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DEBUNKING CLAIMS THAT FOREIGN AID SERVES U.S. ECONOMIC INTERESTS ABROAD

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INTRODUCTION

The Clinton Administration argues that U.S. foreign aid—specifically, development assistance—directly promotes the commercial interests of the United States in less-developed countries. For example, J. Brian Atwood, administrator of the Agency for International Development (AID), stated that, “[f]oreign assistance...fosters an enabling environment for U.S. trade and investment in developing nations by helping secure open environments for trade.”² This unsubstantiated claim, which implies that foreign aid helps to open markets abroad for U.S. exporters, has been echoed even by groups like the Business Alliance for International Economic Development.³

Consequently, it is understandable that some Members of Congress believe foreign aid benefits the United States by increasing U.S. exports. New bills like the African Growth and Opportunity Act (H.R. 1432) often include language asserting that increases in U.S. foreign aid will promote U.S. exports to and economic growth in certain less-developed countries.

But the evidence does not support these assertions. U.S. foreign aid has not been shown to benefit the United States either economically or commercially. The opposite is more often the case: Most recipients of U.S. foreign aid have the highest barriers to trade in the world, and they generally import fewer U.S. goods and services. This is particularly true in Africa, which erects more barriers to U.S. exports than any other region.

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- 1 The author would like to thank Heritage Foundation economists William W. Beach and Gareth Davis for their assistance.
 - 2 Remarks by J. Brian Atwood at the Wharton School of Business, University of Pennsylvania, Philadelphia, Pennsylvania, March 5, 1996.
 - 3 Business Alliance for International Economic Development, “Business Coalition Calls For Increased Foreign Assistance,” press release, Washington, D.C., June 24, 1996.

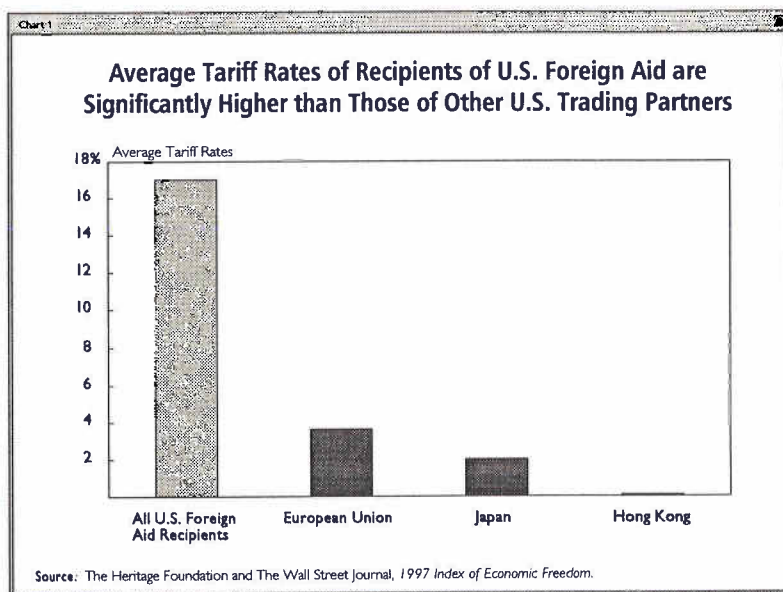
EVALUATING THE DATA ON U.S. FOREIGN AID, U.S. EXPORTS, AND TARIFF RATES

Strong inferences can be drawn from the statistical evidence that the costly U.S. foreign aid program—which amounts to a total of about \$14 billion⁴ in fiscal year (FY) 1997—neither has reduced trade barriers to U.S. exports like tariff rates nor has increased U.S. exports. In fact, an analysis of data compiled by Heritage analysts from the AID, International Monetary Fund, World Bank, and *1997 Index of Economic Freedom* shows that:⁵

- **Recipients of U.S. foreign aid enforce the highest barriers to trade in the world.** According to the data, the average tariff rate for all recipients of U.S. foreign aid is more than five times higher than the average tariff rate of the European Union—a non-recipient. Bangladesh, for example, received almost \$70 million in U.S. foreign aid for FY 1997, but it has an average tariff rate of 50 percent. Angola, which received over \$47 million in U.S. aid in FY 1997, has an average tariff rate of 30 percent.

The average tariff rate for all U.S. foreign aid recipients is about 17 percent.⁶ By comparison, the European Union has an external tariff of 3.6 percent; Japan has an average tariff of less than 2 percent; and Hong Kong has an average tariff rate of 0.1 percent (see Chart 1). The latter two countries never have received development aid from the United States.⁷

Moreover, the total barriers to trade are greater among the recipients of U.S. foreign aid than among non-recipients. Many foreign aid recipients restrict U.S. exports through import bans, quotas, corrupt customs officials, and other similar non-tariff barriers, as well as through higher tariff rates. In a survey for the *1997 Index of Economic Freedom*,⁸ Heritage analysts graded trade information on tariffs and non-tariff barriers for all 109 countries receiving U.S. foreign aid in 1996. Of these countries, 69 had high to very high levels of



- 4 Congressional Budget Office, "The Role of Foreign Aid in Development," *A CBO Study*, Washington, D.C., May 1997, p. xii.
- 5 Agency for International Development, *Congressional Presentation: Summary Tables, Fiscal Year 1997*; Kim R. Holmes, Bryan T. Johnson, and Melanie Kirkpatrick, eds., *1997 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 1997); International Monetary Fund, *Government Finance Statistics Yearbook*, Washington, D.C., 1996; World Bank, *Statistical Handbook 1996, States of the Former USSR*, Washington, D.C., 1996; International Monetary Fund, *Direction of Trade Statistics Yearbook*, Washington, D.C., 1996.
- 6 Based on an average of the average tariff rates of all recipients of U.S. foreign aid.
- 7 Many countries in the European Union, as well as Japan, were beneficiaries of the U.S. Marshall Plan or similar assistance programs, which some have characterized as foreign aid. The Marshall Plan, however, was a program for industrialized and advanced economies, not a "development" program like the modern foreign aid program.
- 8 See Bryan T. Johnson, "The 1997 Index of Economic Freedom: The Countries," in Holmes et al., *1997 Index of Economic Freedom*, p. 49.

protectionism. Non-recipients like Australia, Canada, most of the countries in the European Union, Japan, Hong Kong, and New Zealand had either very low or low levels of protectionism.⁹

- **On average, countries receiving higher levels of foreign aid from the United States do not import more in U.S. exports of goods and services—and do not have lower average tariff rates—than countries receiving lower levels of aid.** For the assertions of foreign aid proponents to be correct, there should be a direct link between increases in U.S. foreign aid and the recipient country's lower average tariff rates and increased level of U.S. imports. The available data for 1995, for example, should demonstrate *higher* levels of U.S. exports to countries receiving more in foreign aid.¹⁰ However, there is little evidence to show that foreign aid can be linked directly to these outcomes. Table 1 demonstrates that there is little correlation between the amount of aid and the level of U.S. exports of goods and services in recipient countries.

Table 1

Large Aid Recipients Do Not Show a Corresponding Level of Imported American Goods

Rank by Amount of U.S. Aid	Average Imports of U.S. Goods and Services, 1995 (millions of Dollars)	Average U.S. Aid, 1995 (millions of Dollars)
Highest 20%	\$1,179.74	\$85.62
Second 20%	724.47	29.17
Middle 20%	687.68	14.28
Fourth 20%	2,968.74	5.63
Lowest 20%	2,162.63	1.18

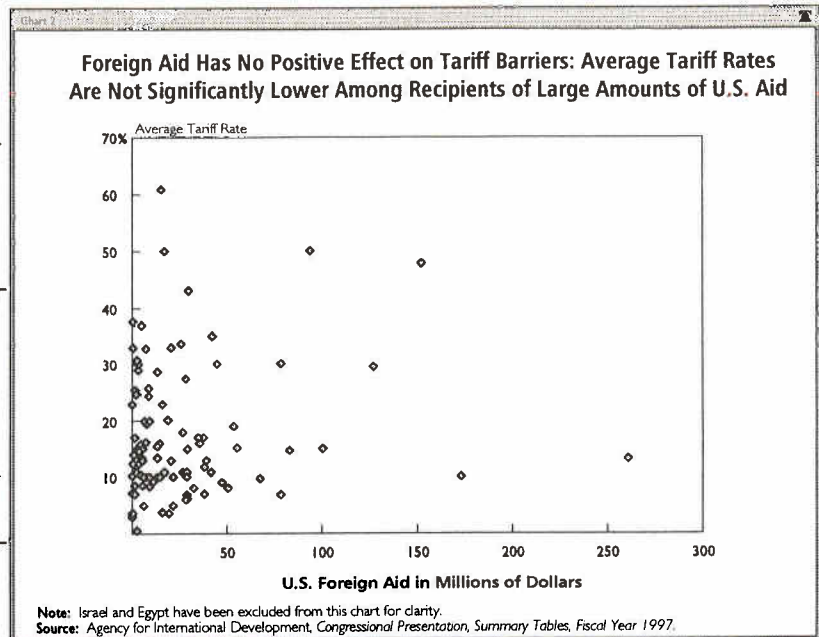
Source: International Monetary Fund, *Direction of Trade Statistics Yearbook*, 1996; Agency for International Development, *Congressional Presentation, Summary Tables, Fiscal Year 1997*.

In another test, Heritage economists ranked U.S. aid recipients according to the percentage of change in aid received annually over the 1993 to 1995 period and the percentage of change in the level of U.S. exports in goods and services over the same period. A rank correlation was then carried out. This test revealed little evidence of a statistical relationship between changes in U.S. foreign aid received and changes in the level of U.S. exports of goods and services. Indeed, the results suggested that any relationship between aid and U.S. exports that might exist is likely to be negative. U.S. exports to those countries that receive the largest increases in U.S. foreign aid tended to grow at a slower rate (or decrease at a faster pace) than exports to other countries.

⁹ *Ibid.*

¹⁰ Foreign aid totals were taken from data in the Agency for International Development, *Congressional Presentation: Summary Tables, Fiscal Year 1997*. These numbers include only bilateral assistance and omit foreign aid given through indirect sources, like the World Bank and the International Monetary Fund, and U.S. "regional" aid. Average tariff rates are from Holmes et al., *1997 Index of Economic Freedom*; the International Monetary Fund's *Government Finance Statistics Yearbook*; and the World Bank's *Statistical Handbook 1996, States of the Former USSR*. Total U.S. exports are taken from the International Monetary Fund's *Direction of Trade Statistics Yearbook*.

Finally, because of insufficient data on average yearly tariff rates over the past decade, it is not possible to measure the influence that foreign aid exerts on average tariff rates.¹¹ But it is possible from the available data to conclude that foreign aid has little to do with the actual tariff rates imposed by the recipient countries (see Chart 2). If what supporters of foreign aid claim about the positive effect that aid has on tariff barriers were true, then countries that have received more in foreign aid would have lower average tariff rates. Instead of creating a more beneficial trade environment for the United States, however, increases in the level of foreign aid are not associated with lower average tariff rates. For a complete listing of countries receiving aid (1993–1995), their average tariff rates, and their level of imports of U.S. goods and services, see Table 2.



CONCLUSION

Studying the data on the tariff and import levels of U.S. foreign aid recipients does not indicate that the U.S. foreign aid program has helped U.S.-based companies do business overseas. In addition, the statistical evidence does little to support the claims that U.S. development aid has encouraged less-developed countries to reduce their trade barriers, which would be the most significant way, to use Administrator Atwood's words, to "secure open environments for trade." The evidence supports quite the opposite observation: Recipients of foreign aid from the United States in general impose higher barriers to U.S. trade than countries that do not receive that aid. Moreover, as the level of foreign aid increases, there is no indication that recipient countries become more likely to increase imports from the United States.

Congress should disregard the unsupported claims made by special interest groups and supporters of the wasteful foreign aid program. It is time for U.S. policymakers to realize that, by all measures, the U.S. foreign aid program has not succeeded in achieving its goals. As demonstrated by numerous studies and illustrated in the data in the *1997 Index of Economic Freedom*, foreign economic aid has not promoted economic development in the developing world.¹² In addition, it has not advanced the foreign policy interests of the United States,¹³ and it has failed to promote U.S. commercial interests overseas. It is time to reconsider this exorbitant drain on American taxpayers.

11 It is also impossible to separate the positive effects that multilateral agreements like the General Agreement on Tariffs and Trade have on tariff rates from the effects of U.S. foreign aid.

12 See Bryan T. Johnson, "Economic Freedom, Foreign Aid, and Economic Development," in Holmes et al., *1997 Index of Economic Freedom*. See also Bryan T. Johnson and Brett D. Schaefer, "Restructuring and Reforming the Foreign Aid Programs," in Stuart M. Butler and Kim R. Holmes, eds., *Mandate for Leadership IV: Turning Ideas Into Actions* (Washington, D.C.: The Heritage Foundation, 1997), pp. 669–700.

13 See Bryan T. Johnson, "Does Foreign Aid Serve U.S. Interests? Not at the United Nations," Heritage Foundation *F.Y.I.* No. 136, April 15, 1997.

Table 2

U.S. Foreign Aid Recipients: Average Tariff Rates and Imports from U.S., 1995

	Average Tariff Rate	Imports from U.S. Per Capita, 1995	Total Imports from U.S., 1995	Average Tariff Rate	Imports from U.S. Per Capita, 1995	Total Imports from U.S., 1995
Albania	18%	\$3.99	\$13,000,000	10.9%	\$3.97	\$66,000,000
Algeria	22.9	27.2	775,000,000	33.6	4.27	114,000,000
Angola	30	24.14	260,000,000	10	35.37	89,000,000
Argentina	10.3	1,208.7	4,190,000,000	5	147.32	590,000,000
Armenia	8	18.62	70,000,000	20	101	2,000,000
Bahamas	33	2394.93	661,000,000	10	14.00	52,000,000
Bahrain	7.1	438.47	253,000,000	6.1	1.32	18,000,000
Bangladesh	50	2.71	325,000,000	15.2	1.84	18,000,000
Belarus	12.5	4.64	48,000,000	15	2.35	23,000,000
Belize	29	462.96	100,000,000	15	18.91	43,000,000
Benin	20.2	6.21	34,000,000	10.4	494.4	45,401,000,000
Bolivia	9.8	28.73	213,000,000	5	2.30	10,000,000
Bosnia	19.4	24.83	36,000,000	10	5.69	14,000,000
Brazil	14	71.87	1,444,000,000	22.8	19.65	521,000,000
Bulgaria	7	15.70	1,320,000,000	30	3.03	49,000,000
Burkina Faso	60.8	1.45	15,000,000	24.4	17.48	27,000,000
Burundi	36.9	0.48	3,000,000	11	0.47	10,000,000
Cambodia	35	2.69	27,000,000	8	57.14	250,000,000
Cameroon	30	3.46	46,000,000	10	4.43	40,000,000
Cape Verde	20	18.42	7,000,000	32.8	5.41	602,000,000
Chad	15.8	1.71	11,000,000	2.9	100.15	220,000,000
Chile	11	253.99	1,061,000,000	50	7.20	935,000,000
China	37.5	9.79	11,739,000,000	10	528.70	139,100,000
Colombia	10.9	125.71	4,628,000,000	7	11.85	\$1,000,000
Costa Rica	8.6	20.89	55,000,000	14.5	205.65	993,000,000
Cote d'Ivoire	15	511.62	1,739,000,000	14.6	74.52	1,775,000,000
Cyprus	25.5	12.38	173,000,000	19	77.18	5,294,000,000
Czech Republic	83	351.50	258,000,000	6.9	20.10	776,000,000
Dominican Rep.	3.8	35.13	363,000,000	3.6	90.56	899,000,000
Dominican Rep.	16	385.71	3,017,000,000	11.7	11.28	256,000,000
Ecuador	9.3	134.01	1,538,000,000	13.2	19.07	2,826,000,000
Egypt	22.5	51.64	2,985,000,000	30	5.94	38,000,000
El Salvador	13	197.58	1,111,000,000	25.8	4.29	18,000,000
Estonia	0.5	93.48	139,000,000	6	10.74	55,000,000
Ethiopia	29.6	2.62	148,000,000	13	58.23	116,000,000
Gabon	30.7	50.14	54,000,000	15	66.36	2,751,000,000
Gambia	13.5	5.39	6,000,000	28.6	15.40	279,000,000
Ghana	17	9.19	157,000,000	43	1.65	44,000,000
Greece	3.6	145.12	1,519,000,000	13.5	3.33	3,000,000
Guatemala	16	155.54	1,652,000,000	27.5	2.23	66,000,000
Guinea	33	10.17	67,000,000	8.5	109.92	6,402,000,000
Haiti	10	76.87	551,000,000	24.8	23.92	215,000,000
Honduras	11	216.24	1,281,000,000	9	44.66	2,727,000,000
Hungary	6.8	28.94	296,000,000	17	124.37	396,000,000
India	47.8	3.55	3,236,000,000	12.4	214.16	4,641,000,000
Indonesia	17	17.57	3,395,000,000	16.2	12.11	185,000,000
Ireland	3.6	1141.94	4,095,000,000	10.1	5.46	49,000,000
Israel	2	1013.04	5,593,000,000	10	11.08	122,000,000
Jamaica	15.5	563.42	1,421,000,000			
Jordan	12.9	79.06	333,000,000			

Note: Source data for average tariff rates were obtained from a variety of sources from the period 1992-1995.
 Sources: International Monetary Fund, *Direction of Trade Statistics Yearbook*, 1996; The Heritage Foundation and The Wall Street Journal, *1997 Index of Economic Freedom*; World Bank, *1997 World Development Indicators*, on CD-ROM.

