2018

Shared Interest: How USAID Enhances U.S. Economic Growth

United States Agency for International Development

USAID

USAID
FROM THE AMERICAN PEOPLE

SHARED INTEREST: HOW USAID ENHANCES U.S. ECONOMIC GROWTH

TANYA MARTINEAU, PROSPECT ARTS, FOOD FOR THE HUNGRY

OVERVIEW

The primary objective of United States Government (USG) foreign assistance is to promote U.S. and international security and prosperity by bolstering economic and political stability and self-reliance in developing countries. There is no doubt that investing in global development progress is vital to U.S. national security. However, USG foreign assistance through United States Agency for International Development (USAID) also benefits the U.S. economy and U.S. workers. As one of the most internationally competitive economies in the world, the U.S. is a major exporter of goods and services, and our exports are in demand the world over. As countries get richer, they want to buy more U.S. products and services. Over the past 10 years, almost two-thirds of the growth in U.S. goods exports was to major USAID partners. This strong export growth was critical to pulling the U.S. out of the most recent recession. By supporting economic growth and self-reliance in developing countries, USAID helps create better, stronger and more resilient markets for U.S. exports.

USAID supports economic growth in developing countries by supporting domestic private sector development, and helping countries attract and make good use of foreign direct investment (FDI), including from U.S companies. For example, USAID projects support private farmers in partner countries, including helping smallholder family farms commercialize. Other obstacles to economic growth in developing countries include lack of financing for domestic firms to expand, and unreliable and expensive energy; USAID programs help countries tackle these challenges too. USAID missions advise governments on how to increase private investment including FDI by reforming laws, regulations and procedures that were well intentioned but have raised the cost of doing business or the costs of importing and exporting. USAID has found that a little expert advice and support, tailored to country situations, can bring huge economic dividends.

Developing countries need to build their own capacity to supply essential public services, and finance access to services for poorer households. If not, growth will be impeded through failure to develop human capital. USAID's global health programs maintain healthy families in partner countries through programs that cover health needs throughout the lifecycle, ranging from childhood development to maternal health and reduction of adult mortality. Education programs improve access to schools as well as learning within schools. Water supply and sanitation programs ensure access to these services critical for health. The objective of all these programs is not just to help today's population but to also support countries' own capacity to finance, ensure access, and assure quality of these critical services for their population.

Growing the American economy by supporting economic growth in developing countries makes sense. Of course, USAID programs do not support U.S. economic growth by themselves; they complement other programs financed and implemented by other parts of the USG, other donors, and countries themselves, that encourage private sector investment and development. When countries have the commitment to move forward economically, USAID programs can provide the needed capital, technology, ideas, and know-how to assist them. USAID is both from the American people and for the American people.

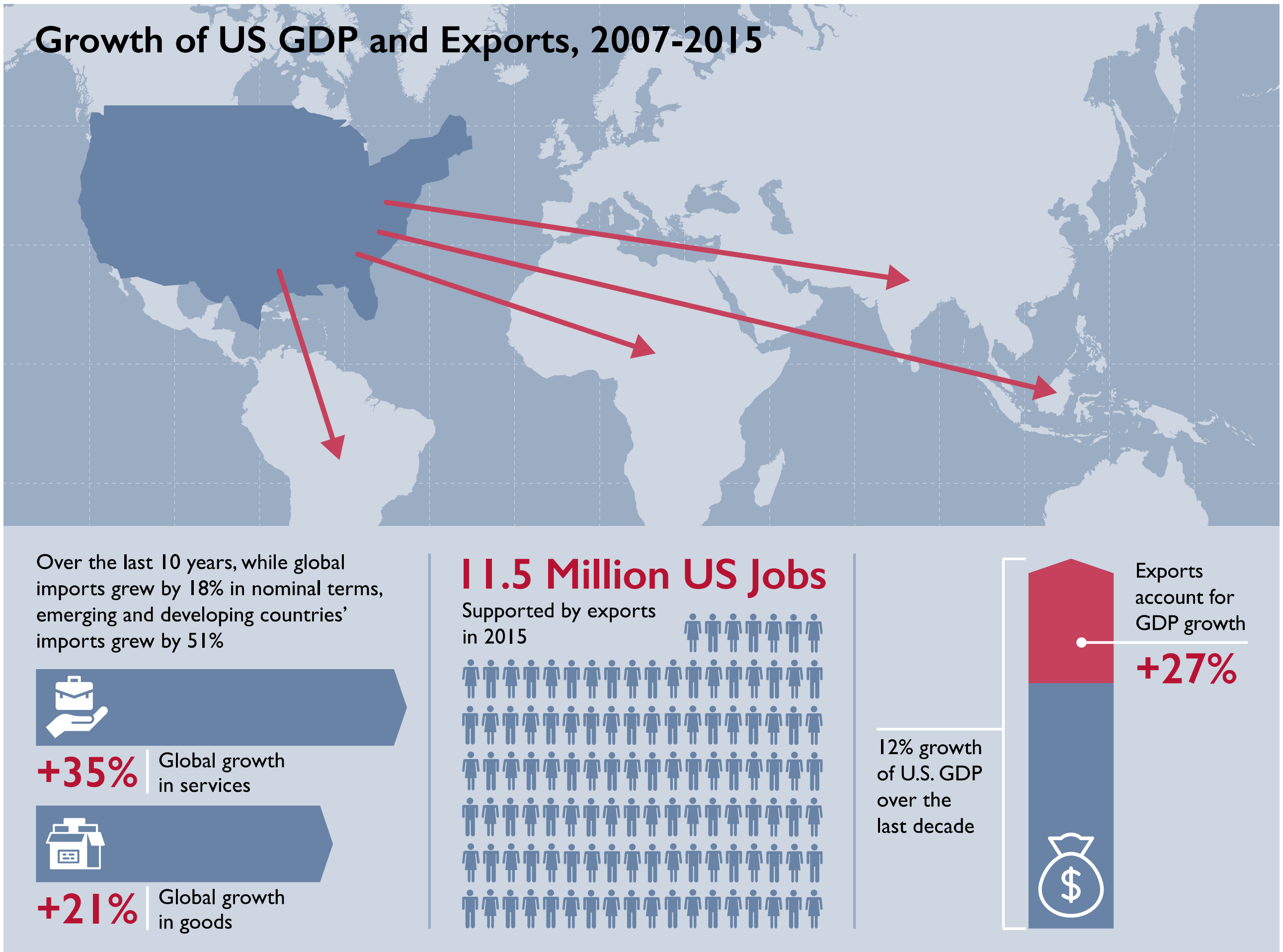
INTRODUCTION

The primary objective of United States Government (USG) foreign assistance is to promote U.S. and international security and prosperity by bolstering economic and political stability and self-reliance in developing countries. There is no doubt that investing in global development progress is vital to U.S. national security. However, USG foreign assistance through USAID also benefits the U.S. economy and U.S. workers. By supporting economic growth in developing countries, USAID helps create better, stronger and more resilient markets for U.S. exports. In addition, USAID programs benefit supply chains of strategic importance to specific U.S. industries that rely on key imports from developing countries for their production.

Aid assistance from bilateral and multilateral donors to developing countries has been an important contributor to global growth and poverty reduction. Aid supports growth in developing countries by (i) providing the needed capital for investments such as roads and transportation networks, social service infrastructure, telecommunications, energy, water supply and solid waste management, and (ii) introducing newer technology that has raised productivity and living standards in richer countries, allowing countries to grow at a faster rate. Major achievements that resulted from development assistance include the Green Revolution,[1] disease reduction,[2] higher education levels, and improved monetary and non-monetary welfare of the poor. Newer research on aid effectiveness shows that development assistance has helped countries develop more resilient infrastructure, a better educated workforce, and escape poverty. Research has found that a sustained aid inflow equal to 5 percent of the recipient country's GDP results in a 1.5 percent increase in GDP growth, a rise in the share of investment in GDP—by over 10 percentage points - increased educational attainment, boosts in life expectancy, and significant reductions in extreme poverty.[3]

For 55 years, USAID has provided strong global leadership in development and foreign aid, working hand-in-hand with partner organizations and governments. Aid modalities and mechanisms have changed over time and led to improved effectiveness of development aid and USAID's programs. Increased-local partnerships have shown major results—such as better policies and higher returns—in Africa in particular. A number of USAID recipient countries have graduated to OECD status and some—such as Brazil, Chile, Hungary, Republic of Korea (South Korea), and Poland—have become or are on the road to becoming donors. These successes are possible because USAID programs focus on sustainability, both in the medium and longer term. Our investments are designed to achieve long-term success without reducing the economic growth or people's welfare after external assistance ends.

Less widely recognized is the role of aid-supported economic growth and social progress in growing the American economy. As one of the most internationally competitive economies in the world,[4] the U.S. is a major exporter of goods and services. Most of the goods and services the U.S. exports are income elastic, meaning that as countries get richer, they buy more of the goods the U.S. sells.[5] ***Over the past 10 years, almost two-thirds of the growth in U.S. goods exports was to major USAID partners. This strong export growth was critical to pulling the U.S. out of the most recent recession.***



As countries develop, they become attractive for U.S. private capital investors and are integrated into global supply chains managed by major U.S. firms. This progressive cycle also benefits the U.S. economy. For example, the Boeing supply chain for the 787 Dreamliner spans more than 100 countries.[6] And without green coffee beans from Africa, Latin America and Asia, there would be no U.S. specialty coffee wholesale and beverage industry; the retail U.S. specialty coffee business alone was valued at more than $26 billion in 2015.[7]

USAID complements other channels used by the U.S. Government to support global economic growth and prosperity, and ensure a level global playing field. USAID supports the economic stability of countries whose own exports are vital to U.S. industries and works with these countries to strengthen the quality of their products and their capacity to move their goods through their borders and into the U.S. in a timely fashion. For example, in today's global economy, countries that compete with the U.S. may seek to monopolize trade and supply links in developing countries with a large market share in key commodities. A strong USAID presence in the developing country can complement diplomatic efforts to prevent this monopoly from happening.

This paper reviews the linkages between USAID programs in developing countries and the growth of the U.S. economy. It starts with the big picture—what the U.S. gains through export sales to developing countries, and how these sales can support U.S. jobs and help grow the U.S. economy.

Having established this critical link, the paper analyzes how USAID programs support economic growth in developing countries, highlighting some of the many positive outcomes that can be at least partially attributed to successful USAID programs in sectors such as agriculture, education, finance, infrastructure, and health. In some cases, actual increases in overseas sales from companies can be attributed to USAID programs. The paper then highlights a few of the many cases where USAID programs support the supply of commodities that are critical to domestic industry and thereby ensure the survival of these sectors in the United States.

THE BIG PICTURE: DEVELOPMENT, TRADE, U.S. ECONOMIC GROWTH, AND U.S. JOBS

With more than 95 percent of the world's consumers and 80 percent of the world's purchasing power outside the United States, future economic growth and American jobs increasingly depend on expanding U.S. trade and investment opportunities in the global marketplace. In the past 10 years, export growth has been high, and exports to developing countries have been supporting U.S. jobs.[8]

An expansion in goods and services export growth has been one of the drivers of overall U.S. economic growth, as explained below:

- Over the past decade, U.S. GDP rose by 12 percent and U.S. exports of goods and services grew by 29 percent (27 percent for goods exports, 29 percent for total exports).[9] During this time, exports of goods and services accounted for 27 percent of U.S. GDP growth.[10]

Rapidly expanding markets in developing countries are an important factor in U.S. export success.

- Growth in global goods imports has not been evenly distributed geographically, however, with emerging and developing countries leading the way. Over the past decade, emerging and developing countries' imports grew by 51 percent, while global imports grew by only 18 percent in nominal terms.[11]

U.S. producers have been selling in these fast-growing markets.

- U.S. goods exports to low- and middle-income countries have grown by 40 percent over the past 10 years, driven by growth in the regions of East Asia and the Pacific (62 percent), Latin America and the Caribbean (50 percent), Sub-Saharan Africa (23 percent), and Eastern and Central Asia (20 percent).[12]

- Even U.S. exports to USAID graduate countries—countries no longer receiving USAID assistance—have expanded. U.S. goods and services exports to the 11 Europe and Eurasia graduates increased substantially, from more than $2 billion in 1995 to over $10 billion in 2015, a fivefold increase in 20 years.[13]

Even smaller developing countries can contribute disproportionately to U.S. export growth.

- For example, between 2000 and 2015, Liberia's per capita GDP rose from $183 to $456. At the same time, the United States transitioned from a $2.5 million trade deficit with Liberia to a $91 million surplus. This shift illustrates that even small gains in per capita income can lead to large changes in the trade balance with the United States.

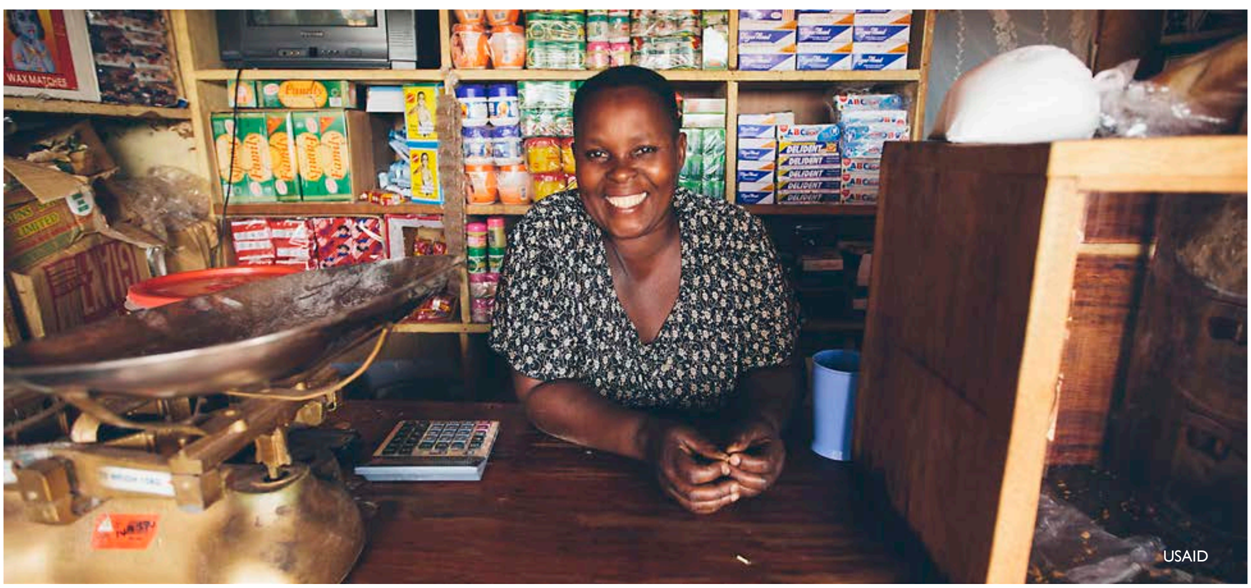
Service exports are important as well. Trade data track the exports of goods, but often do not include service exports, as these used to be small. However, the share of services in total exports is growing and the U.S. is a major supplier.

- While growth in goods grew globally by slightly less than one-quarter (21 percent) from 2007-2015, growth in services grew by more than one-third (35 percent). In terms of major USAID-assisted partners, this growth was driven by Brazil (146 percent), India (84 percent), Indonesia (43 percent), and the Philippines (14 percent). The main growth sectors were travel, telecommunications, charges for use of intellectual property and financial services.[14]

Increased demand in developing countries creates U.S. jobs:

- U.S. exports to Africa, Asia, and Latin America create a significant number of jobs in the United States. In 2015, jobs supported by total U.S. goods and services exports totaled 11.5 million, led by Asia and the Pacific, which supported 3.4 million jobs alone.

- While U.S. goods and services exports to Indonesia supported 33,877 U.S. jobs 10 years ago, that number has grown consistently, reaching 56,325 jobs in 2015. Exports to Brazil have generated significant rates of growth, from 170,570 U.S. jobs in 2006 to 307,853 in 2015.[15]



In sum, many jobs in the U.S. have been created or saved through the export performance of U.S. companies, especially to new markets in developing countries.

HOW USAID PROGRAMS HELP ECONOMIES GROW, CREATING SALES FOR U.S. FIRMS AND JOBS FOR U.S. WORKERS

Through a diversified portfolio of programs and initiatives, USAID works to support rapid, sustainable and more responsible growth in partner countries. The following section highlights key sectors where USAID's programming has realized strong results and contributed to improved economic outcomes by: (1) strengthening financial markets, (2) increasing access to energy, (3) raising agricultural productivity, (4) supporting the enabling environment for private business, (5) improving educational attainment, (6) achieving better health outcomes, and (7) responding to crises. Together, these sectors highlight the benefits that accrue to both partner countries and the wider U.S. economy from investments in high-value development programs.

MACROECONOMIC STABILITY

Macroeconomic stability is critical for growth. ***Developing countries commonly experience currency and balance of payment difficulties, with significant negative impacts on growth and economic stability.*** These crises can be the result of a sudden shock, or caused by underlying structural problems that compromise a country's ability to meet import demands or international debt repayment obligations.

USAID macro-financial assistance (MFA) is normally used as a supplement to multilateral macroeconomic assistance, and is provided through a number of different mechanisms including cash transfers, sovereign bond guarantees, debt relief and government-to-government lending. Unlike traditional USAID program support, it is not tied to specific projects but instead provides for general financing needs or financing needs in specific sectors. In recent years, USAID has increasingly provided MFA through sovereign bond guarantees. Recent beneficiaries include Ukraine, Tunisia, and Jordan.

- Twelve sovereign bond guarantees were extended from the United States to six countries between 1992 and 2016, seven of them over the past five years, for total issuance of US$22.8 billion.

FINANCE

A strong, diverse and well-regulated national financial system is essential for economic growth. Effective financial intermediation stimulates stronger economic growth by making access to capital and financing cheaper, and leveraging private capital to invest in domestic firms. The market constraints and limited regulatory frameworks of developing countries make effective intermediation very difficult and tend to result in very shallow financial sectors. Developing countries tend to have few types of financial institutions that offer limited products with high interest rates and transaction costs. This situation results in lower credit-to-GDP ratios handicapping private business investment, which, in turn, limits economic growth.[16] Without the ability to access finance, it is difficult for new businesses to enter the market or for existing businesses to grow and expand. Small businesses face particularly high barriers to credit, as they typically have weak accounting systems and few assets that could be used for collateral.

To increase access to financing, USAID's Development Credit Authority (DCA) uses loan guarantees to encourage private financial institutions to lend to underserved borrowers, increasing access to finance and promoting growth.

Africa is the largest recipient of DCA guarantees (47 percent) followed by Asia (32 percent); the portfolio includes the agriculture (33 percent) and energy (19 percent) sectors, among others. DCA has a low default rate (2.6 percent); as a result, the USG has collected almost as much in fees from the lenders as it has had to pay out in claims.

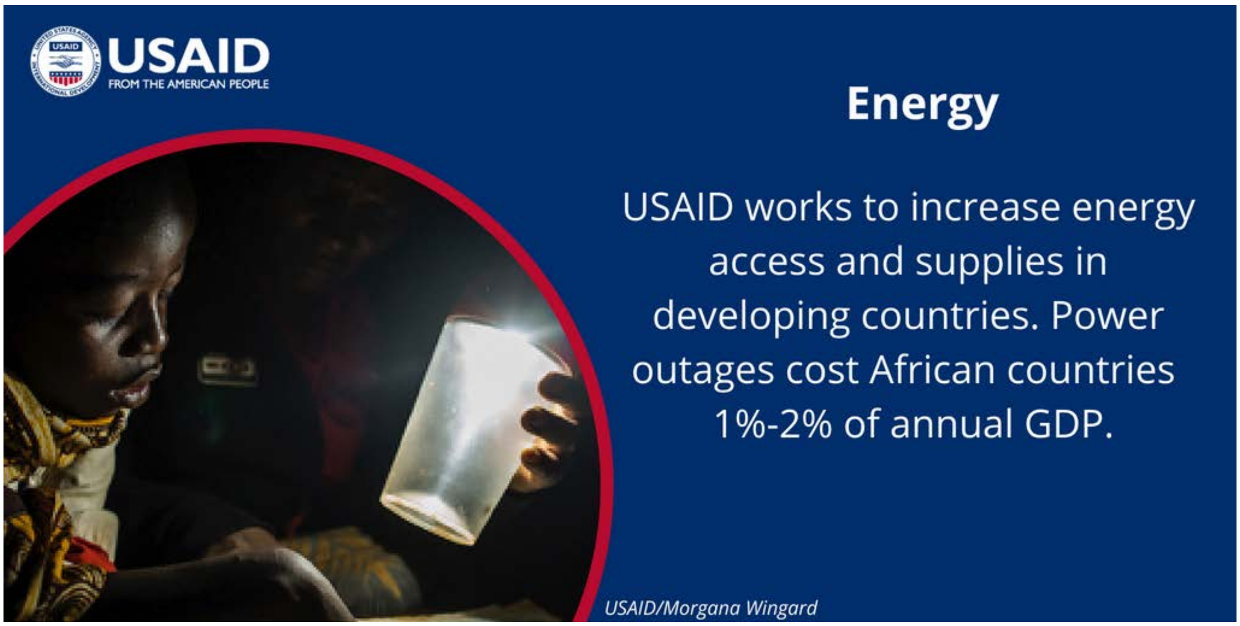
- Since 1999, DCA has mobilized $4.8 billion in private capital through 542 guarantees in 76 countries to more than 246,000 borrowers.
- DCA is a powerful tool used to leverage USG resources. For every $1 USAID spends to put a DCA guarantee in place, $8.60 is disbursed from the private sector.[17]
- In 2016 alone, DCA mobilized $892 million through 56 guarantees in 27 countries.

DCA guarantees enable U.S. investors and companies to expand into developing countries. For example:

- DCA guaranteed a senior loan from JP Morgan Chase to the African Agricultural Capital Fund, which is financing agribusinesses across East Africa.
- DCA guaranteed a loan to Sproxil Inc., an American developer of a patented, text message-based drug authentication system, for their expansion in Africa and India.

ENERGY

An inadequate supply of electricity hampers growth in the developing world. Developing countries will account for 65 percent of the world's energy use by 2040.[18] Lower-income countries suffer from an energy supply deficit, primarily due to under-investment in generation, which can be caused by inability to access long-term finance and/or ineffective regulatory frameworks. Management failures of public monopolies also compound energy shortages; symptoms of failures are waste, low cost recovery and lack of investment. USAID supports greater commercialization of energy utilities, which can improve revenue collection, accountability and financial viability, which, in turn, encourages private sector investments in power generation.



Private sector investment is essential to meeting growing demand. USAID helps build reliable power generation and distribution systems by supporting reforms to the enabling environment and providing transaction support to attract greater private investment. To do this, USAID works with beneficiary countries to create policy, legal and regulatory frameworks, and stronger national and regional energy markets. Programs also focus on energy sector reconstruction, increasing access through an expanded grid supply and scaling off-grid decentralized energy technologies, promoting energy security, and integrating energy services to advance other sectors.

Energy access in Africa is a complex problem. Power outages are estimated to cost African countries 1 to 2 percent of their GDP annually.[19] Connecting the entire continent's household population by 2030 will cost an estimated $835 billion, far more than is available through public sector financing.[20] To tackle Africa's energy crisis, the USG launched Power Africa - a public-private partnership coordinated by USAID (comprised of 12 USG agencies). This effort focuses on: (i) leveraging partnerships to minimize costs to American taxpayers and African governments, (ii) supporting private companies at all stages of power project development, and (iii) supporting governments, utilities and regulators to develop laws and policies that attract private investment and lead to growth.

Expanding energy markets provides an opportunity for American companies to export energy sector equipment and software to developing countries.[21] Below are examples of these types of opportunities:

- U.S. exports of power generation infrastructure to USAID-assisted countries totaled $3.6 billion in 2015.
- USAID's partnership with the U.S. Energy Association connects private sector partners such as Alstom Grid, GE Energy Management, National Grid, Pacific Gas and Electric, Hawaiian Electric Company, SunPower, First Wind, and Ventyx with local governments, industry and other energy sector stakeholders. For example, USAID provided technical assistance for the development of a solar project, which resulted in U.S. Company Azure Power winning a significant tender for 46 MW of solar rooftop systems in India. Azure is now the top power plant operator under the India National Solar Mission.
- In Africa, USAID has leveraged nearly $52 billion in external commitments, including more than $40 billion from the private sector alone. Transactions in the pipeline that have not yet reached financial close have the potential to generate an additional $6.2 billion in U.S. exports and could support more than 36,000 Americans jobs by 2030.
- GE deals in Africa have led to the export of $250 million in U.S.-manufactured power equipment since 2013, securing 1,500 U.S. jobs.

AGRICULTURE

Agriculture accounts for a large share of GDP in developing countries and employs more than half of the workforce. Nearly three-quarters of poor people in developing countries live in rural areas and over half of the Sub-Saharan Africa labor force works in agriculture. Investing in higher productivity agricultural activities has been shown to be one of the most effective ways of increasing incomes and driving economic growth in developing countries. Raising productivity helps increase rural earnings and, by reducing the cost of living for workers in the growing non-farm economy, it supports structural transformation.[22]

USAID leads the USG's food security initiative, Feed the Future, coordinating with 10 other USG agencies and departments to provide integrated support to smallholder farmers in developing countries, with the goal of raising productivity and increasing food security and resilience. These efforts support increased earnings for smallholder farmers and reduce rural poverty in a variety of ways,[23] including as follows:

- Investing in cutting-edge scientific and technological agricultural research often provided by U.S. universities and firms to develop stronger seeds and greener fertilizers so farmers can grow more;
- Developing agricultural markets, expanding trade and using mobile phones to provide real-time prices, so farmers can sell what they grow at a profit;
- Providing access to capital and extension services, so farmers can expand farms, buy equipment and learn the best techniques for growing and storing crops; and,
- Helping countries design and implement phytosanitary standards to ensure the safety of their domestic food supply and exports.

As a result of the USG funding, 11 million farmers in 2016 applied new technology or management practices, resulting in $906 million of incremental sales in their domestic markets.

ENABLING ENVIRONMENT FOR BUSINESS INVESTMENT AND GROWTH

Private sector development, including improving the business enabling environment and supporting entrepreneurship, is necessary for inclusive economic growth. In the absence of good governance, households, workers and firms face greater risks with fewer protections and limited recourse to social safety nets. Poor land tenure security and weak property rights limit access to capital and investment by households.[24] Weak or insufficient labor protections expose workers to insecure and potentially hazardous employment. Poor contract enforcement inhibits firm growth and deters both public and private investment. Collaboration between public and private sectors is particularly important when it comes to boosting productivity. But in the absence of strong institutions the alliance can become dysfunctional, with both sectors colluding in the pursuit of profit at the expense of the consumer and investors outside of the elite circle. Without an adequate enabling environment, partner governments struggle to attract private sector investment.

Creating and maintaining an effective enabling environment requires a strong and transparent regulatory framework for business transactions. USAID supports commercial law reforms, promotes women's economic empowerment for equal rights and opportunities, and supports entrepreneurship through license streamlining, automation, procurement processes as well as simplification of tax and customs procedures that otherwise raise the cost of doing business and trade. These efforts create a more level playing field for all investors.

Serbia serves as a good example. Since 2011, USAID's Business Enabling Project with the Government of Serbia has led to several significant changes, such as: the adoption of a new budgeting methodology to increase transparency and accountability; the drafting and implementation of the Capital Markets Law and bylaws; and support for a new Labor Law to make the Serbian market more flexible and competitive for foreign direct investment. Over this period, Serbia rose from 89 (2011) to 59 (2016) in the World Bank's Ease of Doing Business rankings.

And in the Kyrgyz Republic, USAID organized more than 1,200 consultations with civil society and provided training to over 160 civil society leaders to increase awareness of legal rights and responsibilities, and strengthen compliance with and standards for preparing and drafting laws.

EDUCATION

By developing skills in the workforce, community and society, education accelerates growth. Education affects economic growth by: (i) increasing human capital which raises labor productivity; (ii) increasing the economy's innovative capacity which promotes growth through new technologies, products and processes; and (iii) lessening the learning curve for knowledge needed to process new information and implement new technologies.[25] Individual earnings increase by 10 percent, on average, with each year of school completed; education has multiplier effects on other investments as well such as in agriculture, finance and health.[26] In developing countries, improving school access and quality—not only at the basic level but also in higher education—are key drivers of economic growth.[27] Increasing a country's average level of higher education by just one year can add half a percentage point of growth to GDP.

Education builds skills, which is why quality of education matters as much as access for economic effects. USAID's reading assessments show that in many low-income countries, more than half of the students in the early grades cannot read a single word. Countries have learned that efforts to ramp up access to education must be complemented by investments to ensure that the quality of education is preserved or improved.

USAID is committed to improving the equitable access and quality of education in beneficiary countries. From 2011 to 2015, results under the USAID Education Strategy included the following:

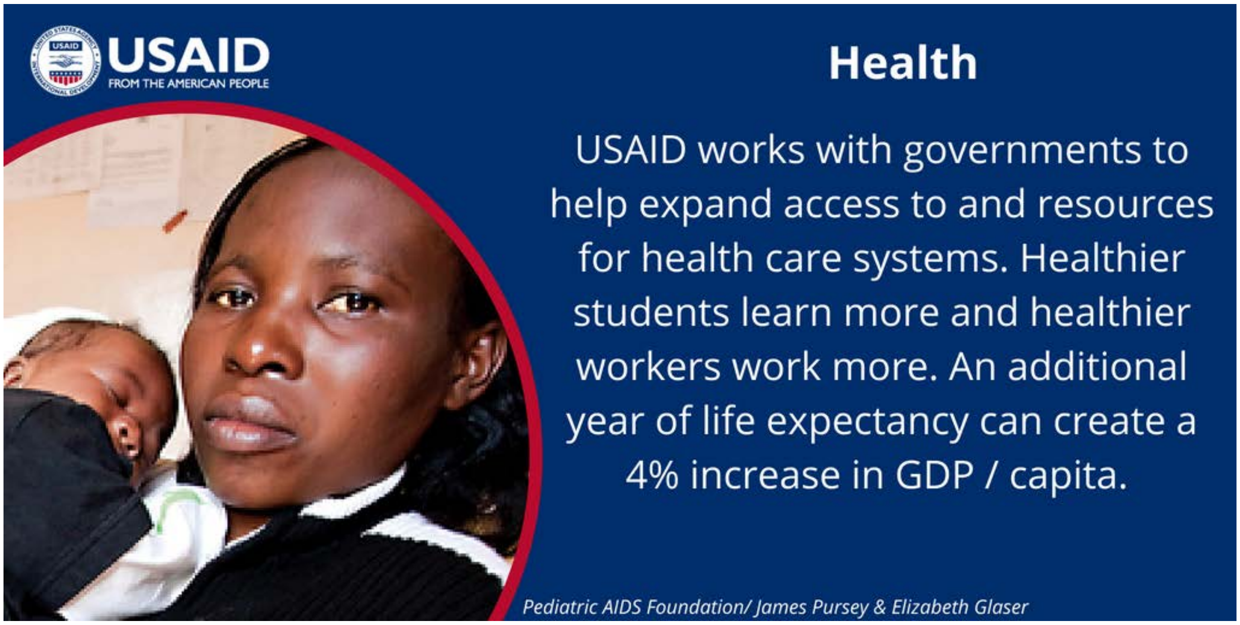
- ***Quality & learning:*** USAID expanded the reach of its reading programs from 7 million children across 19 countries in 2011, to 22.7 million children across 41 countries in 2015. In assessments of student learning, 1.5 million students (more than half female) demonstrated improved reading skills.

- ***Access:*** USAID programs established or improved education in safe learning environments for a total of 11.8 million individual children and youth in crisis and conflict environments (5.6 million females, 6.2 million males).

- ***Supporting higher education for innovation and knowledge:*** The Agency supported 72 joint research programs between U.S. and host country higher education institutions to advance economic growth and sustainability through research and innovations in agriculture, energy and health, among other sectors.

HEALTH

A healthy population is essential for economic growth. Increasing life expectancy by even one year is estimated to raise the trajectory of GDP per capita by approximately 4 percent.[28] And illness has significant long-term implications for the productivity and output of a country's economy. Healthy, well-nourished children miss fewer days of school and learn more. Healthy workers produce more, while adults with chronic illness may not even enter the labor force. Healthy parents invest more time and money in raising children. Fewer resources, combined with inadequate social safety nets, mean that health shocks have significant implications for households in poorer countries. Global health crises and pandemics also pose a significant threat to economic security—researchers estimate that even at current treatment levels for HIV/AIDS, the loss in GDP over the next decade could range from 2 to 4 percent in Sub-Saharan Africa.



USAID's Global Health Bureau invests in cutting-edge research for innovative health interventions, leveraging partnerships and strengthening health-financing systems of developing countries. Highlights include the following examples:

- In 2015, USAID reached nearly 18 million children globally with nutrition interventions and provided support to nearly 6.2 million orphans, vulnerable children and families.
- From 2000 to 2015, USAID contributed to an estimated 22 percent decline in tuberculosis-related mortality and a 21 percent decline in the global incidence of tuberculosis, saving an estimated 49 million lives.
- From 2000 to 2015, USAID contributed to an estimated almost seven million malaria deaths averted globally and an estimated 71 percent decline in malaria-related mortality in children under five in Sub-Saharan Africa.

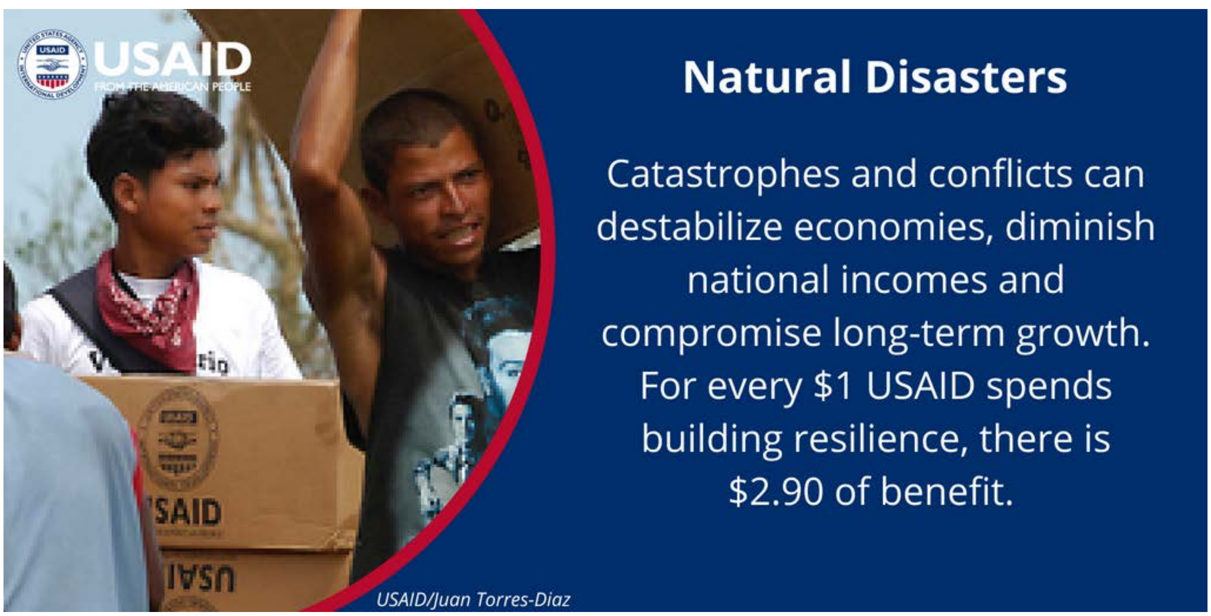
USAID also works to fight pandemics such as HIV/AIDS, Ebola and Zika among others, which have had profound economic impacts and can contribute to huge losses in human life, capital and skills. Alongside implementing partners, USAID's programs contributed to 20 percent fewer HIV infections than 10 years ago and led to putting more than 15 million people on antiretroviral therapy. USAID is also a leader in the control and prevention of infectious diseases, an increasingly important role as emerging diseases such as H5N1, Ebola and Zika threaten our health and economy.

CRISIS RESPONSE: CONFLICTS AND NATURAL DISASTERS

Sudden and unexpected catastrophes can result in a sustained drop in income and can compromise long-term growth prospects. Stabilizing countries in the face of natural disasters or conflicts reduces growth volatility, which improves medium and longer term growth trends. Low-income countries in particular have little redundant infrastructure and lack the economic resources to lessen the long-term impact of shocks.

Conflict takes a tremendous toll on an economy. For example, the Syrian civil war has resulted in economic losses estimated at $20 to $38 billion in annual GDP capacity. Recovery from this scale of economic damage takes a long time. The negative impacts resulting from the destruction of infrastructure linkages necessary for production, trade and transport, as well as employment can persist for years. Instability from conflict can also pose significant threats to neighboring countries, affecting regional stability and growth. In addition, outflows of refugees and reductions in human capital development (particularly in health and education) can roll back development progress. Simulations estimate that even six years after the end of a civil conflict, GDP per capita will be at least 15 percentage points lower, on average, than it would have been without the conflict.[29]

The immediate negative impacts of natural disasters are alleviated with humanitarian aid and food assistance. In FY 2016, USAID responded to 52 disasters and programmed $1.4 billion in humanitarian assistance. Funds provided: assistance in active conflicts in Syria, South Sudan, Iraq and Yemen; drought response in Ethiopia and Southern Africa; and earthquake response in Ecuador. Food security deficits are often a serious threat to stability during both conflicts and natural disasters. In the face of food shortages, USAID provides targeted food assistance to address hunger and immediate assistance needs. USAID also invests in in long-term solutions to food security to reduce the need for costly food aid in the future and help entire countries become food secure.



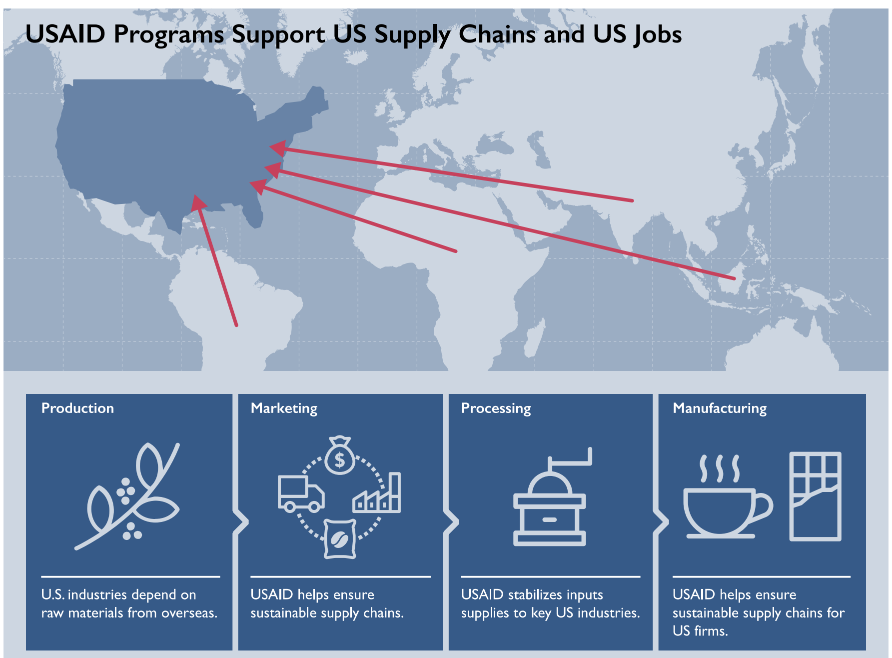
Threats to stability can also result from unstable political transitions. USAID manages these threats with rapid, flexible and immediate assistance, taking advantage of windows of opportunity to build democracy and peace by working with policymakers and government officials to lay the foundations for long-term development. USAID deploys election and governance experts to work with officials in nascent democracies emerging from crisis and political transitions to establish systems for the delivery of essential services, and institute sound policies that uphold greater transparency and accountability throughout state and local government.

HOW USAID PROGRAMS SUPPORT U.S. SUPPLY CHAINS AND U.S. JOBS

AGRICULTURAL COMMODITIES

Industries depend on raw materials from overseas. USAID works with partner countries to increase the production and improve the quality of their exports, including commodities that supply key U.S. industries. This is a win for development, and a win for jobs in the United States. Sometimes, as in the case of cacao, supplies from one region (West Africa) are growing in importance for manufacturing because supplies are diminishing from another region. USAID programs in countries that supply inputs to U.S. industries can prevent other countries from monopolizing trade in these key commodities, contributing to national prosperity.

The coffee industry is a good example. This industry accounts for 1.6 percent of our GDP and nearly 1.7 million American jobs, yet little to no coffee is grown in the continental United States. Our geography is not ideal for it. Through Feed the Future, USAID works closely with U.S. coffee companies and smallholder farmers to integrate market systems in partner countries and the U.S. Through these programs, farmers in developing countries can access new markets, and U.S coffee companies have access to a steady supply of quality coffee. We are also working to combat diseases that threaten global coffee crops and are helping boost the amount of coffee that reaches markets each year.[30]



As is the case with coffee, cacao cannot be grown in the continental United States, yet it is essential to our confectionery industry, which has a direct economic impact of $35 billion a year—including $10 billion in U.S. taxes and $2 billion in exports. Feed the Future programs are designed to grow cocoa bean exports and improve quality, increasing incomes of smallholder farmers. This benefits U. S. producers and supports U.S. jobs. The chocolate and cocoa industry provides at least 70,000 U.S. jobs, involving suppliers, retail, manufacturing and transportation.[31] In addition, U.S. chocolate companies further stimulate the domestic economy by sourcing domestically produced ingredients such as sugar and almonds.

In Indonesia, USAID activities increase the supply, quality and access of spices in partnership with the U.S. Company, Cooperative Business International (CBI). They increase harvests, improve farmers' access to international markets and improve the quality of high-value products such as vanilla, pepper, clove and nutmeg. CBI's local affiliate, Agri Spice Indonesia, supplies Indonesian spices to Maryland's McCormick & Company.[32]

USAID also helps connect Indonesian farmers to markets, and protect wage workers from exploitation. The bulk of the world's rubber is produced in only three countries in Asia, including Indonesia. USAID works with Indonesia to create environmentally sustainable livelihood opportunities growing rubber trees, and to improve labor standards on rubber plantations. Rubber is a commodity that states such as South Carolina depend on to sustain its approximately 12,000 tire manufacturing jobs.

TRADE FACILITATION

Building capacity to expand trade is critical for U.S. businesses to be able to get their goods and services to, and inputs from, developing countries. The OECD finds that when countries build capacity to trade efficiently—that is, speedily moving goods across borders—it stimulates growth and increases incomes. The OECD estimates that with improved trade facilitation, trade costs could be reduced by 16.5 percent in low-income countries and 17.4 percent in lower middle-income countries, and that just a one percent reduction in global trade costs would increase worldwide income by over $40 billion.[33]

To modernize trading systems, USAID has supported trade facilitation in over 60 countries globally for more than a decade.[34] This work involves: (i) improving customs valuation, automation, and electronic data interchange, including the automated single window; (ii) introducing risk management; (iii) promoting legislative reform; (iv) enhancing post-clearance audit; (v) improving logistics and transport services; and (vi) reducing processing times.

CONCLUSION

Growing the American economy by supporting economic growth in developing countries makes sense. It is an effective strategy for the U.S. Government. Of course, USAID programs do not support U.S. economic growth by themselves; they complement other programs financed and implemented by the countries themselves and other donors that encourage private sector investment and development. And economic growth depends first and foremost on the policies of the countries themselves, which USAID works hard to positively influence. When countries are ready to move forward economically, USAID programs can provide the needed capital, technology, ideas and know-how to assist them in developing and implementing their economic growth programs as well as improving governance and rule of law. As noted above, when countries face a shock or crisis, such as a natural disaster, pandemic or an outbreak of violence, USAID short-term assistance can help minimize the damage and get them back on track so growth can continue. USAID is both from the American people and for the American people.

[1] UN, Food and Agriculture Organization (2011). *Putting Nature back into Agriculture.* http://www.fao.org/news/story/en/item/80096/icode.
[2] U.S. Department of State. (2017). "Annual Report to Congress, PEPFAR." https://www.pepfar.gov/documents/organization/267809.pdf.
[3] Arndt, C., Jones, S., & Tarp, F. (2015). "Assessing Foreign Aid's Long-run Contribution to Growth and Development." *World Development, 69*.
[4] World Economic Forum (2016-17). "The Global Competitiveness Report." http://reports.weforum.org/global- competitiveness-index.
[5] Agricultural commodities are a major exception but they make up only 10% of total U.S. goods exports.
[6] Actio. (2015). "The Size of Boeing's Supply Chain." http://blog.actio.net/supply-chain-management/the-size-of- boeing-supply.
[7] http://www.scaa.org/?page=resources&d=facts-and-figures.
[8] All data in real terms, unless specified. Most figures are on goods exports only, due to gaps in services data.
[9] Real growth of U.S. domestic exports (total exports less re-exports) from 2007-2016, calculated from USITC Dataweb, US BEA, and USAID Foreign Aid Explorer.
[10] Calculated from the U.S. Bureau of Economic Analysis.
[11] Calculated from IMF *Direction of Trade Statistics*. World Bank (income classifications).
[12] Calculated from USITC Dataweb, World Bank (income classifications).
[13] Europe and Eurasia graduates include Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia. Calculated from U.N. COMTRADE International Trade Statistics Database, 2016.
[14] Calculated from USITC Dataweb and U.S. Bureau of Economic Analysis.
[15] Calculated from U.S. Department of Commerce, International Trade Administration.
[16] Levine, R. (2005). "Finance and Growth: Theory and Evidence," *Handbook of Economic Growth, 1*, 865-934.
[17] Figure is calculated from the Credit Management Systems within DCA that monitors all guarantees and partnerships administered through DCA.
[18] U.S. Energy Information Administration. (2013). "International Energy Outlook: Future World Energy Demands Driven by Trends in Developing Countries." https://www.eia.gov/todayinenergy/detail.php?id=14011.
[19] CDC Development Impact Evaluation. (2016). "Evidence Review: What Are the Links between Power, Economic Growth and Job Creation?" http://www.cdcgroup.com/Documents/Evaluations/Power%20economic%20growth%20and%20jobs.pdf.
[20] $490 billion of capital for new generation capacity and $345 billion for transmission and distribution, from McKinsey & Company, "Brighter Africa Report 2015."
[21] Energy at USAID. (2016). "Promoting U.S. Prosperity: The Case for Energy Investment Overseas." USAID, Washington, DC.
[22] Timmer, C. P. (2002). "Agriculture and Economic Development," in *Handbook of Agricultural Economics, 2*, 1487-1546.
[23] USAID (2016). "Progress Report: Growing Prosperity for a Food-secure Future." https://www.usaid.gov/what-we-do/agriculture-and-food-security.
[24] Field, E. (2007). "Entitled to Work: Urban Property Rights and Labor Supply in Peru." *The Quarterly Journal of Economics,* 122(4), 1561-1602.
[25] Hanushek, E., & Woessmann, L. (2010). "Education and Economic Growth." *Economics of Education Review*, 60-67.
[26] Hanushek, E. A. (2013). "Economic Growth in Developing Countries: The Role of Human Capital." *Economics of Education Review,* 37, 204-212.
[27] UNESCO (2010). *Education Counts: Towards the Millennium Development Goals.* Paris. http://unesdoc.unesco.org/images/0019/001902/190214e.pdf.
[28]Bloom, D. E., Canning, D., & Sevilla, J. (2004), "The Effect of Health on Economic Growth: A Production Function Approach." *World Development* 32: 1-13.
[29] Mueller, H., & Tobias, J. (2016). "The Cost of Violence: Estimating the Economic Impact of Conflict." *IGC Growth Brief Series 007.* London: International Growth Centre.
[30] National Coffee Association of USA. (2016). "Understanding the Economic Impact of the U.S. Coffee Industry." http://www.ncausa.org/Industry-Resources/Economic-Impact.
[31] National Confectioners Association. (2015). "The Economic Impact Leadership of Americas Confectionery Industry." http://www.candyusa.com/our-industry/economic-impact-leadership-of-americas-confectionery-industry.
[32] NCBA CLUSA. (2015). "Cooperatives Build a Better World."
[33] OECD/WTO (World Trade Organization). (2015). "Aid for Trade at a Glance 2015: Reducing Trade Costs for Inclusive, Sustainable Growth." WTO, Geneva/OECD Publishing, Paris.
[34] USAID Office of Trade and Regulatory Reform. (2016). "Fact Sheet - USAID Supports Trade Facilitation." USAID, Washington, DC.

ACKNOWLEDGEMENTS

USAID's Shared Interest paper was developed through a highly consultative process directed by Dr. Louise Fox, the Agency's Chief Economist, and by Robyn Broughton of the Bureau for Policy, Planning and Learning (PPL).

Shared Interest is much stronger as a result of the Agency's intensive engagement and the multiple internal and external rounds of review. The team is especially grateful to the many colleagues who took the time to read the document carefully and to offer their perspectives.

Additional assistance was provided by Pauline Adams (PPL), Emily Benner (PPL), Hope Bryer (PPL), Polly Byers (PPL), Wendy Coursen (LPA), Mitchell Craft (BFS), Michelle Dworkin (LPA), Jeffrey Haeni (E3), Upaasna Kaul (PPL), Stephen Kowal (E3), Janeen May (Asia), So-Youn Oh (PPL), Patricia Rader (PPL), Curt Reintsma (BFS), Jeff Schlandt (USAID Data Service Team), Victoria Stoffberg (PPL), Jeffrey Szuchman (PPL), Ryan Tramonte (Power Africa), and Susan Wilder (PPL).

U.S Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov

May 2018