



Measuring mutual benefits from MCC Programs

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Key issues

- Current MCC approach
- Potential suggestions & approaches for extension

Current MCC approach

1. Increases in US exports
2. Resilience of US supply chains
3. Opportunities for US foreign investors

With potential extensions

0. Transfer problem in the US?
1. Trade benefits
 - US Benefits from increased exports to recipient countries
 - US benefits from increased supply of imports from recipient countries
2. Resilience of US supply chains?
 - Both in import sourcing and export marketing
3. Opportunities for US foreign investors?
4. Innovations that raise US domestic productivity

Transfer problem for the US?

- Draws on the 1929 debate between Keynes & Ohlin over German reparations
 - Does funding foreign aid require the US to expand exports & shrink imports?
 - What are the impacts on the US terms of trade?
 - And what are the income effects of any such change?
- My guess is that any such effects are very small
 - MCC aid is tiny relative to US GDP
 - Declines in export prices needed to fund aid likely offset by declines in import prices as imports contract
- CGE models can measure this impact during the foreign aid period
 - And potentially after MCC investments have generated their benefits

Trade benefits

- Increases in US exports to recipient countries
 - The increased demand for exports improves US export prices
 - Extensive-margin exports of new goods & services allow large expansion (Dimaranan et al 2009)
- Increased supply of imports helps keep down the cost of imports
 - Availability of new-product imports generates additional welfare gains
- Standard CGE models capture standard terms of trade gains
 - Hill et al (2025) used the MIRAGRODEP model to measure US benefits from funding to CGIAR
 - Models could be augmented to capture extensive margin growth

Resilience of US supply chains

- Current focus on diversifying supply of critical imports is important
 - Imagine if US aid had not led to massively greater supplies of electronic equipment from recipient countries like Korea and Taiwan?
- A similar focus on resilience of export markets might be important
 - Growth of new export markets generally reduces the volatility of export demand
- Hirschmann's index measures the impact of changes in the number of markets & their shares on volatility
 - $HH = \sqrt{\sum s_i^2}$ where s_i is the share of country in imports or exports of the good

Opportunities for US foreign investors

- These have been huge sources of gains from past foreign aid successes
 - France, Germany,... Korea, Taiwan, Vietnam, China.....
- Direct gains from US firm participation in MCC programs tangible
- Challenging to measure the broader impacts
 - One practical problem is that many US firms invest through foreign subsidiaries
 - Existing databases on FDI would need to look “through” to identify US firms

Innovations that Raise US Productivity

- These could potentially be very important, direct gains
- Hill et al study found that US use of CGIAR wheat varieties was a major source of US welfare gains from investment in CGIAR
- These gains can be measured straightforwardly using CGE models

Conclusions

- MCC draft methodology for measuring mutual benefits captures key features of the challenge
- This ppt suggests extensions to
 - Capture trade benefits from both exports & imports
 - Measure resilience using the Hirschmann index
 - Perhaps capture benefits from innovations adopted within the USA

References

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