to improve the global economy that American businesses participate in (Lawson and Morgenstern, 2019). Looking at how this foreign aid has affected trade relationships with the least developed countries is a way to test the stated policy's effectiveness. This research will focus on how American aid affects the trading relationship between the United States and least developed countries.

This topic is useful for political scientists because it can give more insight into the relationship between foreign aid and trade, as well as the effect of foreign aid on economic growth. There have been many papers written on this topic, but they have struggled to reach a definitive conclusion, with there being articles that find a positive effect between foreign aid and economic growth (Sachs et al., 2004; Bearce et al., 2013; Karras, 2006), a negligible effect between them (Svensson 1999; Ekanayake & Chatrna, 2010), as well as articles that argue there is a negative effect between the two (Sabra & Eltella 2016; Djankov et al. 2008). This research will hopefully give additional clarity on an issue that not been resolved in the political science community by looking at how American foreign aid affects economic growth in least developed countries. The research question is: What is the effect of American foreign aid on economic growth in the least developed countries and the trading relationship between the least developed countries and the United States?

The United States sees foreign aid as a key element of foreign policy (Lawson and

Morgenstern, 2019). President Harry S. Truman, after the signing of the Foreign Assistance Act of 1948 said, “Our program of foreign aid is perhaps the greatest venture in constructive statesmanship that any nation has undertaken. It is an outstanding example of cooperative endeavor for the common good” (Farquharson, 2017). The United States hopes to see its security interests bolstered by foreign aid and to provide more markets for American goods by providing economic support for lesser developed countries (Lawson & Morgenstern, 2019). This leads to the United States focusing its aid on different countries depending on how valuable the United States sees the state at the time (Khadka, 1997). Countries that were strategically beneficial during the Cold War might not receive the same level of investment in the aftermath because they are no longer beneficial for the United States to invest in (Khadka, 1997). In 2018, according to USAID, the United States gave out over 8 billion dollars in aid to least developed countries, varying from $5.95 billion given to Afghanistan to Tuvalu receiving none.

Least Developed Countries are states designated by the United Nations as the states with the “lowest amount of socioeconomic development” (“UN List of Least Developed Countries”). I believe that the United States will export more goods to the least developed country when they give larger amounts of foreign aid to the country. Meanwhile, I do not believe the amount of aid the United States gives to the least developed country will affect the number of goods the United States will import from the least developed country. I believe that this is explained by the fact that aid can come with stipulations that require the aid to be used on American goods (Lawson & Morgenstern, 2019; Sharp 2010).

This question fits into the research topic by looking at a specific donor state (the United States) and the impact their foreign aid has on trade with the least developed countries, which gives this study a wide swath of cases to look at. The question fits into the current literature because it answers a question where there has been limited research (Silva & Nelson, 2012). This research further develops this literature by looking at the effectiveness of the United States' broad-scale foreign aid policy towards least developed countries by looking at how it affects the trading relationship in both directions as well as looking at the impact American aid has on economic growth in these countries. There have been many questions about the effectiveness of foreign aid and how foreign aid affects economic growth (Svensson 2000; Djankov et al., 2008). However, the field of study on foreign aid and trade is more limited than the field of foreign aid and growth. This research is different than most on the topic because it focuses on American aid and how it affects least developed countries (Silva & Nelson, 2012; Sharp, 2010). Prior research on foreign aid and trade involving the United States typically focuses on one trading partner or a specific region, such as Israel (Sharp, 2010). This research is different because it looks at the impact on 47 different states which share least developed country status from the United Nations, which is different than other literature on the topic which tends to focus on developing countries or a specific region ("List of Least Developed Countries"; Bräutigam & Knack 2004; Djankov et al., 2018; Sachs et al., 2004; Burnside & Dollar, 2000). I am also focusing on one main donor country in this research, the United States. Other research tends to focus on how on the recipient country affected (Sachs et al., 2004; Djankov et al., 2008), while my research looks at how the foreign aid affects the recipient countries as well as how the aid affects the donor country as well. This research hopes to see some of the impacts on both sides of the aid instead of focusing either on how the aid affects the donor OR the recipient country.

Potential policy implications of the findings of this research include changing how the United States gives out aid going forward. If the American foreign aid to least developed countries is shown to increase US-LDC trade, this finding could inform allocation policies. It could potentially give more business to American industries and helps to broaden the connections that American industries have across the globe. While if it is shown to not benefit US-LDC trade, as Kim & Lin (2009) suggest, then there might need to be a re-evaluation of the aid agreement from both sides to potentially find a strategy that would be more effective in promoting trade. This research focuses on aid from the United States because I want to see the effect of American aid policy specifically in these least developed countries. There has been prior research done on how total aid tends to affect economic growth (Djankov et al., 2008; Svensson 1999), however, this research is meant to primarily understand how effective aid from the United States is. The research hopes to find whether American aid has a similar impact as we have seen in prior research from other countries or whether American aid has a different impact in the recipient countries (Silva & Nelson, 2012).

This piece will look at prior literature that discusses the interest of donor countries with the aid that they give out (Sharp, 2010; Khadka, 1997; Lebovic, 1988). Also, this piece will look at the literature on the effectiveness of foreign aid in addition to prior research on the relationship between foreign aid and trade. The theory is that American foreign aid does affect the trading relationship between the United States and the least developed country. I will break it down to look at both exports and imports separately rather than combining both of those into a total trade category. This is because I believe there is reason to suggest that one of those factors will be affected but possibly not the other one. This comes from prior literature (Khadka, 1997; Sharp 2010), which discusses the United States putting their interests first and using aid to primarily benefit the United States over the recipient country.

My first hypothesis is that increases in foreign aid will increase the number of exports the United States will have with the least developed country. While my second hypothesis is that increases in foreign aid will not increase the number of goods the United States will import from the least developed country. Aid stipulation (Miquel-Florensa, 2007) and the number of American goods on the world market are additional reasons why I argue that there will be an increase in the American exports to the least developed country, but that there will not be an effect on the amount of goods that the United States imports from the least developed country. My third hypothesis is that the United States foreign aid will increase the economic growth of the least developed country. I argue that foreign aid should help to improve the economic conditions in the least developed country, which should boost their domestic industries and thus be able to increase economic growth in the country.

What Do Donors Want?

Foreign aid is financial assistance given by a donor state to help finance various sectors of the recipient country. Some of these sectors include the military, the economy, education, and public health (Lawson & Morgenstern, 2019). The money is handed out in either a loan with lower interest rates or a financial gift to the recipient state, with loans increasing in popularity in the aftermath of World War II (Milner & Tingley, 2013). The United States primarily gives out aid through grants rather than through low-interest loans (Lawson & Morgenstern, 2019). This change was sparked by the Latin American Debt Crisis in the 1980s, which made the United States readjust its aid policy (Devlin & Ffrench-Davis, 1994).

In the 1980s, the United States government under the Reagan Administration focused on trying to use aid to advance American interests, including using it to open new economic markets for American industries (Lebovic, 1988). In the aftermath of the Cold War, America had a shift in its foreign aid policy so countries such as Nepal, who was once a strategic ally for the United States, no longer received the same level of investment because of their declining strategic importance (Khadka, 1997). The United States considers foreign aid an “essential part of their foreign policy”, which plays a role in why American aid in recent years has been focused on the Middle East, especially in Afghanistan and Iraq (Lawson and Morgenstern, 2019; Alesina and Dollar, 2000). Similarly, Lewis (2003) finds that environmental aid allocation is driven more by US economic interests than by environmental problems in the recipient county.

Two different ways for foreign aid to be allocated are through tied aid and untied aid. Untied aid allows the aid money to be spent wherever the recipient sees as the better fit, while tied aid requires that the aid be spent on products from the recipient country (Miquel-Florensa, 2007). Miquel-Florensa (2007) also argues that tied aid significantly hinders economic growth in the recipient country, which is in line with Michael & van Marrewijk (1998), who write that untied aid is best for both the recipient country and the global economy because it gives the recipient country more flexibility on spending the aid money that they receive. Those pieces are slightly at odds with Tajoli's (1999) research on tied/untied aid and least developed countries, which finds that tied aid does not benefit the recipient country and that it does not affect the donor country's exports to the recipient country. Tajoli (1999) also argues that because of the complications that come with tied aid, it makes it difficult for a recipient country to use the aid in a way that makes giving the aid worthwhile for the donor country.

How Effective is Aid for the Recipient Country?

There tend to be three main theories on the effectiveness of foreign aid for the recipient country (Radelet, 2006). The first theory argues that aid leads to economic growth in the recipient country in most cases and that economic aid is a net positive (Sachs et al., 2004; Radelet, 2006). The second theory is that aid given to countries that have solid infrastructure and have more capacity to use the aid can produce economic growth (Burnside & Dollar, 2000). The final theory is that aid is either unable to promote economic growth or causes economic harm for the recipient country (Svensson, 1999; Djankov et al., 2008). Over the past decade, there has been a shift in foreign aid literature that focuses more on the final theory as political scientists have become more skeptical about the benefits of foreign aid (Vijil & Wagner, 2012; Hühne et al., 2014). My research will hopefully help to give further understanding of how foreign aid affects economic growth in least developed countries by measuring how the aid affects GDP growth as well as looking at how it impacts the recipient country's exports to the donor country.

In the Khan & Hoshino (1992) piece, the least developed countries in Southwest Asia showed to have an increase in economic activity after receiving foreign aid. However, it depended on the type of aid that was given. Loans tended to lead to a higher percentage of the money being used for economic growth in comparison to grants (Khan & Hoshino, 1992). This study focused on 5 least developed countries in south and southeast Asia and the total foreign aid they received from across the globe (Khan & Hoshino, 1992). A potential reason for this is that a loan typically needs to be paid back promptly, so that is an additional incentive for them to use the money to grow their economy. Grants meanwhile are financial gifts given to a country, so there is not the same urgency with the money because sometimes they do not have to pay it back at all or they have more time to pay it back in comparison to a loan. In Bearce et al. (2013), they found that it was the poorer countries where the aid could produce the most economic growth, which is in line with the findings from Khan & Hoshino (1992). Bearce et al. (2013) also argue that foreign aid can boost any recipient country's growth but that as the aid gets higher the growth created by the aid decreases. Levy (1988) tends to agree with Bearce et al (2013), arguing that in sub-Saharan Africa, aid led to economic growth to recipient countries throughout the region.

There was a study done with developing countries, 71 in total, from 1960 to 1997, where they found a significant relationship between the developing countries receiving foreign aid and these countries having permanent economic growth (Karras, 2006). In another study done on the least developed countries as well as developing countries, 75 countries in total, the results showed that the effects of foreign aid were mixed (Ekanayake & Chatrna, 2010). This puts the results at odds with the earlier findings. This research has some similarities to mine, however, instead of having solely least developed countries, it also included developing countries in their research (Ekanayake & Chatrna 2010). These articles relate because they are from developing countries, this category includes some countries that are least developed countries. Also, they used a large-n relatively speaking, which makes them more compatible to this project size-wise in comparison to the (Khan & Hoshino, 1992) piece.

Some argue that foreign aid does not have much of an effect, or potentially a negative one (Svensson, 1999; Sabra & Eltalla, 2016). Svensson (1999) notes that many of the developing countries that have received aid for a few decades have not seen a significant boost in their economy. Svensson (1999) argues this finding is because there is not an increase in public goods from aid, which he argues is because the money goes into the government and increased the government's coffers. Similarly, Sabra and Eltalla (2016) find that foreign aid in the Middle East and North Africa (MENA) region has led to a decrease in those countries' economic growth. This is because the aid leads to a decrease in domestic savings in the recipient country, and those savings are replaced by the aid which causes the country to become reliant on the aid (Sabra and Eltalla, 2016). There is research that looked at economic aid in Africa and found that foreign aid is more harmful to the recipient country than the resource curse because they become reliant on the aid and that leads to a decline in the democratic institutions within the state (Djankov et al., 2008). While in Nigeria, there has been tremendous foreign investment in the country however the aid has been unable to spark the economic growth that many thought and hoped the aid would create (Mbah & Amassoma, 2014).

Could economic aid potentially be a boost to most who receive it? Sachs et al. (2004) argue that while foreign aid does provide a boost to the countries that receive it, some countries are so poor that the aid is unable to spur economic growth within the country. Recipient country infrastructure can impact the effectiveness of the foreign aid they receive. Some research (Boone, 1995; Burnside & Dollar, 2000) argues that there can be economic growth with economic aid, but only in certain cases. In sub-Saharan Africa, the effect of foreign aid depends on the governance of the country that receives the aid (Bräutigam & Knack, 2004). In countries with good governance, foreign aid is successful and helps to boost the economy of the country receiving the aid argues Bräutigam & Knack (2004). This is in line with the findings of Burnside & Dollar (2000), who found that countries with good fiscal policies in place had more growth from economic aid than those who do not. The Bourguigon et al. (1991) piece looked at economic structures in both Africa and Latin America and found that the archetype of Africa, because of the flexibility of African markets in comparison to Latin American markets allowed for more of the growth to go to the lower class, helps to boost the economy and lift people out of poverty.

Relationship Between Foreign Aid and Trade

Previous research (Silva & Nelson 2012; Helble et al. 2009) has shown some connections between foreign aid and trade. The United States in recent years has given Israel a substantial amount of aid (approx. 3.15 billion in FY 2018), because of its importance as a strategic ally in the Middle East (Sharp, 2010). Sharp (2010) also stated that Israel is only allowed to use 26 percent of their aid on Israeli-created military equipment, with the rest of it going towards buying American equipment, both helping strengthen the military of a strategic ally as well as creating business for American companies. Similarly, Silva & Nelson (2012) found that economic aid leads to an increase in the recipient country buying goods from the donor country. They found that this is often caused by aid-for-trade relationships, these relationships are where a donor state will give aid in exchange for additional trading between the two states, which is in line with the findings from Helble et al. (2009). This finding is what led Helble et al. (2009) to suggest implementing more aid for trade economic aid to countries with weak economies to help them achieve economic growth. Lundsgaarde, Breunig, & Prakash (2007) push back against that idea, as they argue that donor countries begin to reduce the foreign aid to recipient countries when they begin to spend more on products from the recipient country.

Do aid for trade relationships work? There have been mixed results in prior research. Vijil & Wagner (2012) have a more positive view of aid for trade relations, as they argue that aid for trade can lead to growth for the recipient country, but that it needs to be a complementary piece of growth rather than the primary means of economic growth. Hühne et al. (2014) agrees that it can be beneficial, but not necessarily for the country receiving the aid. They discuss that despite how aid for trade relationships have been able to increase the donor country exporting goods to the recipient country, that it has not had much success in improving economic conditions in the recipient country. Bhattarai (2016) is in concurrence with Huhne et al. (2014), however, he provides the suggestion of giving less aid and focusing more on investing in these recipient countries because his research showed that investments were more likely to create economic growth. My research hopes to find how American aid affects trade relationships with these least developed countries, seeing if an increase in aid boosts trade or not, which can potentially help to further develop this literature. The literature is missing a study that looks at a world power, the United States in this research, and seeing the impact that their aid is having on a large scale, rather than other research that is more regional-based (Sharp, 2010; Bräutigam & Knack, 2004).

CHAPTER II

THEORY

The United States while giving out economic aid is balancing two primary interests: to 1) boost economic opportunities for American goods and 2) to help the recipient country achieve economic growth (Lawson & Morgenstern, 2019). The United States often uses tied aid to bring the money back towards American businesses (Lawson & Morgenstern, 2019). This is what has led the United States to be a big proponent of tied aid, which is aid that must be used to buy American goods (Lawson & Morgenstern, 2019). Tied aid tends to be less effective than untied aid at creating economic growth (Miquel-Florensa, 2007). This is one of the dilemmas of aid policy and balancing out maximizing the benefit for American businesses from giving aid while also trying to provide economic growth to a struggling country.

In the United States, legislators are politically accountable for how they appropriate aid. Congress wants to maintain a benefit for Americans through economic aid so that it will be more appealing to the electorate (Milner & Tingley, 2010). This is one of the primary reasons for tied aid, so that American legislators can tell their constituents that when they give out aid, they can tell their constituents that it was aid that will return and provide value for American citizens as well (Milner & Tingley, 2010). Foreign aid is a partisan issue in the United States which leads to politicking on aid and sometimes turn aid into campaign issues (Fleck & Kilby, 2006). Republican voters tend to not support foreign aid, so showing American benefit from the aid can help keep support for the Republican politician (Milner & Tingley, 2010). The partisanship of foreign aid in the United States can lead to economic aid being changed for political expediency rather than the best path for economic growth, showing once more that American interests dominate the economic aid process (Lawson & Morgenstern, 2019). This happens because different presidential administrations have different preferred aid targets and will give aid to the states that best helps their agenda (Lawson & Morgenstern, 2019).

Economic aid affects trading relationships between the United States and the least developed countries they send aid to. There are two different areas of the trading relationship that can be altered by economic aid: imports and exports. Increasing exports would happen by having the country receiving aid buy more American goods. We have seen that recipient countries tend to bring in goods from the donor country (Silva & Nelson, 2012; Helble et al., 2009). The United States has made creating more markets for American goods one of the main priorities in giving out economic aid (Lawson & Morgenstern, 2019). This is a success for the American foreign aid approach because one of the main purposes of aid for the United States is to find more customers for American goods (Lawson & Morgenstern, 2019).

Hypothesis 1: *The more economic aid that the United States gives to a least developed country, the more goods the United States will export to the least developed country.*

The United States wants to use foreign aid to boost American businesses with the foreign aid they distribute (Lawson & Morgentstern, 2019). They see foreign aid as an opportunity to open new markets for American businesses (Lawson & Morgenstern, 2019;

Stiglitz & Charlton, 2006). Therefore, we have primarily seen an increase in donor state exports rather than seeing an increase in donor state as well (Silva & Nelson, 2012). It is much easier to mobilize American industries to expand their operations to the recipient country than it is for industries within the recipient country to increase operations to export goods to the United States. There have been American investments in the late 1990s and early 2000s that led to economic growth in the recipient country, however, that has not significantly affected the number of American imports for recipient country products (Bearce et al., 2013). I think that tied aid shows the intent of the United States when giving out foreign aid. The United States joined the international community in 2005 to agree to reduce tied aid, however, the United States still uses it regularly because of its benefits to America's economic interests (Lawson & Morgenstern, 2009). This is despite the data showing that tied aid is less effective in boosting economic growth within the recipient country than untied aid and strongly hinders potential economic growth in the recipient country (Lawson & Morgenstern, 2009; Miquel-Florensa, 2007).

Although there is a relationship between economic aid and the United States exporting goods to least developed countries, there is not the same relationship for the United States importing goods. Donor countries are receiving more of the benefits from aid policies by increasing the trading relationship between the donor and recipient countries (Hühne et al., 2014). These policies are leading to the donor country selling more goods to the recipient country but the donor countries are not seeing their products necessarily being bought in return (Hühne et al., 2014; Nowak-Lehmann et al., 2013). Therefore, Vijil & Wagner (2012) argue that it is important for the recipient countries to not base their long-term economic growth hopes upon foreign aid but rather build alternative ways for economic growth and to use the aid resources as complementary resources. This is to avoid using the aid as the primary means to fund state operations and industries because when a country becomes too reliant on an outside source of income, it leads to them neglecting to build the needed infrastructure to have a growing economy that is going to be stable long-term (Sabra & Eltalla, 2016; Minoiu & Reddy, 2006).

Hypothesis 2: *The more foreign aid that the United States gives to a least developed country does not affect the amount the United States imports from the least developed country.*

While the aid is helping increase business for American companies, it is also beneficial for the least developed country (Helble et al., 2008). Since the least developed country is using tied aid on American goods, it also creates business connections between the recipient country and American businesses (Wedel, 2005). This business connection can grow over time and help facilitate future transactions between American businesses and least developed countries (Wedel, 2005). These various factors can help least developed countries see economic growth from the economic aid they receive (Easterly, 2004). Helping the least developed countries with achieving economic growth provides a potential win-win for both parties involved, as it would create more markets for American goods while also helping the least developed country in building up their economy.

There has been some recent research that has questioned the effectiveness of foreign aid (Vijil & Walker 2012; Huhne et al., 2014). However, research by Mustafa et al. (2019) found that foreign aid had a positive and significant effect on economic growth in Sudan. What they found is that it might take a bit of time for that economic growth to be seen, that sometimes it will take time before the economic benefits of the foreign aid can be seen (Mustafa et al., 2019). Moreira (2005) makes a similar finding, talking about how aid typically has a bigger impact long-term and how the positive effects of aid are often seen at the micro level rather than the macro level. Clemens et al. (2012) find that while the effects of aid can vary greatly from country to country, most countries that are receiving aid have some level of economic growth from the aid they receive. I also argue that just because the foreign aid to the least developed country does not lead to the country exporting more goods to the United States means that there is no economic growth from foreign aid. There are other countries that the least developed country can export goods to, I believe that these countries could export to these countries for other reasons, such as geographical proximity and colonial ties.

Hypothesis 3*: The more foreign aid that the United States gives to a least developed country, the more that the least developed country's gross domestic product (GDP) will increase.*

CHAPTER III

RESEARCH DESIGN

The analysis of this data will focus on the connection that foreign aid has with each of the three dependent variables (U.S. Imports, U.S. Exports, and GDP percent growth for Least Developed Countries). This research spans from 1985-2018, this is a long enough period for the effects of foreign aid to be shown in the dependent variables. The main model used for this research will be the Pooled Regression Models, with two other models (Random Effects & Fixed Effects) being primarily used as robustness checks. I am using Pooled Regression Models in this research to help to manage temporal dependence and to make sure that countries' data are measured together. Also, it allows for analysis of how an increase in foreign aid would affect the trading relationship between the two countries, or for the third variable, how changes in foreign aid and government effectiveness would affect the GDP per capita in the recipient country. Also, I will be using clustered standard errors in my analysis to keep country standard errors together rather than combining that data.

I have chosen to use a quantitative approach to this research. Statistical data is a good way to study if the aid that the United States gives out to the least developed countries is making an impact in the trading relationship on the recipient country's GDP. This is because it allows for data from a large number of cases with the ability to control for other potential contributing factors. An advantage to this approach is that we will be able to see if there is an impact from foreign aid on a broad scale, while a disadvantage of this approach is that it does not look within the country that is receiving aid to understand specifics of how the aid affects each country on an individual basis. I have chosen least developed countries for this research because these are countries with the largest need for American foreign aid.

I have chosen to not use experimental methods for this research. An advantage of this approach is that lets me test one independent variable against multiple dependent variables to see how that independent variable, in this case, foreign aid, affects other factors. A disadvantage of this approach is that you get cases where the results make it appear that there is a connection between two variables, but it turns out to be more of correlation than causation. This makes it important to look for outside variables that might affect the dependent variable to confirm that the findings are because of causation rather than correlation.

The predominant lag being used in this research will be the 1-year lag, as that is the lag that I believe will best depict the effect of the independent variable. This is because I think that by using the 1-year lag, it gives the country the time to receive the aid and determine how they want to use aid and then spend the aid money to fulfill their plan on how to spend the aid. I will also use 3-year and 5-year lags as robustness checks to help confirm the findings of the 1-year lag. I am using multiple lags because while I believe that it will only take one year to see the impact of foreign aid on trading relationships, I want to make sure that sure to account for the possibility it takes longer to see the effects than I expect. I will also be I am using data from Robert Sahr's (2018) research to adjust for inflation, his research created their inflation values for each year from 1985-2018 to maintain a constant U.S. dollar throughout the research.

I choose the least developed countries for this research because they are the countries that are in most need of assistance. I figured that if American foreign aid could make an impact anywhere, it would be most likely to occur in least developed countries because these are countries who could use help from the United States in developing a sustainable economy and helping to boost infrastructure. I figured that least developed countries provide a unique opportunity for American aid to make an impact and that foreign aid to least developed countries could potentially provide benefits for both the United States the least developed countries. This is where the United States can come in and make a positive impact with their aid, because, according to the United Nations, these countries are prone to economic shocks ("Least Developed Countries (LDCs)")." The United States can give aid to these countries to help them build up their infrastructure and put stipulations on that aid so they are buying American products. This leads to the potential for a relationship that benefits both sides, where these least developed countries are having economic growth and getting support for their domestic industries while the United States is creating a new market for American goods.

Dependent Variables

The first dependent variable is U.S. exports to the least developed countries. This information was collected from the U.S. Census database, which gathers data on how much was spent by other countries bringing in American goods ("Foreign Trade"). I will measure this variable by the total amount of exports that the United States sends to the least developed country over the calendar year. This first dependent variable is being used to test the first hypothesis. This variable is being used to test whether U.S. aid has led to increased markets within the recipient country of the aid. The United States primarily focuses on finding markets for American goods rather than bringing in goods from least developed countries (Lawson & Morgenstern, 2019). This variable also allows testing if the United States goal of increasing the exportation of American goods to least developed countries to boost American businesses has been effective (Lawson & Morgenstern, 2019).

The second dependent variable is U.S. Imports from the least developed countries. This information was collected from the U.S. Census database, which collects how much money was spent to bring in goods from all countries (“Foreign Trade”). I will measure the total amount of goods the United States Imports from the least developed country during the calendar year. This second dependent variable is being used to test the second hypothesis. This variable is being used to test whether there is a relationship between foreign aid and U.S. imports of the least developed country’s goods. If the aid is successful in producing economic growth within the recipient country, then the least developed country should begin to build stronger economies and producing more goods. If American businesses are buying more goods from a least developed country, there has likely been either an increase in the businesses in the recipient country or an increase in the economic capacity of the prior businesses. This variable will be used to measure if the United States imports more goods from least developed countries with increased foreign aid to the least developed country (Lawson & Morgenstern, 2019).

The third dependent variable is gross domestic product’s (GDP) percent change. This information was collected from the World Bank data on the country’s GDP percent change (“GDP growth (annual %), 2020). This variable is being used to test the third hypothesis. This is to test whether there is a relationship between foreign aid and economic growth in the least developed country. GDP annual growth is one of the best indicators in determining the economic output of an economy, an increasing GDP is a likely indicator that the economy within the country is improving. To capture this, this study will use the percentage change yearly of the GDP for the least developed countries to measure the effect that the foreign aid is having on the GDP (“GDP growth (annual %), 2020). I chose this variable because I believe it is the best individual indicator of how foreign aid affects economic growth. A limitation of this variable is that there could be measures of growth that GDP does not measure, especially growth at the micro level which may not significantly impact the GDP. So potentially there is economic growth that could potentially take place that would not have a substantive impact on the country's GDP, however, I still believe it is the best measure to measure economic growth in the least developed country.

Independent Variables

The independent variable is the foreign aid from the United States to the least developed country. I chose this as my independent variable because I am wanting to see the impact that American foreign aid has on the recipient countries, and I believe that least developed countries are among the countries that American aid can make the largest impact and potentially help both sides benefit (Lawson & Morganstern, 2019). The information was gathered from USAID. They collect the amount of foreign aid spent by the United States as well as report both the obligations and the disbursements to other countries. For this research, I will use obligations because there were more data available for foreign aid obligations than there was for disbursements, and the numbers when reported tend to be similar between obligations and disbursements. The obligations are money that the United States is legally obligated to give out while the disbursements are the amount of money that the United States did hand out to the recipient country. USAID also breaks down what percentage of aid was given for military aid and what aid was given for foreign aid. For the three hypotheses, I will be using the total foreign aid amounts from the United States to the least developed countries from 1985-2018.

Control Variables

I will control for the total amount of foreign aid received by a country from all other states. I am controlling for this variable because of the possibility that a country may receive a large influx in aid from a country beyond the United States that increases their economic capabilities, which influences their trading relationship with the United States. This control variable will only be used on the third hypothesis, which is directly related to economic growth. I am using this as a control variable because I want to make sure that the improvement in the recipient country's economy or their trade is coming from the U.S. relationship specifically, not from outside countries who are sending aid to the least developed country. For this data, I will collect the total aid totals from the World Bank website for the least developed countries from 1985-2018 ("Net official developmental assistance"). The total amount of foreign aid could also be affected by natural disasters that have occurred in least developed countries, with countries tending to give increased foreign aid in the aftermath of a natural disaster.

A control variable that I am using in this research is whether the least developed country was a member of the World Trade Organization. Countries that are members of the World Trade Organization appear to be more willing to engage in global trade by joining an organization that is focused on increasing global trade. The United States is a member of the World Trade Organization, which makes it more likely that American trade would include more trade with fellow members of the World Trade Organization ("Members and Observers"). The way that I measure this in my research is by creating a variable that denotes if the country is a member of the World Trade Organization on the first day of the calendar year by marking years where a country is a member with a one and years a country is not a member is denoted with a zero. For example, if a country joins the World Trade Organization in June 1998 it will have a designation of zero for 1998 and will be counted as a member of the World Trade Organization in the data from 1999 and beyond. I will be using the World Trade Organization's list of members to collect this data ("Members and Observers"). I want to control for this variable because I believe that the United States is more likely to trade with least developed countries that are members of the World Trade Organization.

Another control variable that I am going to use in this research is language. I am going to control for whether a least developed country has English as an official language. I will designate countries where English is an official language with a one and countries where English is not an official language with a zero. I am using this as a control variable because it will be easier for trade to occur when the parties involved speak the same language. This creates the importance of controlling for language so that the research can be confident that the changing relationship in trade is caused by the foreign aid rather than potentially being because both countries speak the same language. This is based upon the approach that Wagner (2003) took in his research on the relationship between aid and trade. I will be using CIA Factbook data to determine whether a country has English as an official language ("Languages: The World Factbook").

A limitation that I have with the control variable of language is that I used the official languages of a country to determine whether the people within the least developed country spoke English, the primary language of the United States. While it is the best available measure, in my opinion, it does not account for the possibility that businesses in a country may not speak English despite it being an official language in the country. Potentially in future research, there could be an improved measure in case the measure that I used in this research is not the best one. Also, a potential limitation is that while a country may have English as an official language, some of these countries may have stronger ties to the United Kingdom than the United States, with nine of the 47 least developed countries being former British colonies.

Whether the United States has a defense pact with a least developed country will also be a control variable for this research. Using the Leeds et al. (2002) data, I will measure the years in the dataset to see if there was a defense pact between the two countries in those years. Years in which a country has a defense pact with the United States will be coded as a one and years where a country does not have a defense pact with the United States will be coded as a zero. This is to control for the possibility that the United States is potentially giving more aid to a country because it is a strategic ally in case of a potential conflict. I believe that the best way to measure if the United States is using a country as a strategic ally is to see if the least developed country has a defense pact with the United States.

I will also control for how democratic a country is. I will use the Polity 2 score from the Center of Systemic Peace to measure how democratic a country is. Each year they give a Polity 2 score to a country on a scale from -10 (least democratic) to 10 (most democratic) by measuring how democratic a government's behavior is ("Polity5 Annual Time-Series", 2019). I am using this data because I believe that it is the best indicator to measure if a country is democratic. That is important because democracy tends to be more open to trade and how democratic a country is could affect how willing they are to engage in trade with the United States. I am controlling for how democratic a country is because I believe that the least developed countries that are more democratic are more likely to engage in trade with the United States than countries that are less democratic.

There were two variables that there was an attempt to control for but there was no variation in the dataset. One of those control variables that did not vary in the dataset was free trade agreements between the United States and the least developed countries. No state that is currently a "least developed country" has or had a free trade agreement with the United States. Another variable that was looked at for variation but the dataset showed no variation was contiguity data, which looked at how close the borders are between the two states. There are no least developed countries that are within 400 miles of the United States, which makes this variable non-applicable to this research (Stinnett et al., 2002).

CHAPTER IV

RESULTS & ANALYSIS

Hypothesis 1: *The more economic aid that the United States gives to a least developed country, the more goods the United States will export to the least developed country.*

Table #1

	Model 1 (obs:1063)
US Aid-lag1	.143(.042)***
WTO	70.0 (44.8)
Dpact	443.6 (31.4)***
Language	-84.1(32.6)**
Polity	-3.21(3.30)

*p-values *.10 **.05 ***.01 (p-values) Dependent Variable is US Exports, Clustered Standard Errors, Numbers are coefficients with standard errors in parenthesis, Variables are in millions of U.S. Dollars*

The model shows a positive relationship between US Foreign Aid and US Exports to the least developed country that is statistically significant. This is in line with my first hypothesis, which is that the American aid given to the least developed country would increase the number of goods that the United States exported to the least developed country. I theorized this because I felt that the United States would likely put stipulations on their aid based upon prior research and prior statements from presidential administrations on using the aid for the benefit of American industries (Lebovic, 1988; Sharp, 2010). The analysis was conducted in millions of dollars, so for example, the coefficient is .143, which means that for every increase of 1 million dollars of aid there is an increase of $143,000 in U.S. exports to the least developed country. For example, in 2018 the United States gave approx. 223 million dollars in foreign aid to Mali (USAID). Going off the analysis from this model, that foreign aid to Mali would increase the exports to Mali in 2019 by $30.774 million.

The findings from this hypothesis tend to fit in with prior research. Research on American foreign aid in the past has shown that American aid is often focused on enhancing American interests (Maizels & Missanke, 1984; Lebovic, 1988, Khadka, 1997). Donor states have done this by tying aid that they give to the recipient country that the aid must be spent on goods from industries in the donor country (Miquel-Florensa, 2007). Increasing business for American industries is one way that the United States can get benefits out of the aid that they dole out. This is in line with one of the American goals which are to increase the markets for American industries (Lawson & Morganstern, 2019). These findings show that American businesses are profiting from American foreign aid. These results would show that the modern American aid philosophy that took place under the Reagan Administration, to try and use aid to boost American industries, is working (Lebovic, 1988). We are seeing the aid being given to the least developed countries being used to produce American products and increase the markets for American goods.

Hypothesis 2: *The more economic aid that the United States gives to a least developed country does not affect the amount the United States imports from the least developed country.*

Table #2

	Model 1 (obs:1063)
US Aid-lag1	.006(.853)
WTO	406.3(225.7)*
Dpact	-44.7(200.1)
Language	-377.6(209.5)*
Polity	-24.1(22.3)

*p-values *.10 **.05 ***.01, Dependent Variable is US Imports, Clustered Standard Errors, Numbers are coefficients with standard errors in parenthesis, Variables are in millions of U.S. Dollars*

This research shows no statistically significant relationship between the foreign aid to the least developed country and US Imports from the least developed country. I hypothesized that the American foreign aid would not have a meaningful effect on the number of American imports from the least developed country. The United States tends to focus primarily on promoting American interests through foreign aid (Sharp 2010; Khadka 1997), so it is not surprising to see that the foreign aid did not lead to an increase in American exports of goods from the least developed country. These results are an indicator that the foreign aid the United States gives to the least developed country does not affect the number of goods the United

States imports from the least developed country. My argument for that was that these least developed countries do not have the economic capacity to significantly ramp up trade with another country, if they did they would likely not be a least developed country.

Prior research has also shown there not to be a significant effect on the donor country's imports from the recipient country based upon foreign aid. Silva & Nelson's (2012) piece discussed how foreign aid typically led to increases in the donor country's exports but not their imports. That research was conducted at a broader level than this research which includes only recipient countries that are least developed countries. This research builds upon Silva & Nelson (2012) because it shows that the broad principle that they found in their research applies to American aid as well. My research differs because I focus on one donor country (the United States) while their research has a much broader pool of donor countries. Just because the findings of how aid affects imports when aggregated from donor countries worldwide is that there is no relationship between the two does not mean that American aid has the same impact as the aggregate. This research helps to confirm that America's imports of goods from recipient countries are not affected by foreign aid.

Hypothesis 3: *The more economic aid that the United States gives to a least developed country, the more that the least developed country's gross domestic product will increase.*

Table #3

	Model 1 (obs.990)
US Aid-lag 1	-.758(.287)**
Total Aid	1.10(.488)**
WTO	1.33(.611)**

Dpact	-3.23(.359)***
Language	-.954(.546)*
Polity	-.019(.057)

*p-values *.10 **.05 ***.01, Dependent Variable is LDC GDP percent change, Clustered Standard Errors, Numbers are coefficients with standard errors in parenthesis, Variables are in billions of U.S. Dollars*

There were negative results for the third hypothesis. The model showed a statistically significant, negative relationship between American foreign aid and GDP growth in the least developed country with both robustness checks finding similar results. This goes against my hypothesis that foreign aid would lead to an increase in the GDP of the least developed country. I argued in my theory that the American aid to the least developed country would lead to economic growth in the least developed country. I figured that the money pouring in from the United States would help to boost domestic industries. It turns out the opposite effect occurs, not only does the foreign aid not lead to economic growth, it leads to negative economic growth in the recipient country.

While these were not the findings that my theory section had predicted, these findings are in line with the research from Sachs et al. (2004). Their research found that foreign aid tends to not have an effect or a negative effect on the gross domestic product of the recipient country (Sachs et al., 2004). While Bräutigram & Knock (2004) and Burnside & Dollar (2000), whose research showed that aid only has a positive impact on GDP when it is properly used by the recipient country. My research is different than Burnside & Dollar (2000) because that research uses income rather than development to determine in its research, looking at lower and middle-income countries. I believe that using how developed a country is a better indicator for what I am looking for in this research, which is the countries that are in the most need of outside assistance. It is also different than Sachs et al. (2004) and Bräutigram & Knock (2004) because those projects primarily focused on sub-Saharan Africa. While this research does include some countries from sub-Saharan Africa, it encompasses many more countries from across the globe.

Implications

The findings from this research indicate the American foreign aid to least developed countries is not providing a significant benefit for both sides. These results show that the foreign aid given by the United States is primarily benefiting the United States rather than the least developed country. We see that the aid is increasing the number of exports that the United States sends to the least developed country, but the United States is not increasing the imports to the least developed country. Also, the aid is not increasing the economic growth in the least developed country, with the model and both robustness checks showing a negative, statistically significant relationship between American foreign aid and the gross domestic product of the least developed country. These findings align with the recent shift in foreign aid literature that has been skeptical about foreign aid having a positive effect in recipient countries (Vijil & Wagner, 2012; Hühne et al., 2014).

With these findings, it leaves the question of how both parties should move forward with the foreign aid relationship. For the United States, they are achieving one of their main goals in creating additional markets for American industries (Lebovic, 1988). However, the aid they are giving out is not providing economic growth and increasing markets in the recipient country. Is this something the United States is not particularly concerned about or are these findings something that those in charge of allocating American aid might want to address?

These findings could make the United States reevaluate its aid policy, at least with least developed countries. As Lawson & Morgenstern (2019) reported, the United States wants to use aid to help create new markets for American industries AND to help produce economic growth in the recipient country. If the United States is only meeting one of those two goals, would that persuade the United States to attempt to modify its current aid relationship with the least developed countries?

For the least developed country, this aid is probably not having the impact that they would have hoped. They are not seeing increased economic growth from the aid or increasing their exporting of domestic goods to the United States. The only area they are seeing growth is importing American goods. These findings may make least developed countries try and reevaluate their current aid relationship with the United States since it does not appear to be successful. They could also try to evaluate where this disconnect is coming from, whether it be a problem with how the United States allocates aid to their country or potentially there is a problem with how the aid resources are managed in the recipient country. Potentially, as Vigil & Wagner (2012) and Huhne et al. (2014) found, maybe the problem is not how the aid is being managed but potentially the problem is the aid.

Limitations

A limitation that this research had is that the foreign aid data was not broken down into economic aid, military aid, etc. The foreign aid data is the total obligations that the United States has for the least developed country. If I could gather the data I would like to focus on economic aid and see if the results with total aid stay the same when it is just economic aid being studied. Also, the aid data did not show whether the aid was tied or untied. Some prior research (Miquel-Florensa, 2007) showed that tied aid led to different results in trade than untied aid, so having that tied and untied aid data for this research would have been ideal to check to see if that could also play a role in the effect of American aid on import and exports with the least developed country.

CHAPTER V

CONCLUSION

This research looked at United States foreign aid to least developed countries and how it affected the trading relationship with those countries. I argued that American foreign aid leads to increased American exports to the least developed country, but that there would not be an effect on the American imports from the least developed country. I also argued that the American foreign aid would increase the GDP of the recipient country. I measured this by gathering data on American foreign aid, trading data, and GDP data from 1985-2018 for the least developed countries to test these arguments. I found support for my first two hypotheses on U.S. Exports and U.S. Imports, while my hypothesis on US Foreign Aid and GDP was not proven because my results painted the opposite picture of what I hypothesized by showing a negative relationship between foreign aid and GDP growth in the least developed country.

This research has contributed to the growing literature on foreign aid and trade. This research looked at on a broader scale American foreign aid and the effects of American foreign aid on least developed countries. Prior research on American foreign aid has primarily focused upon a smaller set of cases or an individual case (Sharp, 2010; Cignarelli & Pasquarello, 1985). Also, this research analyzed least developed countries altogether, which is a group that has not had a major focus in prior literature on the subject, with regional studies being more common, with sub-Saharan Africa being a popular example (Bräutigam & Knack, 2004; Djankov et al., 2008). Potentially this research can encourage future researchers to study donor country's interests in foreign aid and how they use foreign aid to further their interests.

In some regards, this research has helped to confirm what we already know. Silva & Nelson (2012) in their research had shown that donor countries tend to have an increase in exports after increasing foreign aid to the recipient country. This research helped to show that the findings in that research also apply to the United States and the aid that it gives to least developed countries. While there was also research that had shown some doubt about whether foreign aid had a positive impact on donor country imports from the recipient country (Svensson, 2009; Djankov et al., 2008). The research on exports and imports and how they are affected by foreign aid helped to further develop the literature on the subject by showing how these principles from prior research have been shown to apply to American foreign aid as well.

I was surprised to see that American foreign aid hurt the GDP of the least developed country. I felt confident that the foreign aid would help to boost the economy of the recipient country and help them to boost their economy. I thought that even if the foreign aid the United States gives did not increase recipient country exports to the United States, that the aid would still help economic growth in the recipient country. However, it turns out that the statistically significant results show that the aid has a negative effect. This makes me curious about what factors cause foreign aid to hurt economic growth. I believe that a case study on the subject would be a worthwhile endeavor on why. The findings from this hypothesis of my research are something that should be further investigated to see what causes it.

If I were to continue this project, I would like to conduct a case study or conduct research with a smaller sample size. The focus of this research was to look at a broad scale and trying to understand how this aid affects trading relationships for least developed countries in addition to the way aid affects economic growth in least developed countries. I would like to analyze in more detail some of these cases and figure out why American foreign aid leads to the recipient country bringing in more American goods. I'd also try and understand why does increased aid not lead to more goods being exported to the United States. On this part of the research, I would guess that it is because of the limited economic capacity of these least developed countries, though I would like to conduct more research to see if that is the case or if there are factors that I have not considered that are leading to this occurrence.

I believe that this research is a good start on studying this question, however, it is something that should not conclude here. Future scholars who read this research should look to try and build upon the work that I have done here. They should try to replicate what I have done and potentially add controls and potentially other variables that they think that I may have missed in this research. Also, future research should investigate why this research has the findings that it does. They should study what factors affect a recipient country's use of aid and what domestic factors can help increase or decrease trade that they have with the donor country. This field could use more detailed research into what causes the effects that we are seeing in the foreign aid and trade literature.

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APPENDICES

Additional Research Results

Hypothesis 1:

Pooled Regression Model

Model 2 (obs:978)	Model 3 (obs:894)
N/A	N/A
.091(.023)***	N/A
N/A	.088(.018)***
60.3(51.1)	48.3(58.1)
466.2(33.2)***	483.7(35.8)***
-88.5(35.3)**	-92.6(37.5)**
83.3(40.5)	-3.93(4.17)

*p-values *.10 **.05 ***.01 (p-values) Dependent Variable is US Exports, Clustered Standard Errors, Numbers are coefficients with standard errors in parenthesis, Variables are in millions of U.S. Dollars, Model 2 (3-year lag), Model 3 (5-year lag)*

Random Effects Model

	Model 1 (obs:1063)	Model 2 (obs:978)	Model 3 (obs:894)
US Aid-lag1	.139(.036)***	N/A	N/A
US Aid-lag3	N/A	.091(.023)***	N/A
US Aid-lag5	N/A	N/A	.092(.021)***
WTO	132.6(50.0)***	162.4(63.1)***	188.4(80.2)**
Dpact	449.1(29.9)***	471.4(32.5)***	488.3(35.7)***
Language	-75.82(32.91)**	-79.9(38.2)**	-82.7(42.5)*
Polity	-.649(3.22)	-.565(4.04)	-.979(4.75)

*p-values *.10 **.05 ***.01 (p-values), Dependent Variable is US Exports, Clustered Standard Errors, Numbers are coefficients with standard errors in parenthesis, Variables are in millions of U.S. Dollars, , Model 1 (1-year lag), Model 2 (3-year lag), Model 3 (5-year lag)*

Fixed Effects Models

	Model 1 (obs:1063)	Model 2 (obs:978)	Model 3 (obs:894)
US Aid-lag1	.138(.037)***	N/A	N/A
US Aid-lag3	N/A	.090(.023)***	N/A
US Aid-lag5	N/A	N/A	.090(.024)***
WTO	143.4(52.2)***	187.9(68.4)***	239.3(93.9)**
Dpact	N/A	N/A	N/A
Language	N/A	N/A	N/A
Polity	-.168(3.85)	.089(4.90)	-.273(5.74)

*p-values *.10 **.05 ***.01 (p-values), Dependent Variable is US Exports, Clustered Standard Errors, Numbers are coefficients with standard errors in parenthesis, Variables are in millions of U.S. Dollars, , Model 1 (1-year lag), Model 2 (3-year lag), Model 3 (5-year lag)*

Hypothesis #2:

Pooled Regression Model

Model 2 (obs:978)	Model 3 (obs:894)
N/A	N/A
-.006(.030)	N/A
N/A	-.017(.027)
402.2(228.6)*	408.7(237.4)*
-60.9(215.3)	-87.2(235.0)
-410.2(227.9)*	-439.3(243.6)*
-26.9(24.8)	-30.2(27.4)

*p-values *.10 **.05 ***.01, Dependent Variable is US Imports, Clustered Standard Errors, Numbers are coefficients with standard errors in parenthesis, Variables are in millions of U.S. Dollars, Model 2 (3-year lag), Model 3 (5-year lag)*

Random Effects Models

	Model 1 (obs:1063)	Model 2 (obs:978)	Model 3 (obs:894)
US Aid-lag1	.024(.042)	N/A	N/A
US Aid-lag3	N/A	.013(.025)	N/A

US Aid-lag5	N/A	N/A	-.005(.026)
WTO	609.7(295.4)**	789.2(374.6)**	1002.3(479.4)**
Dpact	-4.87(181.8)	-18.3(196.4)	-50.3(218.1)
Language	-312.4(183.1)*	-340.1(208.1)	-361.0(232.8)
Polity	-7.30(10.0)	-10.8(12.9)	-16.0(16.7)

*p-values *.10 **.05 ***.01, Dependent Variable is US Imports, Clustered Standard Errors, Numbers are coefficients with standard errors in parenthesis, Variables are in millions of U.S. Dollars, Model 1 (1-year lag), Model 2 (3-year lag), Model 3 (5-year lag)*

Fixed Effects Models

	Model 1 (obs:1063)	Model 2 (obs:978)	Model 3 (obs:894)
US Aid-lag1	.021(.042)	N/A	N/A
US Aid-lag3	N/A	.009(.026)	N/A
US Aid-lag5	N/A	N/A	-.015(.031)
WTO	632.3(303.4)**	848.5(397.2)**	1138.3(539.9)**
Dpact	N/A	N/A	N/A
Language	N/A	N/A	N/A
Polity	-5.68(12.5)	-9.22(15.9)	-14.4(19.9)

*p-values * .10 ** .05 ***.01, Dependent Variable is US Imports, Clustered Standard Errors, Numbers are coefficients with standard errors in parenthesis, Variables are in millions of U.S. Dollars, Model 1 (1-year lag), Model 2 (3-year lag), Model 3 (5-year lag)*

Hypothesis #3

Pooled Regression Model

Model 2 (obs.914)	Model 3 (obs.838)
N/A	N/A
-.631(.188)***	N/A
N/A	-.579(.179)***
1.09(.439)**	1.09(.449)**
.670(.582)	.857(.646)
-3.41(.422)***	-3.20(.422)*
-.955(.532)*	-.933(.505)*
-.021(.066)	-.008(.064)

*p-values *.10 **.05 ***.01, Dependent Variable is LDC GDP percent change, Clustered Standard Errors, Numbers are coefficients with standard errors in parenthesis, Variables are in billions of U.S. Dollars, , Model 2 (3-year lag), Model 3 (5-year lag)*

VITA

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