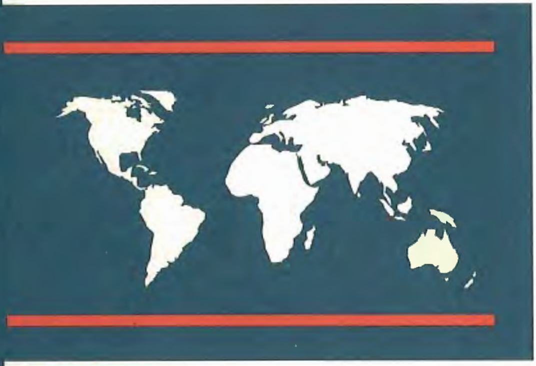
WALTER STERLING SURREY MEMORIAL SERIES

Foreign Assistance in a Time of Constraints



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Foreword

WALTER STERLING SURREY was a prominent Washington, D.C., attorney. For 35 years, Mr. Surrey headed the international law firm of Surrey & Morse, which merged with Jones, Day, Reavis & Pogue in 1986. Throughout his life, Mr. Surrey worked tirelessly to promote international trade and commerce, particularly among nations having different cultural, economic, and political systems. He strongly believed that international trade is the most equitable and efficient means to create and distribute wealth throughout the world. He maintained that an open and competitive international trading system leads to greater understanding and mutual respect among countries, and that lasting world peace can be achieved only after such understanding and respect are established.

Mr. Surrey was associated with the National Planning Association for almost 40 years. He first came to NPA in the early 1950s as a member of its International Committee. He joined NPA's Committee on Changing International Realities when it was established in 1975 and remained actively involved in the Committee's work until his death in 1989. He was elected to the NPA Board of Trustees in 1965 and served as its Chair from 1977 until 1989.

Following Mr. Surrey's death, NPA, with the aid of the Surrey family, established the Walter Sterling Surrey Fund for International Cooperation. The purpose of the Fund is to expand NPA's research in international economic, social, and political policies.

This fourth publication in the Walter Sterling Surrey Memorial Series is devoted to "Foreign Assistance in a Time of Constraints." This series is produced with the Walter Sterling Surrey Fund for International Cooperation in conjunction with NPA's Global Economic Council. This volume of the Surrey Series was made possible through support provided by the Office of Private and Voluntary Cooperation, Bureau for Humanitarian Response, U.S. Agency for International Development, under Cooperative Agreement #FAO-0230-A-00-3065-00, and the Carnegie Corporation of New York.

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Foreign Assistance in a Time of Constraints: Introduction

by Richard S. Belous, S. Dahlia Stein, and Nita Christine Kent

U.S. LEADERS IN THE IMMEDIATE AFTERMATH of World War II had an advantage that American leaders in the post-Cold War world have lacked. Toward the end of the 1940s a clear and present foreign danger was understood to threaten this country. American leaders could use the specter of communism to rally Americans into supporting international programs and institutions such as the Marshall Plan, the International Monetary Fund, the World Bank, and the United Nations.

Currently, absent a well-defined foreign threat, the prevailing political atmosphere in some circles favors disengagement from many U.S. overseas responsibilities. At the same time, the United States faces deep and protracted federal budget deficits. Efforts to reduce the red ink, combined with what some would call neoisolationism, have brought U.S. foreign aid and development assistance under increasing pressure.

PERCEPTIONS AND REALITIES

Perceptions of foreign aid do not always mesh with reality. A recent poll conducted by the University of Maryland demonstrated that although most Americans believe that foreign aid spending should be reduced, that attitude is based on the assumption that the United States is spending vastly more than it is.[1] When the respondents were asked what an appropriate level of foreign assistance should be, the median level proposed was five times the current spending level. An overwhelming majority of Americans polled (80 percent) embraced the idea that the U.S. should give some aid to help people in foreign countries who are in genuine need.

U.S. LEADERSHIP IN THE POST-COLD WAR WORLD

The basic issue of U.S. foreign aid and development assistance in the post-Cold War world centers on its usefulness as a tool of U.S. leadership. As former Secretary of Defense James R. Schlesinger commented at the National Planning Association's 60th Anniversary Symposium in May 1995, "The only substitute for good American leadership is bad American leadership." Or, as former Secretary of State George Shultz said at another recent NPA meeting, "For better or for worse, whatever you are talking about will not happen unless the United States leads."

Of course, fiscal constraints and new international and domestic realities necessitate a rigorous reexamination of U.S. foreign aid and development assistance. What has been done in the past is not necessarily what should be done in the future. This publication is designed to facilitate the reexamination of U.S. foreign aid and development assistance in a changing international environment and an era of constricted budgets. The chapters have been excerpted from speeches given by the authors at various meetings of NPA's Aid and Development Project during the past year.

Chapter 1, by former World Bank President Barber Conable, addresses the question of whether foreign development assistance is still necessary. Conable outlines several key features of the post-Cold War world and its attendant redefinition of security, including:

- the growth of democracy around the globe, at a national level and through the proliferation of civil society;

- the acceleration of economic growth in developing countries, and particularly the tremendous increase in private sector investment;

- the escalation in migration—both rural-to-urban and country-to-country—as people are exposed to others' higher standards of living and attempt to achieve the same for themselves;

- the continued growth of national debt, especially among the poorest countries whose debt-servicing problems have serious international and domestic implications.

Conable asks whether, given the tremendous increase in capital and trade flows between the developing and developed worlds, traditional overseas development assistance is still necessary. He argues emphatically that it is. Government-sponsored infrastructure development (both physical and human) as well as economic reforms are still required to create an environment that will promote private investment, which cannot function without good roads, electricity, schools, and reliable banking systems. Developed countries and international institutions continue to play an important role in helping poorer countries provide this infrastructure. Conable notes that cuts in official development assistance will have a relatively trivial impact on the overall budgets of the richer countries but will cause significant harm to the poorer countries. He also points out that as the largest economy in the world, the United States establishes a pattern that others follow, and a retreat in U.S. foreign assistance policy sets a dangerous precedent for other developed nations.

In the second chapter, Julia Chang Bloch of the Bank of America examines why foreign aid is an effective instrument of U.S. leadership abroad. She notes that foreign aid is particularly threatened in the current political environment and poorly understood by the majority of Americans. In addition, foreign assistance lacks a clear rationale for broad support throughout the country. However, she contends that foreign aid is so important that "if it did not exist, we would have to reinvent it."

Bloch suggests several ways to reinvent foreign aid to better serve U.S. foreign policy goals. Explaining that while private sector capital flows are increasingly important to developing countries, diminishing the relative significance of foreign aid to many recipients, they cannot replace government foreign assistance programs. She offers examples of areas where aid can have a substantial impact, including promotion of global economic growth, stimulation of overseas private investment, support of sustainable development, and consolidation of ongoing political liberalization. She concludes that foreign aid, with substantial reform, can be an important instrument for promoting U.S. interests and the interests of the world.

Next, Middle East specialist William Quandt of the University of Virginia surveys U.S. assistance policy in the Middle East. Noting that this region continues to be of great strategic importance to the United States, Quandt focuses on three areas of particular significance: Israel, Egypt, and Palestine. He examines the rationale undergirding aid allocations to these areas—war prevention, movement toward peace, stabilization of oil prices, and creation of a stable political base—and evaluates the efficacy of U.S. foreign aid programs there. Quandt comments that although aid to the Middle East is a worthwhile effort and serves U.S. national interests, the particular pattern of aid should by no means be unchangeable.

Quandt contends that there is a dilemma inherent in the results expected from U.S. aid policies. These policies are expected to achieve a variety of not always consistent, or even related, goals. He affirms, however, that the United States has great potential to make a positive impact and can help ensure that power will flow to those who are wedded to concepts of development and democracy. According to Quandt, this is the key to future peace in that region.

In Chapter 4, Clifford Gaddy of the Brookings Institution examines U.S. foreign assistance priorities in the former Soviet Union. He points out that the debate over aid to this area must take into account the dilemma of "stability versus change." Fundamental economic reform is necessary for longer-term prosperity and stability, yet this reform may never occur if the former Soviet Union remains in its current state of instability. This conundrum forces the United States to weigh short-term strategies against longer-term policies that may conflict in practice. There may be times when U.S. policy should favor stability and others when it should favor change. Choosing the best U.S. approach involves numerous policy trade-offs and hard choices.

Gaddy notes the dichotomy in U.S. interests in Russia between national security and economic assistance policy objectives, and he advises that U.S. policy must balance the costs of economic assistance against the broader benefits. According to his assessment, the real goal of economic reform in Russia is to correct the misallocation of resources that occurred there for almost three-fourths of a century. Gaddy concludes that the best candidates for American assistance are Russia's ongoing efforts to stop central control and establish market mechanisms to reallocate its resources. He asserts that the United States has a special role to play in facilitating this crucial reallocation of resources.

In Chapter 5, John Hicks of the U.S. Agency for International Development concludes this publication by assessing whether it is in the United States' national interest to continue foreign aid programs to Africa. Answering affirmatively, he explains why Africa is important to America's long-term interests. He argues that Africa is already a major trading partner for this country and notes that important transborder challenges, such as controlling the spread of HIV and stemming refugee and migration flows, must be addressed in Africa because they have the potential to affect global stability—with inevitable impact on the United States as well.

Hicks points out that foreign aid to Africa is used to reach many policy goals, such as promoting economic growth, protecting the environment, stabilizing population growth, supporting democracy, and increasing U.S. trade to the region. Hicks concludes by outlining many of the promising programs currently under way in Africa, including the Development Fund for Africa, the Greater Horn of Africa Initiative, and trade and development programs in countries such as Ghana, Guinea-Bissau, Uganda, and South Africa.

CHALLENGES AND OPPORTUNITIES

Although there may be a sense among some Americans that this country should retreat from foreign engagement, it is clear from the analyses of these five experts that such an action would certainly be a mistake from a longer-term perspective. For better or for worse, the world currently has no substitute for American leadership, and U.S. foreign aid and development assistance policies have important implications for broader U.S. foreign and domestic goals.

Many nations in the developing world are poised to experience significant economic growth. But if the United States and other industrialized countries retreat from their responsibilities as world leaders, much of the groundwork for this growth may become undone. Political, military, ethnic, and other forms of conflict and instability could block the growth process in key parts of the developing world. This would have serious implications for the United States' own growth potential, not to mention the implications for world peace, in whose defense the United States has repeatedly become involved internationally in the past.

It is important that the United States remain engaged in the world. It is also important that the United States continually question what forms its involvement should take and how this interaction can be made more efficient and effective. The lesson learned from the assessments in this volume is that for the time being, foreign aid and development assistance must be a fundamental part of the United States' engagement with the rest of the world. The consequences of pulling back would hurt not only millions of impoverished people across the globe, but also the people of the United States.

NOTE

1. From *Americans and Foreign Aid: A Study of American Public Attitudes*, poll conducted by the Center for the Study of Policy Attitudes and the Center for International and Security Studies, School of Public Affairs, University of Maryland, released January 23, 1995. For further information see *U.S. Foreign Assistance: The Rationale, the Record, and the Challenges in the Post-Cold War Era* (Washington, D.C.: National Planning Association, 1994).

1

Foreign Development Assistance: Is It Still Necessary?

by Barber Conable

CHANGES ARE TAKING PLACE in the world that need to be enumerated and frequently emphasized. The first section of this chapter examines five important current global changes or trends. In light of these changes, the second section discusses the necessity for continued development assistance abroad.

The first key change, of course, is the end of the Cold War and the attendant redefinition of security. The second change is the international growth of real democracy, both as a national strategy following the collapse of communism and as a basic change occurring at the grassroots level as people realize they can shape their destiny by creating nongovernmental organizations to achieve a better quality of life.

The third trend is the acceleration of growth in the developing countries. While the process of development is doing well, it has a long way to go. Private sector growth has a tremendous impact on development in the Third World. The choices that young people previously had were either to work as "stoop" labor in subsistence agriculture or to work for the government. Now, with small businesses presenting opportunities in the private sector, people have a choice of profession. That kind of choice is the essence of freedom.

Migration, both international and rural-urban, is the fourth major trend to be examined here. Neither the degree nor the implications, positive and negative, of migration, are well understood. The final major change is the growth of debt, which continues to be a serious problem requiring further attention.

KEY GLOBAL CHANGES

Post-Cold War Realities

One manifestation of the end of the Cold War is that competition for foreign aid no longer exists among countries. The story is similar to what happened to the Iroquois Indians after the French and Indian War. They were adept diplomats, cleverly playing the French and English against each other. When the French were pushed out of North America, effectively ending the French empire there, the English then said to the Iroquois in their usual gentle way, "OK, friends, now you must do what we say." To a certain extent that happened in the developing world at the end of the Cold War. Not all countries tried to play off both sides, but a number did and were successful. Now those countries are faced with relatively tough conditionality for aid. Although most of the conditions are in their interest, they are suddenly confronting a stern reality rather than a choice. If they want help from the West, they must do what the West expects them to do with their economies, their institutions, and their debts. The world has become tougher for aid recipients.

The end of the Cold War, of course, had an impact on the industrialized world as well. At the 1992 U.N. Conference on the Environment and Development in Rio, countries solemnly pledged to make a serious effort to contribute .7 percent of their GNP to foreign assistance. The United States was then giving .17 percent, and even Japan, which counts almost all foreign investment in the Third World as overseas development aid, was contributing only .34 percent. Although a few small countries like Norway, Denmark, and the Netherlands were giving more than 1 percent, the average contribution level was less than .35 percent. Since then, the general level has fallen to .29 percent, with the United States contributing about .15 percent of its GNP for foreign aid, a smaller percentage than Ireland's. The U.S. level of effort in overseas development assistance is not an aspect of its relations with developing countries to be particularly proud of. American development impact is significant because of the size of the U.S. economy and its open market, but aid itself is obviously diminishing. The question now facing this country at the end of the Cold War is, Where does it go now? Disengagement from the international community is a frequently mentioned option, with many people thinking that somehow the United States can retreat from international involvement or follow a unilateral course. Multinational cooperation with other institutions and countries is a far more reasonable choice.

Growth of Democracy

The second key global change involves the growth of democracy. Democracy imposes on leaders a new accountability to the electorate. Government leaders can no longer say to the World Bank, the International Monetary Fund, and other multilateral institutions, "Yes, we'll do what you say," because those leaders know that their citizens want them to lead, not to respond to foreign dictates. The United States should avoid situations where it appears that the "arrogant Yankees" are dictating to other countries what they must do—as America did in its loan guarantees to Mexico—particularly when the others have democratic aspirations.

Meanwhile, the world has experienced the best 25 years of development in the history of humanity. Many aspects of life have changed due to this work. Life expectancy has increased by 50 percent. Infant mortality has been halved. Per capita income has been doubled. Primary education has increased 40 percent, and the status of women has improved in many countries. Although five times the population of the United States continues to live in poverty in developing countries, there has been considerable progress.

Yet 130 million children still have no access to education, and 80 percent of those are girls. It is difficult to advance primary education in many areas. For instance, India earmarks 61 percent of its education budget for higher education, but it has a high level of illiteracy, and illiteracy locks people irretrievably into poverty. A worse tragedy occurs if women are not educated, regardless of their access to the economic life of the country and of their ability to achieve status in ways other than by having more children. If women are educated, the next generation tends to value education. Educating caregivers is one way to help the next generation have access to a better life than the previous generation had.

Acceleration of Growth

Markets in the developing world are growing fast. In 1993 the developing world had a real growth rate of 6 percent, while the developed world grew at an average rate of 2 percent. A dramatic change in consumption patterns occurs between a per capita income of $400 a year and $800 a year, as people develop aspirations and begin to import, and to eat something other than the products of their subsistence agriculture. Changed consumption patterns considerably affect trade for this country and the rest of the developed world as well.

Private sector growth in the developing world has also changed considerably, with tremendous investment by multinational corporations. In 1992, there was $103 billion of private investment in the developing world, compared with a total of only about $54 billion of overseas development assistance. In 1994 private investment reached $173 billion. This investment, coupled with the reforms that have been adopted, has had a major impact on the growth rate in the developing world. The question can now be raised whether government aid is necessary, given this level of private sector investment.

Trade follows investment to a substantial degree. According to a 1988 World Bank study, trade produces roughly twice the value of the resource flows to the developing world that can be obtained through foreign aid. If all official development aid in the world were eliminated as well as all trade discrimination against the goods from the developing world, resource flows from the developing world would be double their current levels. Trade that stems from private sector investment thus has a significant role in the growth of the developing world. This is important to the United States as the largest exporter in the world.

Migration

Another major trend is migration, which is creating new ethnic enclaves throughout the world. The communication revolution has helped people discover that they do not have to live on the traditional fractional acre farmed by their fathers and their grandfathers. They can learn about other ways of living, and they can go in search of a better life.

Migration can create serious crises. Rural-to-urban migration can be even more crucial than transnational migration because of the substantial impact that internal displacement has on Third World cities. Since 1950 the size of the cities in the developed world has doubled, but it has quadrupled in the developing world. São Paulo has 16 million people, twice as many as New York. In

Mexico City, which has a larger population than São Paulo, more than 1 million people live without sanitation. At least 40 percent of those in many Third World cities do not have access to any utility unless they can tap illegally into existing electrical lines.

Serious environmental, social, and political problems are being created by changing migration patterns. These patterns are occurring because young people have aspirations to seek a way of life their ancestors did not know existed. They see the cities not as a risk, but as a chance to improve their existence. By the year 2020, none of the projected 20 largest cities in the world will be in Europe or North America.

Increasing Debt

In addition to the other key changes, developing country debt has significantly increased, which presents a serious problem for institutions like the World Bank. Additional new loans are frequently not as large as the debt service on existing loans. Aid agencies have been politically pressured by parliaments to cut back on lending for fiscal reasons and because of criticism that past lending has not been entirely successful. The result can be a reverse flow of resources for developing and developed countries, which can become a critical political problem.

Developing countries are also reluctant to accept greater debt. Perhaps by creating a better economic environment they can attract private sector investment, thus decreasing the need to borrow directly. However, the poorest countries continue to need much more debt relief than they currently receive.

IS AID STILL NEEDED?

Given all the changes outlined above, is overseas development assistance still necessary? Indeed it is. People in the United States take it for granted that the private sector is an independent entity because the United States has schools, roads, and facilities that generally all work. But large areas of the world do not have these backstops, and the private sector cannot function well until it has the necessary infrastructure. Considerable experimentation is under way with the privatization of utilities and infrastructure in the Third World. However, infrastructure must continue to improve for private sector investment and growth to continue.

Some contend that if trade creates economic growth, foreign aid is unnecessary. This is a misconception. The World Bank has used structural adjustment loans that are conditional on economic growth, thus overvaluing economic growth for its own sake. It is now apparent that policymakers need to mix human resource development programs with adjustment loans to ensure that reforms and growth are not attained at the long-term expense of the poor in the developing countries.

Trade can indeed accomplish a great deal for the Third World. Forty percent of American foreign trade, a far greater amount than five years ago, is now with the developing world. Yet additional reforms are still needed. For example, if a sound banking system does not exist, a developing economy will not flourish. There must be additional official help for the Third World regardless of the current level of trade and private investment.

Many people think that cutting foreign assistance will balance the U.S. budget. Obviously, most citizens are concerned about the fiscal health of the United States and the welfare of their children and grandchildren. It is often argued that because other programs are being cut, foreign aid should be cut as well. It is the perceived amount of foreign aid that seems to bother many Americans, rather than the reality. According to various polls, most Americans erroneously believe that foreign aid is as much as 20 percent of the federal budget, which they think is too high, and they say they would be comfortable with a level of about 15 percent. In fact, the American aid effort is only 1 percent of the budget. A greater burden of explanation should be carried by U.S. politicians and leaders to emphasize the American stake in developing world growth through a balanced program of effective aid and trade policies.

Burden Sharing

An often overlooked consideration is that American aid influences the efforts of other countries. Burden sharing is a key component of foreign aid formulas. If U.S. foreign assistance is halved by Congress, many other countries will also halve their contributions. The Netherlands, for example, is not going to carry the U.S. burden. As the largest economy in the world, the United States sets the pattern that others follow. U.S. cuts in aid set a dangerous international precedent, both in multilateral and bilateral programs.

Congress is also worried about whether multilateral lending is in America's interest. At the World Bank, America contributes 17 percent of the total capital levy, but only 3 percent of the U.S. contribution is in cash. So, for a $70 million investment, America gets from the World Bank about $17 billion of lending for countries like Mexico, Argentina, and Brazil where the United States has major interests and markets. America's interests are well advanced by such tremendous leveraging.

CONCLUSIONS

Aid is still needed, partly as a catalyst to continue the economic reforms that lie behind the developing world's recent remarkable growth and to provide the infrastructure and human resource development that backstop trade and private sector development. Market economies, to be healthy, need the sound policy and technical assistance that will give choices to the inexperienced and the impoverished. Clearly, our children and grandchildren have a major stake in the stability and growth of the Third World markets.

But there is another reason beyond our economic ties to the teeming populations of the Third World that America cannot afford to try to disengage. Whatever Americans believe about foreign aid, they are a sympathetic people. When they see on their evening television programs starving children or the victims of mass terror, they immediately want to send the Marines ashore to correct the situation. That, of course, is the most expensive and least effective way to influence global affairs. Bilateral and leveraged multilateral aid programs are much better avenues for projecting American influence.

Many, unwilling to acknowledge improving development statistics, say that 50 years of foreign aid have failed. Many believe the U.S. national interest will not be advanced despite U.S. exports of $20 billion of goods and services in 1994 to the recipients of official development aid. Many refuse to acknowledge the potential threats to human rights and global stability if the aspirations of the post-Cold War world are not met. Although the United States is not alone, others look to America for leadership and are prepared to retreat if it does. Rational patterns of long-term cooperation are the answer, not a fruitless attempt at a disengagement that is no longer possible.

2

Can Foreign Aid Contribute to U.S. Leadership Abroad?

by Julia Chang Bloch

THE MOST PRESSING QUESTION concerning foreign aid today is whether it has a future. Congress is slashing foreign aid funding. The House appropriations bill cut nearly 20 percent from the Administration's fiscal year 1996 request for foreign aid, 56 percent from the budget for multilateral economic assistance, 50 percent from the development assistance fund, and 34 percent from the Development Fund for Africa.

Foreign aid, little understood and never popular, is especially vulnerable in an administration with a decidedly domestic policy agenda and to a Congress whose new Republican majority is committed to producing a balanced budget by fiscal year 2002, while reducing federal income taxes.

Looking at the numbers, foreign aid does not appear to have much of a future. The long, slow decline of U.S. foreign aid began well before this Administration—from over 2.5 percent of the GNP during the Marshall Plan to an average .75 percent during the height of the Cold War to less than .17 percent of GNP today. The United States gave up its position as the world's largest aid donor to Japan several years ago. While the decline is not as dramatic in constant U.S. dollars, U.S. aid levels are nevertheless at their lowest point since 1946.

However, foreign aid should not be given any special exemption from the clearly necessary budget restraints currently facing all government programs. As all would probably agree, U.S. leadership abroad is dependent on a vigorous economy at home.

Even more serious than the decline in funding levels is the overwhelming public ignorance about foreign aid. Today, the vast majority of Americans do not know how much foreign aid their government gives or to whom it is given. In a recent poll, 41 percent of respondents thought foreign aid was the largest single federal spending item, whereas the entire foreign operations budget is less than 1 percent of the U.S. budget. No doubt, most Americans would be surprised to learn that next year the United States will channel over 57 percent of its total bilateral aid to just three countries: Israel, Egypt, and Russia.

In this case, ignorance has bred contempt. In a University of Maryland poll conducted in January 1995, 75 percent of those polled thought that the United States spends too much on foreign aid, and 64 percent believed that it should be cut—32 percent felt it should be cut considerably or eliminated altogether. Even more alarming, 83 percent of those polled agreed (59 percent strongly) with the statement, "There is so much waste and corruption in the process of giving foreign aid that very little aid reaches the people who really need it."

Declining resources and negative public attitudes notwithstanding, foreign aid can have a future. To paraphrase what is often said about the United Nations, if foreign aid did not exist, we would have to reinvent it—and reinvent it we must.

When the Soviet Union collapsed, so did the Cold War *raison d'être* for U.S. foreign aid. The United States created foreign aid after World War II to secure a victory over nazism and to fight communism. The security imperative imposed by the Cold War kept foreign aid alive over the past 50 years. Since the end of the Cold War, there has been no compelling justification for continuing foreign aid, although reform efforts in the 1970s added humanitarian concerns when Congress charged U.S. foreign aid programs to "help the poorest of the poor."

As National Security Advisor Anthony Lake put it: "Our foreign assistance efforts have long been like sedimentary stone—layer upon layer of programs and bureaucracies, each representing a different era in our foreign policy, each pushing down on the others until the whole has become impenetrable and ossified." Over the years, the U.S. Agency for International Development (USAID) has had to work with no fewer than 33 different goals, complicated by congressional earmarks, set-asides, and pet projects, each initiated and perpetuated by powerful political patrons. In short, U.S. foreign aid programs today—incoherent and outmoded—hardly offer a secure basis from which to build U.S. leadership abroad.

However, just as President Truman and General Marshall brought a skeptical American public to an understanding that U.S. security depended on the economic rehabilitation and stability of a war-ravaged Europe and that stability could be assured only by the Marshall Plan, so too must a new rationale for foreign aid be articulated today. Equally important, a new public consensus is needed on what the United States wants its foreign aid programs to do.

Before the question of what to do with foreign aid can be answered, two other questions must be addressed:

- First, to what extent has U.S. foreign aid, or any economic assistance, helped developing countries achieve sustainable economic development?

- Second, can foreign aid help advance U.S. foreign policy?

THE EFFECTIVENESS OF AID FOR DEVELOPING COUNTRIES

The question of aid effectiveness has by no means been settled. Foreign aid advocates point to successes such as the tripling of real per capita GNP for developing countries over the past 30 years; the increase in average life expectancy by 16 years, in adult literacy by 40 percent, and in per capita nutritional levels by over 20 percent; and the reduction of child mortality rates by half. Successes also include the significant increase in food production brought about by the "green revolution" in many Third World countries and the eradication of smallpox and the near universal immunization of children under the age of five.

However, recent studies by the Center for Economic Performance of the London School of Economics have concluded that aid flows to 96 countries between 1971 and 1990 were used largely to increase consumption, had a negligible impact on indicators of human development, including infant mortality, and could not be correlated with investment growth (except in very small countries where aid exceeded 15 percent of GDP).

This entire debate has been transformed by technological and financial innovations and the resulting growth of global capital markets. The total net public aid flows to all developing countries in 1993 was $56 billion, down 8 percent from the previous year. These efforts have been overtaken by the growth in private sector capital flows to many of the same countries. In 1993, international bond and equity issuances by developing countries totaled $71.3 billion, up 115 percent from 1992. New medium- and long-term commitments from private sector banks increased 15 percent to $21.2 billion, while emerging market mutual funds grew 144 percent to an astounding $81.5 billion. Finally, net foreign direct investment flows to developing countries increased 31 percent to $44.4 billion.

For many developing countries, the relative danger of losing foreign aid is considerably outweighed by the possible loss of international market confidence and an investor "flight to quality." Indeed, several Third World leaders, including Prime Minister Bhutto of Pakistan and President Ramos of the Philippines, have recently stated that they are seeking greater opportunities for "trade, not aid" from the United States. These statements reflect a growing comprehension that the long-term benefits of a market-oriented development strategy far exceed the short-term gains of foreign grants-in-aid, which are often loaded with unpalatable conditionalities. A report of the United Nations Development Program agreed, stating that trade restrictions reportedly cost the developing countries $500 billion a year, 10 times what they receive in foreign assistance.

While private sector capital flows are not likely to completely replace government aid programs, they have diminished the relative importance of foreign aid to many aid recipients, and presumably the leverage such programs give to the donor as well. So if the level and the value of foreign aid as incentive or leverage have diminished, what, if any, role does bilateral aid continue to play in support of U.S. foreign policy interests?

THE EFFECTIVENESS OF AID IN ADVANCING U.S. FOREIGN POLICY

Although the Cold War is over, U.S. interest in the economic development of poorer nations has not ended. The developing countries are increasingly becoming major export markets for America. U.S. exports to these nations grew an average 14 percent per year from 1987 to 1994, while exports to industrial countries grew only 9 percent per annum during the same period. The share of total U.S. exports going to the developing world grew from 36 percent in 1987 to 43 percent, or $218 billion, in 1994. Faster growth in these emerging markets increases the demand of their growing middle classes for U.S. exports, creating American jobs and enhancing U.S. economic competitiveness.

As Michael Porter concluded in his seminal work *The Competitive Advantage of Nations:* "National competitive advantage will not be fully reflected in rising productivity unless a nation's firms have access to foreign markets. A pressing goal for government is to pursue open market access vigorously in every foreign nation."

There is no greater foreign policy imperative today than advancing U.S. economic competitiveness. In the post-Cold War world, weapons count less than economic success. With the clear ascendance of free market capitalism as the engine of economic development in Asia, Latin America, and even Eastern Europe and the former Soviet Union, economic competitiveness is vital to maintaining U.S. security in today's world.

Just as foreign aid was a vital instrument for battling communism, foreign aid can be a vital instrument for promoting U.S. economic competitiveness. Taking a lesson from the Marshall Plan, foreign aid's greatest success, America best promotes its own economic well-being by helping to consolidate democracy and expand free markets.

For decades, Americans sacrificed for a freer world. Now that such a world appears to be at hand, there are enormous opportunities if U.S. leaders can find the vision and courage to seize them.

IMPROVING U.S. COMPETITIVENESS THROUGH FOREIGN AID

The following five areas suggest ways that U.S. foreign aid can contribute to U.S. leadership abroad.

- **Promote global economic growth.** As the world's largest exporter, the United States will depend increasingly on the growth of overseas markets. Foreign aid can play a positive role in stimulating economic growth in developing countries, our fastest growing markets, resulting in greater demand for U.S. goods. According to the Overseas Development Council, if developing countries returned to growth rates approximating those of the 1970s, the United States could increase its exports to those countries by as much as $30 billion a year within three years, resulting in the creation of as many as 600,000 new U.S. jobs. Moreover, foreign aid can help create the right economic and business environment overseas to open markets and tear down protectionist tariffs and government policies, enabling U.S. businesses to have access to new and growing markets.

• **Stimulate private investment.** To attract private capital into risky emerging markets, investment insurance, loan guarantees, and preferential credit programs need to be enlarged. The use of government aid and subsidized loans to promote export sales to developing countries, however, is controversial. Some call it "corporate pork," arguing that this represents government interference with the free play of market forces. Others argue that export credits siphon off scarce funds needed by poor countries for development assistance. Suffice it to say that the Export-Import Bank has estimated that subsidized financing by other industrialized countries costs U.S. companies between $4 billion and $6 billion in lost overseas sales each year. At the very least, the United States should level the playing field and allow U.S. exporters a fair chance to compete in the growing markets of middle-income developing countries.

• **Increase project finance aid.** Currently, the United States channels only 10 percent of its foreign aid to finance infrastructure development. This compares with 37.7 percent for Germany, 49.5 percent for Italy, 47.6 percent for the United Kingdom, and 54.9 percent for Japan. It is estimated that Asia alone will spend between $1 trillion and $3 trillion over the rest of this decade on infrastructure, much of it in power, telecommunications, and pollution control (primarily water treatment plants and air purification systems), all sectors where U.S. technology and expertise are competitive. Foreign aid could be used to leverage private sector investments in such projects, boosting not only U.S. equipment sales but also U.S. service exports in construction management, engineering consulting, accounting, and project finance. To do this right, however, the United States must ensure that scarce aid funds are not used to replace private financing that would have been available anyway.

• **Support sustainable development.** It is not only for humanitarian reasons that Americans have an interest in reducing poverty. There is also a self-interest in addressing the needs of the poor worldwide, as continued growth in the United States requires a prosperous world economy. Moreover, so many problems of the poor transcend national boundaries and have become global problems that require global solutions.

For example: poor farmers grow coca because they have no alternative sources of income. Some 25 million Americans spend some $50 billion a year on illegal narcotics. Nearly all drugs sold in the United States are grown in developing countries. For some countries, illegal drugs are their most profitable export. Foreign aid can be used to offer poor farmers an alternative to growing coca and help reduce the availability of narcotics from their source.

The effects of growing populations on the earth's environment are only beginning to be fully understood. While industrialized nations are major contributors to environmental degradation, developing countries are catching up. Global problems such as ozone depletion, tropical deforestation, air pollution, and global warming can be dealt with only by international cooperation. Poor countries will need foreign aid to help them do their part to protect the environment.

AIDS, a virus identified only in 1981, is now an epidemic that has infected 10 million to 12 million people worldwide, including an estimated 1 million in the United States. Epidemics do not recognize international borders, and they can be stopped only through international efforts. Foreign aid helped to eradicate smallpox. Perhaps it can help prevent the spread of AIDS, if not ensure its eradication.

- **Consolidate political liberalization.** The Cold War will have been won in vain if the United States retreats from the opportunity to consolidate democracy's recent gains. The newly democratic regimes are fragile. Unrealized economic expectations may produce a political backlash if countries take too long to improve the standards of living of their long-suffering populations. Foreign aid helped to vanquish communism; it should now secure that victory by helping the new democracies and their fledgling market economies take root.

Each of these opportunities will contribute to improving U.S. economic competitiveness—giving foreign aid its much needed new rationale. As a package, it may help build a much needed domestic constituency for foreign aid, enlisting the support of business and labor, as well as keeping the support of groups concerned with global and humanitarian causes. Most important, reinventing foreign aid to support U.S. commercial and trade interests offers a visible and direct link between foreign aid and the economic welfare of the American people, possibly enlisting their support.

CONCLUSION

Foreign aid can be an important instrument of U.S. leadership abroad, but foreign aid must not only be reformed, it must, in essence, be transformed. Aid policymakers and practitioners must sweep away the "sedimentary layers" of ineffective programs that serve no purpose other than their own perpetuation. Foreign aid must be made more coherent, more flexible, and more responsive to U.S. national interests.

Business has much to gain from a partnership with Washington to promote and advance U.S. economic competitiveness. Consequently, U.S. corporations have an important stake in helping U.S. leadership rethink and reinvent foreign aid, fostering its revitalization before Congress decides it is obsolete.

3

U.S. Foreign Assistance Priorities in the Middle East

by William Quandt

"WHAT DO WE GET for all the aid that we give to the Middle East?" is a question some Americans ask when considering whether spending more than $5 billion a year in U.S. Agency for International Development monies in the Middle East in the post-Cold War era is still worthwhile. The answer begins by recognizing that even with the end of the Cold War, the Middle East is still an important area to the United States. Although that answer does not address the issue of whether any particular level of aid is essential, setting a framework that encompasses the United States' continuing interest in the Middle East offers a way of gauging where aid should fit.

A REGION OF CONTINUING IMPORTANCE TO THE UNITED STATES

The United States clearly has a special relationship with Israel in terms of that state's security and well-being. The relationship is firmly embedded in U.S. politics and foreign policy, which helps explain why a good portion of aid goes to the Middle East. The long-term U.S. investment in Israel has been successful. Without U.S. aid, for example, it would be difficult to argue that Israel would be as secure or as close to peace with its neighbors as it is today.

The Middle East is also a region of enormous importance because of its oil resources. Despite the discovery of additional energy sources elsewhere, the Middle East is overwhelmingly the region that all industrialized and developing countries will depend on for a major portion of their energy needs well into the next century. That reality will not change.

Because the United States has a broad interest in stable oil prices in the Middle East, it has a stake in supporting a number of countries, such as Egypt, that contribute to stability. Saudi Arabia certainly does not need aid, but that nation is crucial for Persian Gulf security. Other countries in the region also contribute to the overall pattern of stability that helps ensure the availability of oil resources to the world.

The United States has a growing interest in seeing that countries that cooperated in the Middle East peace process and in Gulf security begin to tackle their own economic development problems. Countries such as Egypt that have been getting U.S. aid for years without much to show their citizens risk losing popular support unless they can demonstrate that cooperation with the West, especially the United States, benefits their own people.

The Middle East remains vital to U.S. foreign policy for other reasons. It is a region where nuclear and chemical weapons and missiles with considerable range exist and where dangerous wars can still happen. War prevention continues to be an important U.S. objective in the Middle East, and this priority explains some of the aid investments the United States has made. Development assistance has been an important adjunct to the diplomacy that has helped bring about substantial breakthroughs in Arab-Israeli relations. Aid has also helped create the kind of political base from which the United States can deal with threats to regional stability, such as Saddam Hussein's invasion of Kuwait.

U.S. AID PROGRAMS IN THE MIDDLE EAST

This section describes the individual programs that consume most U.S. aid resources in the Middle East. Even though this aid contributes to the U.S. national interest, the existing mix of aid is not sacred, and the programs could be designed differently, as is noted in the following discussion of the Israeli program.

The Israeli Program

This program is the largest U.S. aid program worldwide and continues to have strong bipartisan support in Congress. The United States provides more than $3 billion a year in grant aid to

Israel and will provide $2 billion a year in loan guarantees over the next five years.

These substantial sums are made available through various programs, most of which involve military purchases. The money supplied to Israel to buy U.S. weapons is part of an overall arms transfer policy. Israel would not be buying the kind of equipment it does if America was not essentially paying for these sales. This policy is driven by strategic logic and by the strong interests of domestic arms manufacturers. It is not surprising that coalitions of interest keep the aid for military sales high. Because the United States has asked the Israelis to make substantial concessions in areas like the Golan Heights and to make peace with Syria, the price tag for military assistance is not likely to drop anytime soon.

The economic aid that Israel receives is more complicated. Does Israel require a $1 billion straight cash transfer at the beginning of each fiscal year? After all, Israel is not poor, but is a middle- to upper-income country. Although there is not much criticism of the program for political reasons, it is worth asking whether it makes sense to continue it. Israel basically uses U.S. economic aid to pay off its substantial past military and some economic debts, which are locked in at fairly high rates of interest. The same result could be obtained if America wrote off Israel's military debt and therefore ended the U.S. economic aid program to that nation. In Egypt, for example, America wrote off $7 billion of military debt because of Egyptian participation in the Desert Storm operation. This was done with little controversy, and Egypt was relieved of a substantial debt burden.

The United States should rationally consider the fact that it hands a check to the Israelis that they, in essence, endorse and use to pay debts, having banked it for a short time to collect the interest. This is not an argument against seeing the Israeli economy flourish; it would be doing well without aid. As noted above, a large pool of loan guarantees exists from which the Israelis can draw. In fact, they have difficulty identifying projects to fit under the program; there is so much money that they have surpluses.

The Israeli military program will continue to have its own rationale as the peace process goes forward. Although opportunities exist that make a reassessment of the economic program worth considering, there have never been strong political incentives to take that step.

The Egyptian Program

The $2 billion Egyptian program is more complicated than the Israeli program and is politically more vulnerable. Until now it has ridden on the back of the Egyptian-Israeli peace process and has had strong support. However, circumstances such as a changed regime in Egypt or a stronger role for the Islamic fundamentalists in Egyptian politics could quickly erode that support.

The Egyptians receive more than $2 billion a year on a grant basis. As with the Israeli program, a substantial portion is used to finance military sales, and this has its own logic. The perception of Egypt's role in the region, the position of the military in Egyptian society, and the attraction of Egypt as an export market for some American aircraft support these arms transfers.

The other $1 billion that goes to Egypt is a mix of aid from various projects, cash transfers, and commodity import programs. At one time it was fair to criticize U.S. aid to Egypt for concentrating on some improbable projects and for the long backlog in disbursing aid. However, most of that criticism has abated as the projects have made a difference in Egyptian life. In Cairo, certain systems that work better today than before, such as water treatment facilities and communication centers, are the result of U.S. foreign assistance.

An evaluation of the Egyptian program's effectiveness requires keeping it in perspective. Egypt is a large country with a population of 60 million. The average Egyptian income is about $800 a year. U.S. economic aid totals about $1 billion a year, which means the United States supplies between $10 and $15 per Egyptian citizen each year. That level of aid does not have a significant impact on the lives of Egyptian citizens or on the overall performance of the sluggish economy. With such a small amount of money, only certain sectors of the economy can be targeted.

U.S. aid to Egypt is used in conjunction with aid from the World Bank and the International Monetary Fund in an attempt to get Egypt to liberalize its economy, on the assumption that this is the long-term key to Egypt's economic success. As an economic proposition, this policy makes sense; the Egyptian economy, like many in the Third World, needs a vast overhaul. But the United States should recognize that some steps the Egyptians are being asked to take are potentially destabilizing. America is using its aid to try to achieve a number of goals: peace with Israel; cooperation on Gulf security; economic development; and democratization.

However, Egypt cannot easily accomplish these objectives simultaneously. The United States must understand the importance of easing its pressure in some areas in the interest of stability. Some of the economic reforms have indeed helped Egypt in its macroeconomic structural adjustments. For example, there is greater accountability in its budgeting system, inflation is down, the currency is up and relatively stable, and the exchange rate is fairly rational.

The next hurdle for the Egyptians is privatization. The large state sector created under Nasser and continued under Sadat and Mubarak should be sold. Egypt should close down factories that do not work, fire workers who do not contribute positively to the economy, and return to a competitive environment. These steps would be a challenge for the Egyptians to accomplish, and Mubarak, not surprisingly, is hesitant to undertake them.

Why has little privatization occurred? In a very poor country like Egypt, most citizens and businesspeople do not have the necessary capital to buy privatized companies. Foreign interests might be able to buy large projects, but such actions would touch a sensitive national nerve. More likely, people close to the regime with access to resources will buy the state industries at low prices. However, to the average Egyptian, selling a state company to a friend of the president at a very low price and then bailing out the owners with subsidies simply looks like corruption. This perception is not always incorrect. The United States tends to think that supporting the business sector in a country like Egypt means helping free enterprise in that area, but this is not always the case. Privatization often does not lead to competition in the Third World because the business sector is closely tied to the state sector and depends on continued subsidies from the state to survive.

In the first phase of liberalization in Egypt, unemployment rates and the gap between rich and poor have increased significantly. There is more wealth in Egypt today than before, which is what free market enterprise should produce. However, while the first wave of liberalization has created extraordinary wealth for a few, the majority have not benefited. Reforms have created political and social problems that require solutions by the current regime. Meanwhile, the United States is encouraging the government to democratize and have freer elections without fully appreciating the regime's weak basis of legitimacy. Although the United States likes President Mubarak because he cooperates with this country and has kept peace with Israel, most Egyptians believe that the regime has not done much for them.

The Palestinian Program

A third important aid program in the region is targeted to the newly independent areas of Palestine. This program will be of increasing interest not because of its size, but because of its potential to make a positive contribution. Palestinians come to the process of institution building and peacemaking with some advantages. First, the Palestinian population has become one of the best educated in the Arab world. Second, the Palestinians, not having lived under state institutions, are beginning without a weighty bureaucracy like those in most Arab countries. It is not inevitable that the Palestinians will create such institutions, although it is a possibility. Finally, the Palestinians have survived by establishing relatively small-scale enterprises. This de-emphasis on state agencies is a healthy base from which to rebuild an economy.

However, the Palestinians lack access to capital, and they have lived under occupation in very disadvantageous circumstances. As the occupation regime ends and self-governing institutions are set up, the West Bank and Gaza will be one of the few areas in the Middle East with the potential for market-oriented economic development without a huge state bureaucracy. The area also has the potential for democratic political development. Democracy will not be achieved overnight nor will it be achieved easily, but many Palestinians do not want the type of political systems that exist elsewhere in the Middle East.

The Palestinians acknowledge the advantages of the Israeli political system—openness, participation, and the ability to change bad governments by political means—and many demonstrate a strong appetite for democracy. U.S. aid combined with that of the Europeans, the Japanese, and some Arab countries can help create the circumstances in which power will flow to Palestinians who are wedded to development and democracy. This aid can help secure the kind of peace between the Palestinians and the Israelis that is the key to a peaceful future in that part of the world. If the United States, through its programs and political support, can encourage a peaceful environment for Jordan, Palestine, Israel, and perhaps Syria and Lebanon, a real prospect will exist in the eastern Mediterranean for a future in which peace, democracy, and development can unfold together.

4

U.S. Foreign Assistance Priorities in the Former Soviet Union

by Clifford Gaddy

THE SEARCH FOR U.S. PRIORITIES in providing assistance to the reform process in Russia and the other former Soviet republics can be viewed as a search for answers to a series of dilemmas. These dilemmas exist at various levels. One level, and perhaps the most familiar one, is that of concrete choices of the way the United States delivers its assistance. Is it better to channel assistance through the central federal government, or should it be targeted directly at the regional and local levels? Should the money that is allocated in foreign assistance go primarily to U.S. companies in Russia—consulting firms, lawyers, and so forth—or should it go directly to Russians? Does the United States best help Russia by handouts of money or humanitarian aid or by promoting trade and investment? These and similar issues have been the subject of much debate.

THE DILEMMA BETWEEN CHANGE AND STABILITY

But there is a more important dilemma America faces in choosing its priorities. This dilemma stems from two basic, but partially contradictory goals of U.S. policy with regard to Russia right now. On the one hand, the United States is promoting fundamental economic and political change in Russia. From the beginning, the U.S. has been committed to seeing totalitarianism and the command economy irrevocably replaced by democracy and a market economic system. On the other hand, the U.S. is greatly concerned about maintaining stability in Russia. The reason is simple: regardless of the current weakness of its economy and military forces, that country remains a nuclear superpower and thus a bigger potential threat to U.S. security than any other country in the world. The U.S. dilemma is that the revolutionary changes it encourages in the economic and political spheres may threaten the social stability of this nuclear power.

In principle, it might appear that this dilemma between change and stability could be solved by abandoning the goal of influencing Russia's future development at all. The United States could limit itself exclusively to assistance measures that would have immediate security benefits for America and take a totally hands-off approach to internal reform. In practice, however, it turns out to be impossible to separate U.S. national security interests from economic reform in the former Soviet Union. Economics cannot be brushed aside. America is continually confronted with policy problems that bring home the direct connection between economics and security and its responsibility for both. As just one current example, in two closed so-called nuclear cities in Russia—cities that cannot be entered without special permits—weapons-grade plutonium continues to be produced even though Russia has by international agreement committed itself to stopping this production. Yet because of the threat of mass unemployment in these cities and because of the lack of alternative economic activity, the plants continue to do the only thing they know how to do: produce plutonium. To try and force Russia to cease this plutonium production without addressing the economic problems of the cities where that production takes place is impossible.

This is a stark example of the connection between U.S. security and Russian economic reform, but it is merely representative of the broader problem of demilitarizing the entire economy. It is clear that it is in the urgent security interest of the United States to help Russia transform its economy.

RUSSIA'S REFORM PROGRAM

The purpose of economic reform is to change the way a nation allocates its economic resources. Viewed in this light, Russia's current reform program consists of three steps.

The first step was to destroy the old mechanisms of economic allocation. In essence this meant removing the control of the Communist Party over the economy. This step is largely completed. The Communist Party has lost control, and the central planning apparatus has disappeared, although remnants remain. The second step is to create new mechanisms and institutions for resource allocation—what is often called building the "infrastructure of the market economy." Finally, there is the third step of utilizing these mechanisms in the actual process of redirecting resources to new and more desirable ends. Russia is in the midst of steps two and three. The United States is also involved in both, albeit marginally. In the form of technical assistance, the United States has helped new institutions. Through business involvement and investment programs, the United States is also involved in the reallocation of resources.

PAYING FOR THE PAST

But besides the three steps mentioned above, there is a fourth step that is a necessary part of Russia's economic transformation. It is a much more thankless task than that of building institutions and engaging in investment and trade, but it may be more important for Russia's stability and for U.S. security. This step is the necessity of paying the costs of past misallocation of resources. It is not enough for Russia to one day announce that it is no longer a centrally planned economy and expect from that point onward all that has to be considered is the building of the new economy. There is also the matter of paying for the consequences of mistaken policies over a period of 60 or 70 years. Factories were built to produce the wrong products; people were educated for the wrong professions; entire cities were built in the wrong places; public health was undermined by decades of pollution and neglect. Some of these can be corrected, but only at great expense. Others cannot be changed, and they will continue to be a net drain on the economy.

Who is to pay for these mistakes? Should it be the old generation that lived and worked under the old system? Or should it be the new generation? The old generation thinks it should not pay because it has already paid such a high price. Indeed, they feel doubly cheated. They first had to suffer from the inefficiencies and lack of freedom of the old system, and now they are some of the least prepared to take advantage of what the new market economy offers. The new generation is equally reluctant to bear the burden of change. They, after all, were not the ones who caused all these problems.

The dilemma of paying for the past—of quite literally "cleaning up the mess"—will be a source of major economic and political conflicts for years to come in Russia. It will be a strain on the social fabric. For those outside Russia, the dilemma will be particularly difficult, precisely because its resolution is ultimately a question of domestic politics and priorities. The United States therefore has to be prepared for a long period in which important events inside Russia will be decided without its direct participation and influence. In the meantime, awareness of the difficulties to come should be further motivation for this country not to abandon its current assistance to reform. In the end, the best way the United States has of helping the Russians solve their problem of paying for the past is to help create as much equitably distributed wealth as possible now and for the future.

5

Foreign Assistance to Africa: A Question of U.S. Interests

by John Hicks

WHY SHOULD THE U.S. GOVERNMENT spend taxpayers' dollars on development aid to Africa? The answer is simple. The U.S. economic assistance program to hundreds of millions of Africans is absolutely critical and is indeed in the U.S. national interest today and in the future. Clearly, Africa is currently at a crossroads of historic proportion, but so is America. The United States is faced with the crucial choice of taking a step backward or forward as a world leader. Will the United States step backward onto the path of isolationism, or will it reach out in a new, creative way into the international arena? Will it allocate sufficient resources to make the long-term investments necessary to advance U.S. economic, humanitarian, and political interests abroad?

FOREIGN AID AND LONG-TERM U.S. INTERESTS

Businesses know that their success depends on implementing strategic plans that are linked to their organizations' long-term vision. As a nation seeking success, the United States must do the same. If the U.S. vision of a post-Cold War world includes peace, progress, and prosperity at home, then America cannot afford to see most of the world suffocate in abject poverty, disease, and hunger, or die due to war created by the devastation of poverty. Neither can the United States afford not to help the development of potentially vibrant and rich markets for exports and investments in developing countries. For these reasons, decisions made today about U.S. foreign policy have implications for the well-being of this country that are equal to those of reducing the national debt. If Americas are to lead, they must do so responsibly. The United States must be guided by a vision that recognizes the basic fact that the future security of this country—economic, political, social, and otherwise—is linked to that of the world.

To answer the question of why foreign aid to Africa is in the U.S. national interest, we need to take stock of the facts, take well-calculated risks, and believe that a brighter future for Africa is on the horizon. The Clinton Administration believes in a strong and prosperous Africa and that this country has a role in that vision.

Africa is a richly challenging and fascinating continent. Its diversity in wealth and poverty, physical character, resources, population, and culture has no equal in the world. For every Somalia there is a Mozambique that overcame a devastating civil war to send 90 percent of its registered voters to the polls last fall. For every Sudan there is a Ghana where the United States is now the third largest supplier of goods after the United Kingdom and Nigeria. Of course, there is South Africa, that stellar example for the world, a country rising from the squalor of oppression and bloodshed to hold out great promise as a model democracy, a business partner, and a good friend to the United States.

Africa matters to the United States. It is in the U.S. national economic interest to develop markets for U.S. exports that translate into jobs here. It is in the U.S. interest to prevent and mitigate costly disasters that kill and create breeding grounds for disease. The United States has an interest in addressing the global problems facing Africa, problems such as the prevention of HIV-AIDS and the preservation of Africa's biodiversity.

Assisting the world's poorest people is consistent with the United States' national values. This country has deep historical and cultural ties to Africa, the motherland of 35 million Americans.

Good things are happening in Africa, and American leadership and development assistance are important reasons why. However, progress is fragile. The United States must remain engaged and maintain its commitment to promote Africa's sustainable development. U.S. development aid to Africa is a small but sound investment. It costs only a penny a day for each American citizen, yet it improves the lives of millions of Africans. It also helps to secure the economic future of America, and it will leave a better world for our children and grandchildren.

THE LASTING EFFECTS OF FOREIGN AID

The Development Fund for Africa (DFA), the special appropriation that provides development assistance to Africa, must be preserved. It is critical to helping the United States achieve foreign policy objectives in Africa, which include fostering democracy and respect for human rights, alleviating suffering and hunger, encouraging American private sector investment, and promoting sustainable development. The DFA enables the United States to take a long-term approach to addressing Africa's development challenges, promoting broad-based economic growth, protecting the environment, stabilizing population growth, supporting democracy and participatory development, and promoting U.S. trade and investment.

In fiscal year 1994, total humanitarian aid provided to Africa from the U.S. Agency for International Development (USAID) amounted to $585 million; however, less than 5 percent of Africa's population had reached the state of crisis required for humanitarian aid. Without U.S. aid and that of other donors, the share of Africa's population living at the edge of disaster would undoubtedly be greater than 5 percent. The U.S. objective must be to work out of the need for humanitarian assistance by promoting sustainable development. If the United States does not, more disasters, more human suffering, and escalating costs will likely result. As resources become even more scarce, it will be difficult to respond to the complex types of disasters that now occur. If the United States cuts its development assistance and disengages, other donors will follow suit.

NEW INITIATIVES

The U.S. foreign aid program cannot do everything everywhere. That is why it concentrates on the countries that are persisting in the economic and political reforms that make them good development partners. The strategy of looking at problems and solutions subregionally and on a country basis reinforces the United States' ability to produce results and promote progress. One example is the Initiative for Southern Africa, designed to provide support to the southern Africa region. This project, which plans to provide $300 million to that region over a five-year period, emphasizes democracy, enterprise development, the development of transportation, telecommunications, and natural resources, investment, and other activities.

Also critical to the U.S. results-oriented strategy is fostering African ownership and leadership of the development process. For example, the Forum for African Women Educationalists (FAWE) is a group of professional women who have formulated groundbreaking strategies to promote girls' and women's education in Africa. It is the type of organization that the U.S. foreign aid program supports and promotes.

In East Africa for the past year, the United States has been working with its African partners in the donor community to develop the Greater Horn of Africa Initiative (GHAI). Africans have actively demonstrated their leadership and ownership of this initiative, and it is moving ahead. East Africans and their donor partners will engage in a process of strategic coordination, working together to look for ways to integrate development assistance and humanitarian aid. It recognizes that development, economic, conflict, political, and civil problems cannot be examined in isolation from each other.

Perhaps the most formidable challenge to the overall sustainable development goal would be a severe drop in U.S. assistance to Africa in areas of economic growth such as agriculture, small and medium enterprises, and economic policy reform programs. Investments in economic growth are critical to Africa's development and to the growth of U.S. export markets and business opportunities in the region.

TRADE AND INVESTMENT

Trade and investment are recognized as crucial areas of U.S. relations with Africa. They were the first topics related to Africa that Congress asked both the U.S. State Department and USAID to testify on in 1995. African markets potentially have great significance for the United States. In 1994, U.S. exports to Africa totaled nearly $4.5 billion; from Virginia and Maryland alone, exports were about $200 million. Estimates are that U.S. exports to Africa could reach $40 billion in the next 30 years, which translates into about 760,000 new American jobs.

U.S. initiatives under the Development Fund for Africa help strengthen markets by encouraging the elimination of impediments to local market and export development. In Ghana, for example, U.S. support has helped handicrafters establish relationships with J.C. Penney, Pier One, and American Merchandizing Company. Similarly, in Guinea-Bissau, local cashew producers are supplying Ben and Jerry's Ice Cream. Both endeavors have increased income and foreign exchange earnings for the countries involved.

USAID programs have helped Ugandans diversify their economy, increase incomes, and encourage linkages with U.S. businesses. Exports to Uganda have risen eight times above their 1987 level. Farmers' incomes have grown as well. Vanilla producers, for example, saw their incomes rise 25 percent over the past several years, and the U.S. spice company, McCormick, now works with many of these producers.

Perhaps the most dramatic example of new business opportunities for American businesses is in South Africa. In the past three years, U.S. exports to South Africa have steadily increased, and the number of American companies doing business there has grown from 174 to about 500 today.

CONCLUSION

In international economic development circles, Africa is often referred to as the last development frontier. With the fastest growing population of any continent, Africa holds vast market potential. But for this market potential to become a reality and to thrive, African countries must be helped to consolidate their gains in economic and political development. Africa has the world's greatest underdeveloped export and investment potential. U.S. economic assistance seeks to foster the transformation of this potential into real opportunities that help Africans and create income and jobs for Americans. Foreign assistance to Africa is one of the best investments that the United States is making in its own future.

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