U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MAY 13 2004

INFORMATION MEMORANDUM

TO: The Administrator

FROM: A-AA/PPC, Barbara Turner

SUBJECT: Aid Creates U.S. Jobs

About a month ago you asked PPC to do a few talking points on how foreign aid creates jobs in the U.S. We've put together some of the facts and figures on exports and trade with LDCs.

Attachment:
How Does Foreign Aid Create Jobs in the U.S.?

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CLEARANCE PAGE FOR INFORMATION MEMORANDUM regarding Aid Creates U.S. Jobs

Clearances:
PPC/DEI:EGrigsby_____ Date 5/12/04
ES:DAller_____ Date_____

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How Does Foreign Aid Create Jobs in the U.S.?

Introduction

We often think that foreign aid is giving for humanitarian or political reasons. The fact of the matter is that foreign aid has many benefits for both the recipient and the donor.

The points below address the question of "How does foreign assistance lead to the creation of jobs in the U.S.?"

There are three causal relationships which link foreign aid to the creation of U.S. jobs.

- Foreign assistance helps the economies of developing countries to grow.
- When these countries grow, demand for U.S. goods and services increases.
- Higher demand for U.S. goods and services creates more U.S. jobs.

At the base of it, the principal is very simple:

- U.S. foreign assistance helps build the economies of developing countries so that an ever-increased number of foreign customers have the income necessary to buy U.S. products.
- The more products and services the U.S. can sell to these new customers, the more new jobs are created at home.

Let's examine more closely these three relationships.

***First*, how does foreign aid result in economic growth in a recipient country?**

- U.S. foreign assistance is designed to promote economic growth in less developed countries. But does it really work?
- The World Bank examined economic growth in 56 less developed countries over a 23 year period.[1] It found that foreign assistance does have a positive impact on growth in these countries, but only if they had good policy environments.
- Consequently, one of the most important ways development assistance promotes economic growth is to assist countries to undertake much needed economic policy reforms. Such reforms enable the private sector to reduce the cost of doing business, to increase productivity and to act effectively as the engine of economic growth.

- Other USAID-funded activities in education, health, HIV/AIDS, democracy and good governance also contribute to economic growth.

***Second*, does economic growth in a recipient country result in increased trade with the U.S.?**

- When developing economies grow and incomes increase, demand for imported goods and services also increases.

- For example, when growth in the Latin American and Caribbean region goes down, U.S. exports to that region also go down. Conversely, when growth in Latin America goes up, U.S. export to that region also go up. (See Figure 1)

    - From 1981 to 1984 GDP in the region declined and from 1981 to 1983 U.S. exports to LAC declined.

    - Conversely, from 1987 to 1997 GDP grew an average annual rate of 6.8 percent, while U.S. exports grew 10.8 percent.

        - In fact U.S. exports actually grew four percentage points faster than GDP growth in Latin America.

- U.S. exports to developing countries already comprise a very large share of overall U.S. trade.

    - In 2002, for example, 45 percent ($312.0 billion) of all U.S. exports ($693.1 billion) were bound for developing countries. (See Figure 2)

    - From a different perspective, developing countries' imports from the U.S. as a percentage of all developing country imports over a 23-year period (1980-2002) averaged 16 percent. (See Figure 3)

        - The minimum of 13.3 percent was reached in 1986 while the maximum of 18.5 percent occurred in 1998.

- As rural incomes rise in developing countries, demand for U.S. goods and services also rises.

    - The International Food Policy Research Institute (IFPRI) found in 1995 that foreign aid in the form of agricultural research greatly improves farmer and overall rural income in developing countries which ultimately leads to expanded markets for U.S. exports.[2]

    - Specifically, the knowledge gained from research allows farmers to produce larger crops, resulting in greater demand for inputs such as

fertilizer and seed, as well as capital equipment and repair services, benefiting both local suppliers and U.S. producers of these products.

- IFPRI estimates that, ultimately, the value of additional imports from the U.S. exceeds the initial cost of research.

***Third*, does increased trade with the U.S. create more U.S. jobs in the U.S.?**

- U.S. exports to developing countries already support a significant number of jobs and are a very large component of the U.S. economy.

- The U.S. Department of Commerce found that in 1997 exports of *manufactured* goods from the U.S. to all countries supported approximately 7.7 million U.S. jobs, 4.4 million of which were not even in the manufacturing sector itself.[3]

- Of all 20.84 million U.S. manufacturing jobs, 15.8 percent relied directly on the export market. It also found that export production, and consequently jobs, broadly distributed throughout the United States.

POC: GMorrill, PPC/DEI/ESPA, 5/3/04, 6.9-72, X 2-5557

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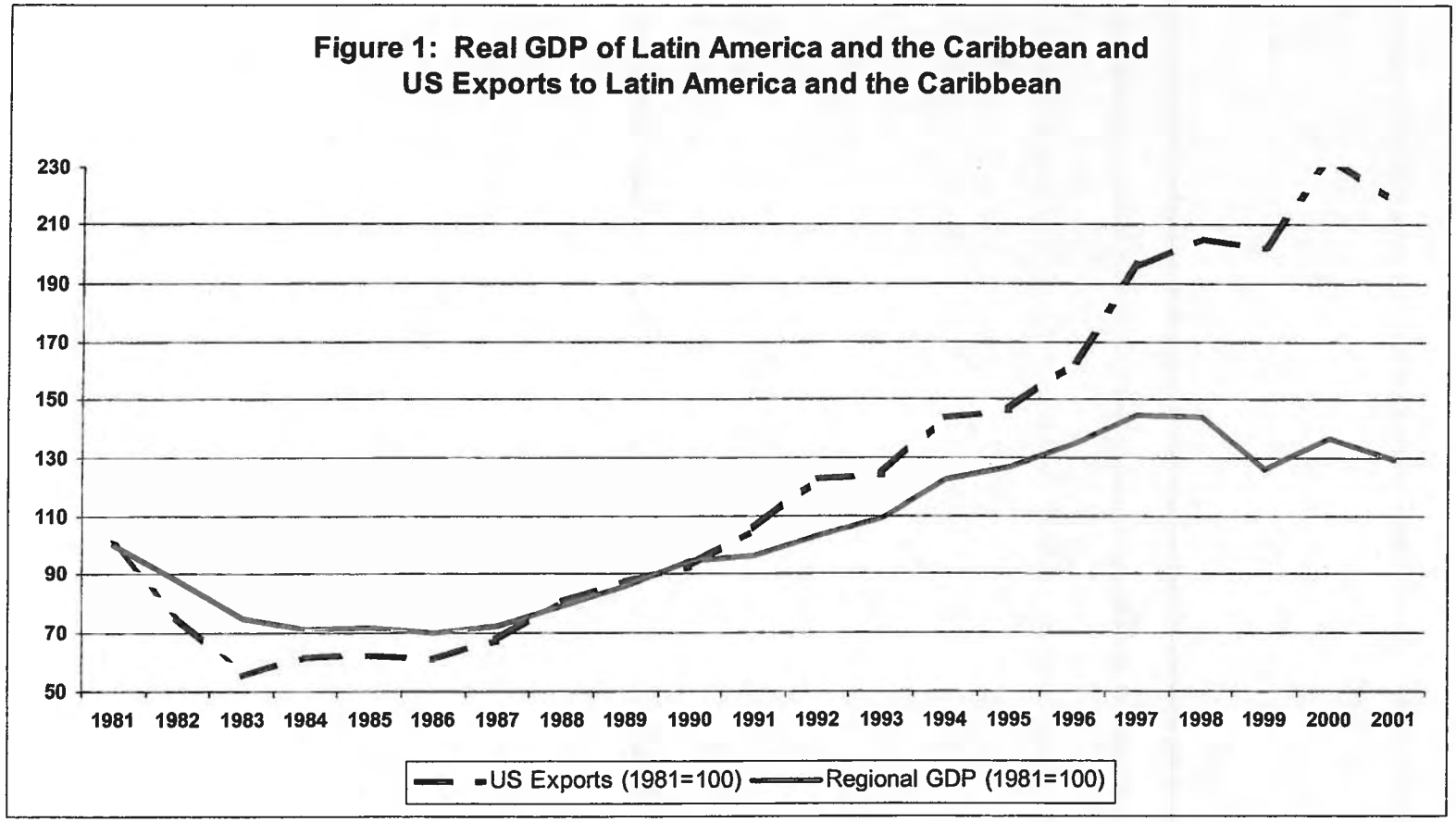
[1] Burnside, Craig; Dollar, David, "Aid, Policies, and Growth", *American Economic Review*, vol. 90, no. 4, September 2000, pp. 847-868.

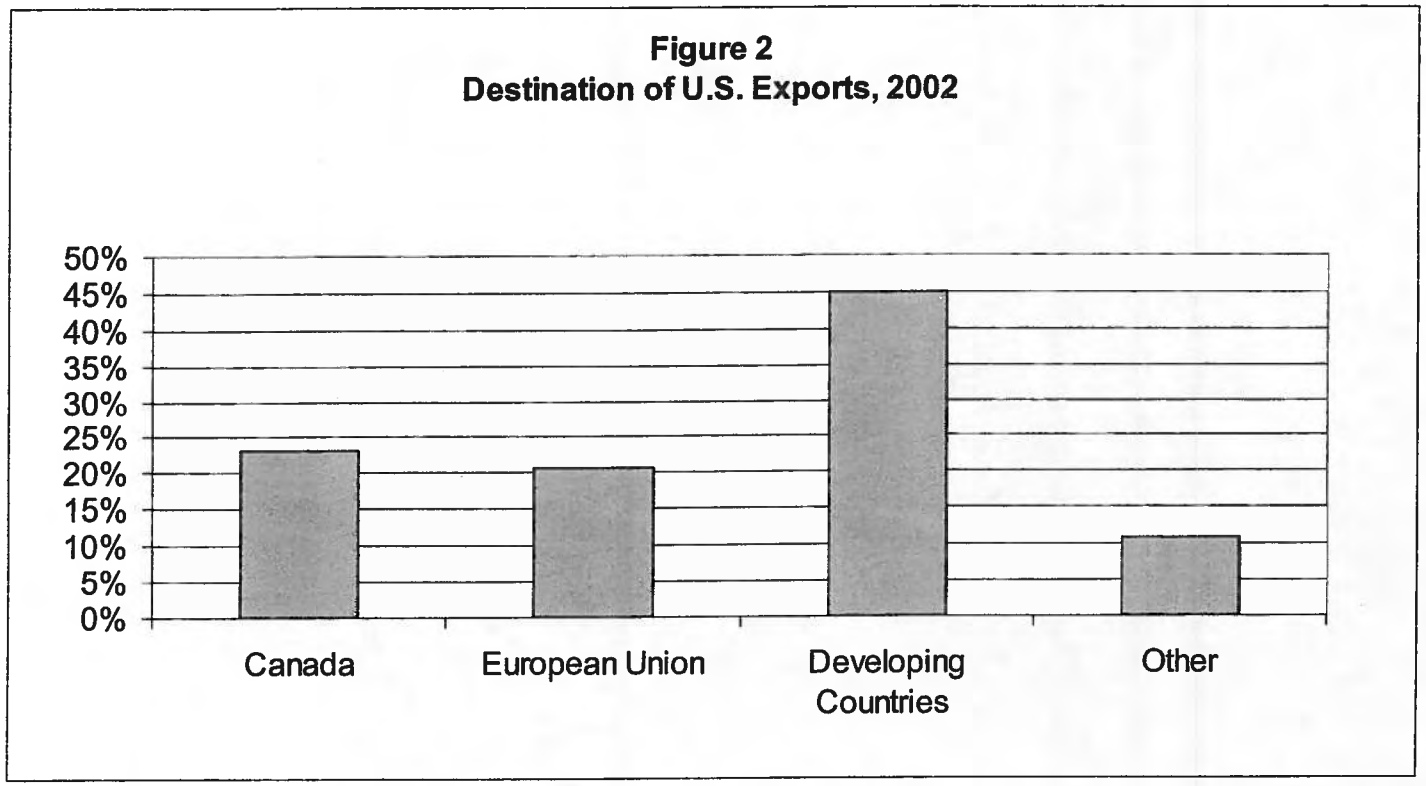
[2] Pinstrup-Andersen, Per; Lundberg, Mattias; Garrett, James L., "Foreign Assistance to Agriculture: A Win-Win Proposition", *Food Policy Report*, The International Food Policy Research Institute (IFPRI), June 1995.

[3] United States Department of Commerce, International Trade Administration, Office of Trade and Economic Analysis, U.S. Jobs from Exports: A 1997 Benchmark Study of Employment Generated by Exports of Manufactured Goods, February 2001.



Latin America and the Caribbean (as defined by the World Bank)

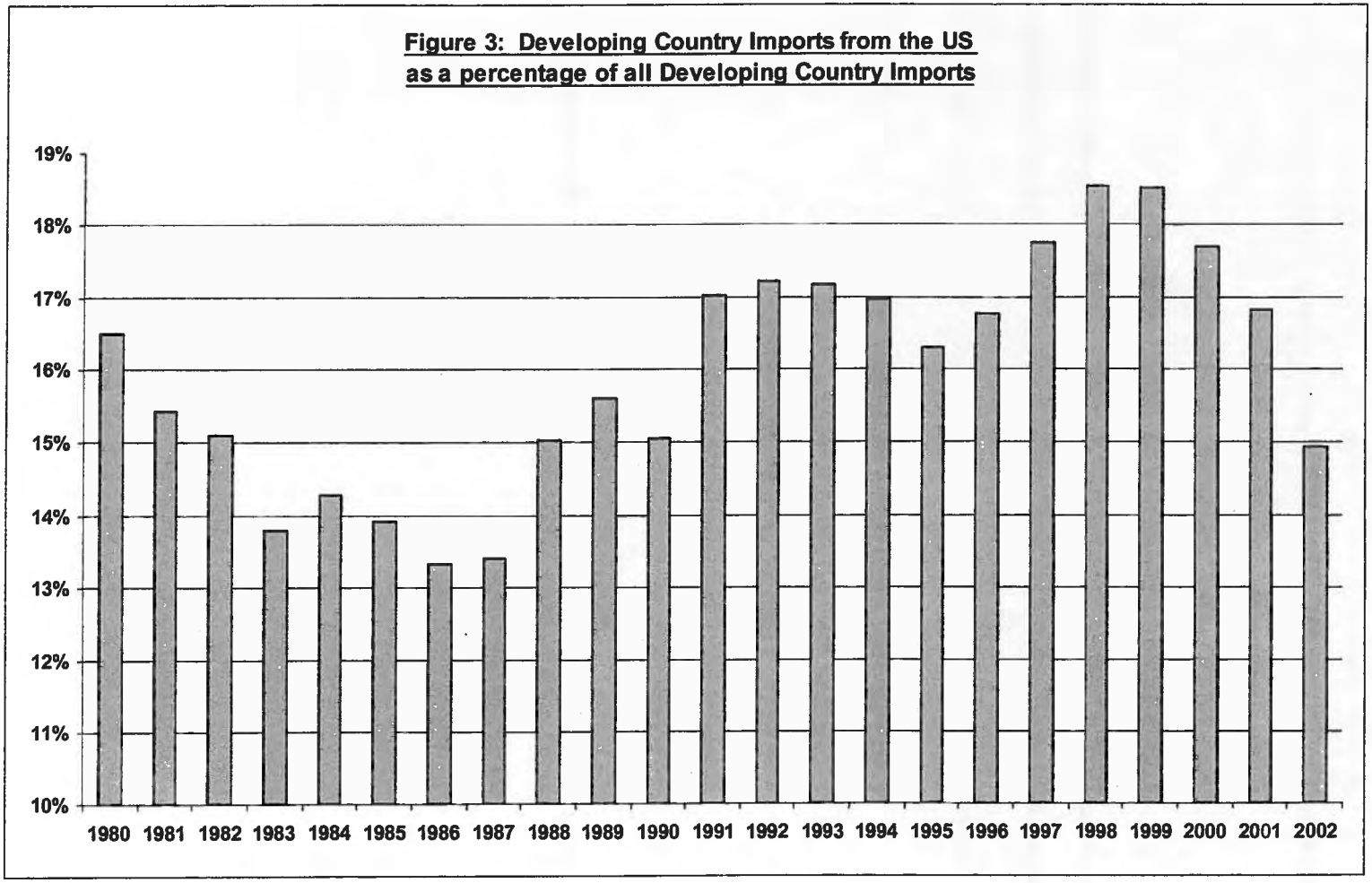
Argentina
Antigua and Barbuda
Belize
Bolivia
Brazil
Barbados
Chile
Colombia
Costa Rica
Cuba
Dominica
Dominican Republic
Ecuador
Grenada
Guatemala
Guyana
Honduras
Haiti
Jamaica
St. Kitts and Nevis
St. Lucia
Mexico
Nicaragua
Panama
Peru
Puerto Rico
Paraguay
El Salvador
Suriname
Trinidad and Tobago
Uruguay
St. Vincent and Grenadines
Venezuela



Exports from the United States in 2002 (in $ billions)

	Exports, in billions	Exports, percent of total
To		
Canada	160.8	23.20%
European Union	144.09	20.79%
Developing Countries	312.04	45.02%
Other	76.19	10.99%
Total	693.12	100.00%

From: International Monetary Fund, Direction of Trade



See the following page for a list of the developing countries.

Middle East

Bahrain, Kingdom of
Egypt
Iran, I.R. of
Iraq
Israel
Jordan
Kuwait
Lebanon
Libya
Oman
Qatar
Saudi Arabia
Syrian Arab Republic
United Arab Emirates
Yemen Arab Rep.
Yemen, P.D. Rep.
Yemen, Republic of

Western Hemisphere

Antigua and Barbuda
Argentina
Aruba
Bahamas, The
Barbados
Belize
Bermuda
Bolivia
Brazil
Chile
Colombia
Costa Rica
Dominica
Dominican Republic
Ecuador
El Salvador
Falkland Islands
Greenland
Grenada
Guadeloupe
Guatemala
Guiana, French
Guyana
Haiti
Honduras
Jamaica
Martinique
Mexico
Netherlands Antilles
Nicaragua
Panama
Paraguay
Peru
St. Kitts and Nevis
St. Lucia
St. Pierre-Miquelon
St. Vincent & Grens.
Suriname
Trinidad and Tobago
Uruguay
Venezuela, Rep. Bol.

Developing Countries as classified by the 2003 IMF Direction of Trade Yearbook

Africa

Algeria
Angola
Benin
Burkina Faso
Burundi
Cameroon
Cape Verde
Central African Rep.
Chad
Comoros
Congo, Dem. Rep. of
Congo, Republic of
Côte d'Ivoire
Djibouti
Equatorial Guinea
Ethiopia
Gabon
Gambia, The
Ghana
Guinea
Guinea-Bissau
Kenya
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Morocco
Mozambique
Niger
Nigeria
Réunion
Rwanda
St. Helena
Sao Tomé & Príncipe
Senegal
Seychelles
Sierra Leone
Somalia
South Africa
Sudan
Tanzania
Togo
Tunisia
Uganda
Zambia
Zimbabwe

Asia

Afghanistan, I.S. of
American Samoa
Bangladesh
Brunei Darussalam
Cambodia
China,P.R.: Mainland
China,P.R.:Hong Kong
China,P.R.:Macao
Fiji
French Polynesia
Guam
India
Indonesia
Kiribati
Korea
Lao People's Dem.Rep
Malaysia
Maldives
Mongolia
Myanmar
Nauru
Nepal
New Caledonia
Pakistan
Papua New Guinea
Philippines
Samoa
Singapore
Solomon Islands
Sri Lanka
Thailand
Tonga
Tuvalu
Vanuatu
Vietnam

Europe

Albania
Armenia
Azerbaijan
Belarus
Bosnia & Herzegovina
Bulgaria
Croatia
Cyprus
Czechoslovakia
Czech Republic
Estonia
Faeroe Islands
Georgia
Gibraltar
Hungary
Kazakhstan
Kyrgyz Republic
Latvia
Lithuania
Macedonia, FYR
Malta
Moldova
Poland
Romania
Russia
Slovenia
Slovak Republic
Tajikistan
Turkey
Turkmenistan
Ukraine
U.S.S.R.
Uzbekistan
Yugoslavia, SFR
Yugoslavia, Fed. Rep