USAID highlights

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A TWO-WAY STREET:

Expanded Trade Promises Opportunities For U.S. Business, Developing Countries

When the Morrison-Knudsen engineering firm was selected by the government of Nepal two years ago to conduct a feasibility study on a major hydropower facility, company officials didn't plan on additional business.

Morrison-Knudsen obtained the Nepal contract, worth $650,000, with the help of the U.S. Trade and Development Program, which is affiliated with the U.S. Agency for International Development (USAID). While carrying out the project, officials from the Idaho firm came in contact with a Chinese company also involved with the study. The Chinese firm was so impressed by the quality of Morrison-Knudsen's work that it asked the American company to examine a similar project in China.

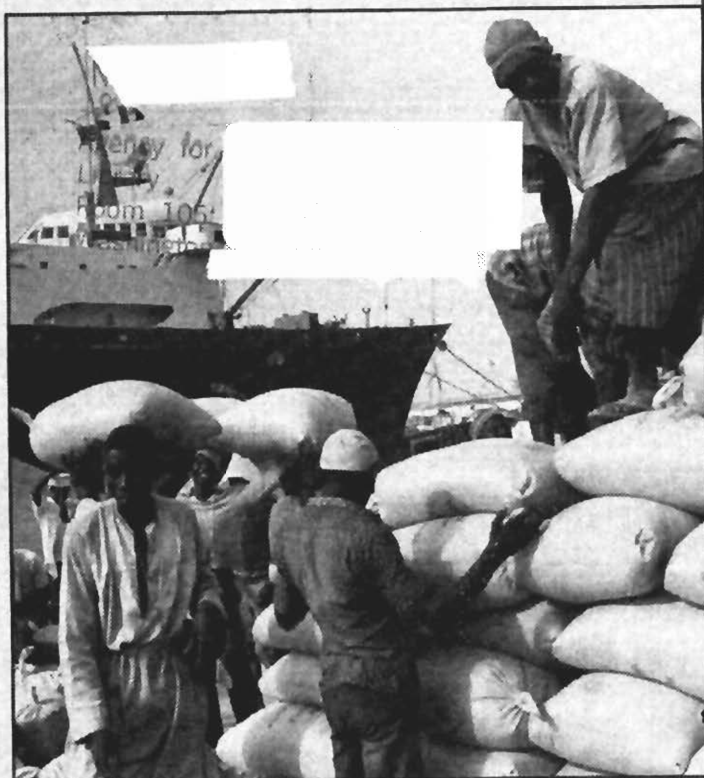
The bottom line: An American firm's skill enabled it to obtain $20 million in additional business in what is potentially the world's largest market.

When the Caribbean Basin Initiative (CBI) was begun several years ago, some people thought that the only outcome would be a deluge of new export products from Caribbean countries to the United States. They were only partly right. Non-traditional exports from USAID-assisted Caribbean countries to the United States have, in fact, increased from $913 million in 1983 to $1.96 billion in 1987. At the same time, the CBI has focused attention on trade opportunities in the region and bolstered the prospects of U.S. firms.

The bottom line: U.S. exports to USAID-assisted Caribbean countries also have grown, from $3.9 billion in 1984 to $4.9 billion in 1987, under a program that, says Jim Fox, a USAID economist, "has clearly been a two-way street."

Although Europe, Canada and Japan are America's biggest trading partners, the situation is changing. In the first 10 months of 1987, for example, $57 billion in U.S. exports went to Europe and $22 billion to Japan. More than $65 billion went to developing and newly industrialized countries.

The bottom line: The developing world is a promising market for U.S. exports.



As developing countries climb the economic ladder, they require more imports, many of which are American.

At a time when U.S. trade policies—and the benefits of trade itself—are being questioned, many developing countries are finding that trade is an integral component of long-term development.

"World trade is one of the primary keys to international economic growth," says USAID Administrator Alan Woods. "Countries that seek sustainable economic growth have found that they must expand and diversify trade."

And, as the three case studies indicate:

- American firms have the products, services, skills and ingenuity to compete in a global economy;
- Developing countries represent a growing part of that economy; and,
- U.S. companies can find fertile markets in the developing world.

Some argue that U.S. trade with the developing world is a one-

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way street and that spurring developing countries to produce and export more will only bring added competition to U.S. farmers, manufacturers and businesses. Why help someone who is only going to become another competitor?

Because, as the CBI and numerous other examples clearly demonstrate, increased trade benefits both the United States and developing countries.

"As countries grow and move up the economic ladder, they import more," says Woods. "They want products from abroad—consumer goods and products that can be used by their industries."

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>
> *Administrator Alan Woods*

Many of those goods and services come from the United States, Woods notes. The Agency's experience shows that U.S. business can often find an eager and expanding market for its products and services in the developing world.

"As the numbers indicate, trade with developing and newly industrialized countries already represents a big chunk of America's total trade volume," says Woods. Further, developing countries, with their large populations and their need to build infrastructure and industry, represent considerable potential for trade and investment in the future.

Economic growth is the key to improving the climate for trade, USAID officials note. And, the best way to ensure long-term growth, attract investment and create demand for U.S. exports is to initiate and maintain the kind of policy environment that encourages the private sector and expands opportunity.

"Poor people and poor countries don't buy much," says Duane Acker, assistant to the USAID administrator for food and agriculture. "The United States needs more strong economies among its potential customers so that markets for our exports continue to grow."

The contrast between two countries that have followed opposite paths offers a clear illustration of the difference that a sound policy environment can make.

South Korea, which has followed market-oriented policies, experienced economic growth of about 8% a year between 1970 and 1987. In 1970, South Korea imported $637 million worth of goods and services from the United States. Today, it buys more than $6 billion in U.S. goods and services.

In contrast, Ghana's state-run economy has grown only about 1% for more than a decade. In 1970, Ghana imported $59 million in U.S. goods and services. Today, Ghana imports only $53 million in U.S. products, a $6 million decline. Recognizing those differences, USAID encourages developing countries such as Ghana to adopt market-oriented policies and free trading, which will promote growth.

"The opening of markets to foreign trade is an important step in accelerating growth," says Richard Bissell, USAID assistant administrator for the Bureau for Program and Policy Coordination.

Because trade and investment are increasingly related, USAID also encourages developing countries to adopt a market-oriented investment climate that attracts foreign investors and increases the contribution of foreign and local investment to economic growth, says Bissell. "Countries then will be able to diversify their economy and attract the investment capital essential for private sector development," he adds.

Bissell points to the example of Jamaica and the Dominican Republic, which have established free-trade zones that are comparatively free of regulation. "These zones have created jobs and boosted private business activity," he notes.

Another example is Costa Rica, where the San Jose-based Coalition for Development Initiatives, funded by USAID, has generated widespread interest and investment by targeting U.S. companies that show potential for doing business in Costa Rica. The organization makes about 800 presentations a year through four promotion offices in the United States.

In addition to promoting sound economic policy in developing countries, USAID works to develop ties between business and industry in the United States and the private sector in developing countries, says Bissell. "That kind of continuing, long-term relationship will meet the broad U.S. objectives to open trade," he adds.

And, the Agency encourages appropriate technology and information transfer to developing countries so they can diversify their agricultural and industrial base. It also supports investment in infrastructure, such as better roads and modern port facilities to move goods to and from markets more efficiently. That, in turn, improves the trade capabilities of developing countries.

As the Agency supports these improvements, it is developing a strong partnership with U.S. business, seeking to help business take advantage of opportunities in the developing world. USAID, in fact, has its own "product line" that helps U.S. businesses expand their opportunities for trade and investment in developing countries. For example:

- USAID missions overseas are knowledgeable about the economic conditions in developing countries and are a valuable source of information for business people, as are embassy staff;
- USAID offers assistance when it knows what business needs to carry on trade or make investments. The Agency encourages changes in host-country regulations that impede investment; and,

• Missions often apply resources directly to assist U.S. businesses. Under the Commodity Import Program, the Agency makes money available to developing countries to purchase U.S. products such as tractors or equipment used in irrigation systems.

The Agency's development programs also call for the use and export of U.S.-made products, including agricultural equipment. In 1985, bilateral U.S. economic assistance to developing countries directly generated about $6 billion in U.S. exports of goods and services, says Acker.

How? By creating demand for these goods and services. For instance, electrification projects such as one under way in Bangladesh rely on U.S.-made poles, cables and insulation and will for years to come. Other projects such as the 20-year-old electric cooperatives in Costa Rica use U.S.-made fans, sewing machines and irrigation pumps. Agency-funded health programs are creating markets for vaccines, syringes and other medical supplies that come from the United States.

"In 1987, 70% of all U.S. exports were bought by countries that have received American economic assistance," Woods points out. "Of the 50 largest buyers of U.S. farm goods, 34 are countries that have received food aid from the United States." Korea, for example, now buys as much from U.S. farmers in one year as it received in 25 years as a food aid recipient.

"The United States has tremendous potential in agriculture production, but the potential for market growth in agriculture is limited," says Acker. "The U.S. population is more stable; per capita consumption, though higher, is generally on a plateau."

In developing countries, population growth is higher while per capita consumption is low and could increase significantly, he says. "There is tremendous growth potential for agricultural products in developing countries," he adds.

Programs such as the CBI have focused attention on the potential and the rewards of trade, says Fox. "The CBI provides incentives for exporters, both in the Caribbean countries and in the United States," he notes. "It is also providing impetus to governments in the Caribbean area to improve their economic policies, which, in turn, will boost growth and provide an even better climate for trade."

The CBI has had another effect, he notes. "As the countries in the Caribbean grow, they are better able to provide jobs and opportunity to their people," says Fox. "That reduces emigration to the United States." The same can hold true for other parts of the world that are experiencing rapid population growth.

DIRECT ACTION: THE U.S. TRADE AND DEVELOPMENT PROGRAM

Other organizations affiliated with USAID have programs that offer direct assistance to business.

The U.S. Trade and Development Program (TDP) is a good example of how the government can help business get in on the ground floor in developing major overseas projects, which often lead to follow-on business opportunities. As Morrison-Knudsen's experience demonstrates, U.S. firms may even capture additional spin-off business. TDP has a small budget - only $25 million in fiscal 1988 - but its results have been impressive.

Created in 1980, TDP provides assistance to developing and middle-income countries and at the same time promotes exports from the United States, says Nancy Frame, deputy director of TDP. "Our office provides grants to countries to undertake feasibility studies for major capital projects," she explains. "The countries, in turn, are required to use U.S. engineering or consulting firms to do the studies."

If an American firm is involved in a project at an early stage, it stands a much better chance at winning follow-on business, says Frame. "It is also more likely that U.S. equipment will be used to carry out the project."

TDP focuses on sectors in which U.S. firms are generally competitive, she adds, and directs its grants to position these firms to get into new markets.

Over the last eight years, the office estimates that about $1.2 billion in U.S. goods and services have been sold overseas through contracts that were an outgrowth of TDP-financed feasibility studies, says Frame. In the next 10 years, that figure is estimated to be more than $7 billion.

At a time when some Americans doubt the quality of U.S.-produced goods and the ability of their country to compete in the world market, Frame says Trade and Development officers receive a different response.

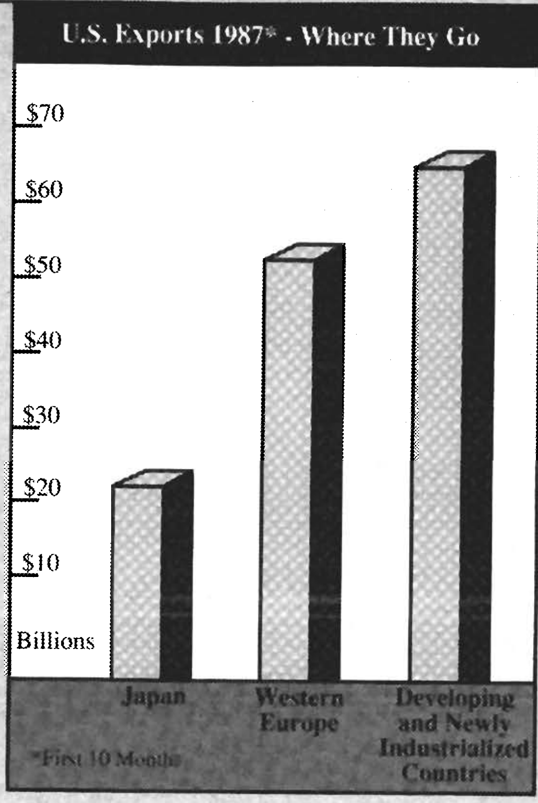
"Many people and companies in developing countries tell us they prefer American products and services," she notes. "But often they are not familiar with U.S. companies or don't know how to get in touch with the right company. Our program helps to bring U.S. firms into contact with officials in developing countries, and it enables U.S. firms to gain a market presence that they might not otherwise have. This presence results in both short-term and long-term benefits for American companies."

OVERSEAS PRIVATE INVESTMENT CORPORATION

The Agency also works with the Overseas Private Investment Corporation (OPIC), a self-sustaining federal agency that receives no congressional appropriations and promotes economic growth in developing countries by encouraging private investment in those countries.

Investment overseas also creates new jobs for Americans as well as new markets for U.S. exports. "Private investment overseas is increasingly considered the surest and most immediate road to the restoration of U.S. competitive leadership in the world marketplace," says Craig Nalen, president and chief executive officer of OPIC.

"For example, more than 30% of U.S. exports go to affiliates and subsidiaries of U.S. companies that have established operations abroad," he notes. "And, since it is estimated that for every $1 billion of U.S. exports, 30,000 new jobs are created in this country, the need for expanding the investment base in overseas markets represents a critical factor in U.S. growth."



A growing recognition of the role that investment plays in building the global economy has prompted many developing countries to establish the kind of economic climate that will foster growth and attract investors, says Nalen. "Leaders of developing countries realize that they must build strong private sector economies that will create jobs and generate capital," he notes. "They are adopting a wide range of policies and reforms to attract investors."

Created in 1971, OPIC currently has two key programs:

- risk insurance, which protects U.S. investors against expropriation or political turmoil, as well as inconvertibility coverage, designed to ensure that earnings, capital and other money can be transferred into U.S. dollars; and,
- direct loans and loan guarantees.

Under the direct loan program, small business can obtain loans up to $6 million for ventures, at market rates.

Under the loan guarantees, any business can obtain a guaranty, ranging from $5 million to $35 million and as high as $50 million, for a project.

By statute, OPIC's 15-member board of directors is composed of seven government officials and eight private sector representatives. USAID's administrator serves as chairman.

A NATURAL PARTNERSHIP

Ultimately, the key to expanded trade lies with countries following policies that encourage and promote economic growth. USAID's trade development policy encourages developing countries to use trade as a key instrument in achieving broad-based, sustained economic growth and to place greater reliance on domestic competitive markets that support more open trade policies.

USAID and American business are natural partners in advancing that process, says Woods. "We share a common interest in liberalizing the economy of developing countries, opening them to trade and investment and stimulating their growth," he says.

That growth will lead to greater demand, which, in turn, will mean increased opportunities for U.S. business and industry. "It is when countries succeed economically that the returns start rolling in for U.S. business," says Woods.

Noting the activities and programs USAID already has to promote trade and help business, Woods says the partnership is only beginning. "It needs to expand and deepen, and I'm confident it will."

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