

DD-ABC-843  
ISN 71734



**TRADE AND INVESTMENT DEVELOPMENT PROJECT**  
598-0797

**Bureau for Latin America and the Caribbean  
Office of Trade and Investment  
April 3, 1991**

PROJECT DATA SHEET

1. TRANSACTION CODE PD-ABC-843

A = Add  
 C = Change  
 D = Delete

Amendment Number

3

2. COUNTRY/ENTITY  
LAC Regional

4. BUREAU/OFFICE  
LAC Bureau, Office of Trade and Investment

3. PROJECT NUMBER  
598-0797

5. PROJECT TITLE (maximum 60 characters)  
Trade and Investment Development Project

6. PROJECT ASSISTANCE COMPLETION DATE (FACD)  
MM DD YY  
09 30 94

7. ESTIMATED DATE OF OBLIGATION (Under "2" below, enter 1, 2, 3, or 4)  
A. Initial FY 91 B. Quarter 3 C. Final FY 93

8. COSTS (\$000 OR EQUIVALENT \$1 = )

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	( 1,000 )	( )	( 1,000 )	( 3,600 )	( )	( 1,000 )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1						
Other U.S. 2						
Host Country						
Other Donor(s)						
<b>TOTALS</b>	1,000		1,000	3,600		1,000

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) PSEE	734R	840				1,000		2,160	
(2) ARDN	"	"						1,440	
(3)									
(4)									
<b>TOTALS</b>						1,000		3,600	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To stimulate and support free trade policy development and/or reforms through A.I.D.-assisted programs.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000  941  Local  Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page FF Amendment.)

17. APPROVED BY

Signature: James H. Mack

Title: Assistant Administrator, LAC

Date Signed: MM DD YY 014 115 911

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

PROJECT AUTHORIZATION

Name of Country: LAC Regional  
Name of Project: Trade and Investment  
Development Project  
Number of Project: 598-0797

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Trade and Investment Development Project for Latin America and the Caribbean Region involving planned obligations of not to exceed U.S. \$3.6 million in grant funds over a three year period from the date authorization, subject to availability of funds in accordance with the A.I.D. OYB allotment process, to help in financing foreign exchange costs for the project. The planned life of the project is three years from the date of initial obligation.

2. The purpose of this project is to stimulate and support free trade policy development and/or reforms in the Latin America and Caribbean (LAC) region through A.I.D.-assisted programs through: 1) technical assistance and support to analyze trade and investment policy climate in select countries; 2) technical support for field Missions in program trade and investment strategy development; 3) promotion of open trade policies in the indigenous private sector; 4) outreach to the U.S. business community to promote LAC trade and investment; 5) information collection, analysis and dissemination; and, 6) support for liaison with other U.S. government, multilateral and donor agencies.

3. The Project Agreement(s) which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4. Source and Origin of Commodities, Nationality of Services: Commodities financed by A.I.D. under the project shall have their source and origin in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States as their place of nationality, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

James H. Wood  
Assistant Administrator  
Bureau for Latin America and the Caribbean

April 15, 1991  
Date

Clearances:

LAC/TI: MKeenanWood	<u>M. Keenan Wood</u>	Date: <u>4/13/91</u>
LAC/DR: S Bugg	<u>(draft)</u>	Date: <u>4/1/91</u>
LAC/DP: B Schouten	<u>(draft)</u>	Date: <u>3/26/91</u>
LAC/DPP/CONT: C Adams	<u>(draft)</u>	Date: <u>3/27/91</u>
GC/LAC: K Hansen	<u>KH</u>	Date: <u>4/3</u>
DAA/LAC: P Bloom		Date: _____
SA/AA/LAC: K Harbert	<u>KH</u>	Date: <u>4/10</u>

Drafted: JVer<sup>H</sup>million/KBrown<sup>son</sup> x7-9100, #7614Q, 3/22/91

TRADE AND INVESTMENT DEVELOPMENT (598-0797)

ISSUES MEETING, MARCH 7, 1991

SUMMARY OF DELIBERATIONS

I. Relationship to A.I.D. Policy and Strategy: Should the project address more components of A.I.D.'s Partnership for Business and Development initiative?

Discussion: It was noted that this project, as designed, specifically addresses the Emerging Sectors in Development, Competitiveness through Universities, the Business in Development Network and the Business Advisory Council components of the Administrator's initiative. Further, the Administrator recently noted that the Latin America and Caribbean Business Development Center at the Department of Commerce, to be supported under this project, is an integral component of this initiative in his address at the opening of the Center.

Resolution: The Project Paper has been modified to specifically mention its support of the Partnership for Business and Development.

II. Project Purpose

1. Is the project designed to provide technical support to Missions to assist them, through assessments, strategy and program development, outreach to the local business community and other activities, in furthering the objectives of the three hemispheric trade initiatives?

Discussion: An earlier version of the project had contemplated Mission buy-ins and specific Mission support activities. In the evolution of the design, this element was removed from the design and the project does not now envision technical support to Missions for project development or implementation activities.

Resolution: The Project Paper does not include reference to Mission buy-ins and Mission technical support activities supported by buy-ins.

2. How will countries be selected for participation in the first three components of the project?

Discussion: The Project Paper did not provide the basis for selection of the six target countries for which trade and investment climate analyses will be conducted and for which strategies will be recommended.

Resolution: The Project Paper has been revised to identify considerations for country selection for the first three project components.

3. Would it be more appropriate to undertake the first three components at the Mission level with Mission funding?

Discussion: Assessment of sectors and strategy formulation are normally undertaken by Missions with PD&S funding. LAC/TI is charged with providing Missions with guidance on trade and investment strategies. The project, however, is regional in focus and aims to provide a few models for guidance to Missions with differing environments on how to best enhance trade and investment. In addition, the Bureau wants to examine intra-regional and ADC trade issues and there is no existing forum in bilateral programs to undertake such analysis.

Resolution: Given the regional focus of the project, it was decided that it should not be undertaken on a bilateral basis.

4. Why is it important to "educate U.S. businesses on how foreign aid programs promoting open trade policies help U.S. investors?" Is it appropriate for A.I.D. to project fund fora for U.S. businesses on LAC trade policy, opportunities and challenges?

Discussion: LAC/TI clarified that the focus of activities under this project component will be to inform U.S. businesses of trade and investment opportunities and challenges in the region, not to inform them about our economic assistance programs. The purpose for these activities is to make U.S. businesses aware of these opportunities and stimulate them to become engaged in trade and investment in LAC. These activities are consistent with the bilateral efforts presently being funded out of many LAC Missions in the U.S., such as operational support for U.S. investment promotion offices, but provides a unified approach, rather than bilateral approaches which do not take into account the regional focus required by U.S. business and instead compete with each other for the same U.S. investment dollars. This project will provide a unified, region-wide approach to U.S. business outreach.

Resolution: The wording in the Project Paper has been modified to clarify the interaction with U.S. business.

5. Why is it important to the project purpose to collect data on the indirect impact of A.I.D. assistance on U.S. exports?

Discussion: It was questioned whether increasing U.S. exports is part of the purpose of A.I.D. and whether the project should collect and analyze data related to U.S. exports. It was pointed out that A.I.D. assistance often has impact on trade significantly broader than the expenditure of actual A.I.D. dollars and that this project component would serve an evaluative role to examine the impact of our economic assistance.

Resolution: It was decided that this is an appropriate activity in the project and it was left intact.

### III. Project Components

1. How will the project educate the local private sector? Will the local public sector be included?

Discussion: It was pointed out that the local public sector is not the direct target of activities under the project since there are already many existing bilateral projects which benefit public sector entities like the Ministries of Agriculture, Finance, etc. It was further explained that the work with the local private sector will be primarily strategic in nature, i.e., developing approaches for Missions rather than directly supporting activities. There will be a small number of seminars, conferences, etc. which might be supported in instances where Mission funding is unavailable and the apparent benefits are high.

Resolution: The Project Paper was modified to more fully describe intervention in strategy development for field Missions and support for specific activities with the local private sector.

2. How will the Outreach to the U.S. business community component work? What support for trade missions in the LC region is planned? Is such support appropriate?

Discussion: The outreach component to the U.S. business community will be implemented through seminars around the U.S. with potential LAC trade and investment partners to stimulate trade and investment in the region. The particular business organizations were asked to be identified, but it was pointed out that the target is businesses, rather than organizations. Organizations will be used inasmuch as they facilitate direct access to relevant U.S. businesses. As for trade missions, there will be no support for the costs of U.S. businesses on trade missions. There may be some support for organizing business missions through collaboration with existing bilateral mechanisms under the project.

Resolution: The Project Paper has been modified to more fully describe outreach to the U.S. business community.

3. Is it appropriate to use project funds to "ensure that A.I.D. achieves its appropriate role in the scheme of hemispheric trade - and to provide support for A.I.D. at inter-governmental meetings?"

Discussion: LAC/TI clarified that project funds will be used to define a strategy unique to A.I.D. in implementing the Administration's trade initiatives for the hemisphere. In addition, analytic work will be conducted by the technical assistance contractor to prepare for inter-governmental discussions on trade and investment enhancement in the hemisphere, including preparing technical background papers on issues for discussion at joint trade and investment councils on which A.I.D. sits so that the policy environment in participating countries can be improved to enhance trade and investment. In addition support for the PASA as a co-chair of the CBI implementation working group is mandated in President Bush's Enhancement Package for the CBI. Project funds will support these efforts.

Resolution: The Project Paper was modified to reflect the relative roles of PASA support and contractor support, i.e., contractor support for technical analysis and PASA support, especially as mandated by the Administration, for intergovernmental fora.

#### IV. Implementation and Evaluation

1. Should A.I.D. compete the 8(a) set aside among 8(a) firms?

Discussion: When it was assumed that buy-ins would be permitted in the technical assistance contract, the possibility of a total contract amount in excess of \$3 million existed. On clarification that buy-ins are not a part of the project, the total contract amount would remain less than \$3 million and competition is not required.

Resolution: With the clarification that buy-ins are not part of the project, the issue was resolved.

2. Is Kira, Inc. the best firm to provide TA?

Discussion: The process of interviewing firms for the technical assistance contract was described. It was pointed out that a justification memorandum needed to be prepared to describe this procedure for the record.

Resolution: A justification for sole-source procurement has been prepared to document the selection procedure for awarding the 8(a) contract.

3. How will LAC/TI know whether or not the project is effective?

Discussion: The Project Paper did not include evaluation or audit provisions. It was pointed out that all projects are required to include funding for evaluation and audit activities and that potential for a mid-project evaluation would permit

mid-course corrections, if necessary during the life of project. Project-wide evaluations and any necessary audits will be undertaken as deemed appropriate.

Resolution: The Project Paper has been revised to include funding for evaluations and audit.

**TRADE AND INVESTMENT DEVELOPMENT PROJECT**

598-0797

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## I. SUMMARY AND RECOMMENDATIONS

The Trade and Investment Development Project (598-0797) is a three-year regional project implemented by the Office of Trade and Investment in the Bureau for Latin America and the Caribbean (LAC/TI). Planned life-of-project expenditures are \$3.6 million. The Office of Trade and Investment is the lead office in LAC for coordinating A.I.D.'s response to the Administration's hemispheric trade initiatives. The project will provide LAC Offices and Missions with resources for strategic planning and resource allocation, so that they can more effectively move countries in the LAC region towards acceptance and adoption of open trade policies, and to stimulate investment in the region. The Trade and Investment Development (TID) project will assist LAC/TI in carrying out this role.

This project is a follow-on to the Private Sector Initiatives Project (598-0619), which was implemented under LAC/TI's predecessor office, LAC/Private Sector. This former office and the Private Sector Initiatives Project (PSIP) played a central role in the implementation of private sector policies and programs in the region. The recasting of LAC/PS into LAC/TI in 1990 recognizes that the work of integrating private sector initiatives into the LAC project portfolio has had success, and that a more focused, second-tier office is now required to channel efforts specifically towards initiatives in promoting trade and investment in the LAC region. The Project goal is to foster a hemispheric free trade environment in Latin America and the Caribbean. The project purpose is to stimulate and support open trade policy development and/or reforms through A.I.D.-assisted programs. The Trade and Investment Development project (TID) will have six basic components: (1) Policy technical assistance and support; (2) Technical support for field Missions in program design; (3) Technical assistance to field Missions to educate and develop support for open trade policies in the indigenous private sector; (4) Outreach to the U.S. business community to promote opportunities for trade and investment in the LAC region and to build support for open trade policies; (5) Information collection, analysis, and dissemination; and, (6) Liaison with other U.S. government, multilateral and donor agencies.

The project paper recommends approval of the Trade and Investment Development Project. Authorization is requested for a total of \$3.6 million. Funds will be obligated for this three year project via a prime technical assistance contract, and other assistance instruments. The Project Assistance Completion Date is three years from the first obligation under the project.

## II. PROJECT RATIONALE

### A. Background

The Office of Trade and Investment is responsible for developing and facilitating: (a) coordination and expansion of the Bureau's efforts in support of the Administration's hemispheric trade initiatives; (b) expansion of efforts to encourage LAC countries' local, indigenous private sector groups and individuals to support open trade policies; (c) the increased participation of the U.S. private sector in trade with and investment in countries in the region; and (d) coordination of the Bureau's trade and investment activities with other donors, other U.S. government agencies and private agencies and businesses. Prior to LAC/TI's formation in 1990, the LAC/Private Sector Office held the more broad mandate of integrating private sector programs and priorities into the regional portfolio. The purpose of an earlier project, the Private Sector Initiatives Project (PSIP) was to stimulate private sector growth in the LAC region and to provide guidance for the development and implementation of LAC Missions' private sector programs. This multifaceted project was designed to support and complement Mission activities for stimulating private sector-led growth throughout the LAC region. With the passage of the original CBI legislation in 1983, guidance was needed to inform A.I.D. programs on helping countries maximize CBI benefits. The project promoted U.S. trade and investment in CBI countries, primarily through: technical assistance to USAIDs; financial support to agreements with U.S. government agencies involved in trade and investment development, such as the Department of Commerce's Caribbean Basin Business Development Center or OPIC, under Participating Agency Service Agreements; and support to regional efforts (such as the annual Miami Conference on the Caribbean and Regional Private Sector Officer Conferences) to promote interest, investment and trade among U.S. and LAC business and industry.

### B. Accomplishments to Date

The efforts under PSIP clearly resulted in a heightened awareness of the benefits of private sector-led growth, by encouraging a broad range of private sector interventions in the LAC Missions' portfolio. LAC Mission private sector programs grew to include projects and programs aimed at developing sound investment environments in the host countries. This was achieved through: support for privatization, debt conversion, financial market development, commercial credit, small and micro enterprise development, the establishment of Free Trade Zones, agribusiness development, business training and degree scholarships, and export, trade and investment promotion. Most of these efforts took place either through projects implemented through host country private and public organizations, or through ESF program assistance aimed at encouraging policy reforms to make free

enterprise, trade and investment attractive. Local export and/or investment promotion institutions were established or strengthened in nearly all of A.I.D.'s LAC countries, with A.I.D.'s assistance, with the goal of being "one-stop shops" to link foreign investors with local businesses and opportunities. The recasting of LAC/PS into LAC/TI in 1990 recognizes that the work of integrating private sector into the LAC project portfolio has met with great success, thereby laying the foundation for a more mature approach to trade and investment promotion reflecting the evolving trade relationship in the hemisphere. Hence, PSIP played a valuable role in providing assistance to Missions to help them implement their own private sector strategies and programs in consonance with A.I.D. mandates, and support organizations and fora in which these strategies could be realized.

### C. Rationale for the Project

With this foundation, A.I.D.'s LAC Bureau is now ready to focus more specifically on the promotion of trade ties in the hemisphere. New hemispheric trade initiatives such as President Bush's Enterprise for the Americas Initiative, the Andean Trade Initiative and CBI II have more clearly defined A.I.D.'s mandate in this area. CBI has clearly demonstrated that as countries in the hemisphere expand their export base, they then purchase more from the U.S. The market share of U.S. business in the hemisphere has increased over the last five years; while CBI-eligible exports to the U.S. have increased by about \$2 billion and U.S. exports to the region have likewise increased by a similar amount. As countries have become interested in expanding exports and providing lasting employment, they have realized that local production must compete in the world market place. As they proceed toward world market competitive production, these countries lower trade barriers and opportunities for U.S. businesses in the countries increase.

Inter-agency cooperation in promoting hemispheric two-way trade and open markets has strengthened and become a government-wide strategy. The need to stimulate and foster positive, free-market policy changes in Latin America and the Caribbean has become A.I.D.'s strategy for the LAC region. LAC/TI wishes to continue to provide support and guidance to A.I.D.'s Missions to ensure that economic development programs are geared towards supporting open trade and investment. Therefore, a more directed, evolved program is now required to channel efforts specifically towards initiatives in trade and investment, and the new Trade and Investment Development Project will do this.

## D. Policy and Strategy Statement

### 1. Relationship to Enterprise for the Americas Initiative and Other Trade Initiatives

On June 27, 1990, President Bush announced his legislative proposal entitled the "Enterprise for the Americas Initiative Act of 1990." This initiative consists of three basic parts-- trade, investment, and debt. Trade is embodied in the development of hemispheric open trade policies with the ultimate goal of a hemisphere-wide free trade systems. Investment will be enhanced through economic policy and regulatory reforms to open up investment climates and development of investment finance mechanisms. Easing debt burdens while also supporting environmental actions is the third part of EAI. Some of the supporting legislation proposed by the President was enacted in the Farm Bill of 1990 and other components are currently pending legislative action. In total, EAI is expected to provide for a program which will uphold free and fair trade in the hemisphere. It is the goal of the TID project to support this initiative.

Preferential trade initiatives such as the Caribbean Basin Initiative II and the Andean Trade Initiative (ATI) (the legislation for the latter currently pending congressional enactment) both provide for similar benefits such as duty free entry to the U.S. for a wide range of products manufactured in the eligible countries as an incentive for investment and diversified export production. U.S. economic assistance to the region to stimulate private sector-led development has been A.I.D.'s key mandate in implementing the CBI, and will continue to be in implementing ATI. Hence, this project furthers the goals of CBI, ATI and EAI.

In addition, A.I.D. has recently announced its Partnership for Business and Development Initiative. This project fully supports components of this Initiative and was the PASA under the project was cited by the Administrator as an integral component of the Partnership for Business and Development.

### 2. Relationship to LAC Bureau Objectives

The proposed project follows directly from the mandates of the Bureau objectives. LAC Bureau objective I: "Support the achievement of broadly-based, sustainable economic growth" was the driving force behind the reorganization of the LAC Bureau and the establishment of the Office of Trade and Investment. The Office's mandate is to work with other Offices in the Bureau and field Missions to support the adoption of economic policies which promote investment, productive employment, and export-led diversification and the subsequent response by the private sector. This project will be a major tool for LAC/TI to carry out this mandate. In a less direct way, the project will work to

carry out the mandate of LAC Bureau objective II: "Support the evolution of stable, democratic societies", since the sustainable economic development of countries in the region is necessary to assure the maintenance of the democratic transition which has taken place in the hemisphere.

### 3. Relationship to A.I.D. Trade Policy

The precepts of A.I.D.'s Trade Development Policy Paper of July 1986 are being implemented through this project:

A.I.D.'s trade development policy is designed to encourage LDCs to utilize international trade as a key instrument in the process of achieving broad based, sustained economic growth, and place a greater reliance on complementary domestic competitive markets that support more open trade policies.

A major focus of the trade development policy is on building developed country and LDC private enterprise ties on a continuing, long-term basis, consistent with the broad American objectives of trade liberalization.

The policy paper emphasizes that a positive policy environment for trade and investment is requisite for successful A.I.D. interventions, and that "A.I.D.'s first effort related to trade should be directed towards establishing and improving a policy environment that is conducive to private enterprise and expanded participation in international trade. The content of the Trade Development Policy Paper, the President's Trade Policy Action Plan Fact Sheet, Background Information on The General Agreement on Tariffs and Trade; and Background Information on the U.S. Generalized System of Preferences Program are considered so applicable to the objectives of this project and the Agency goals in Trade enhancement, that they are included as Annex B to this PP. The Bush Administration's Trade Strategy Fact Sheet (May 23, 1990) is also attached in Annex B.

## III. PROJECT DESCRIPTION

### A. Project Goal and Purpose

The goal of the project is to foster a hemispheric free trade environment in Latin America and the Caribbean. The purpose of the project is to stimulate and support free trade policy development and/or reforms through A.I.D.-assisted programs. The accomplishment of the project purpose and the broader goal will serve to develop sustainable employment and economic growth in A.I.D.-assisted countries. The development of an open trade environment is a necessary prerequisite to stimulate both domestic and foreign investment. It is only with

such investment that countries in the region will be able to meet the capital needs for infrastructure development required to bring about the LAC Bureau goal of sustainable economic growth.

#### B. End of Project Status

By the end of the project, the following will have been accomplished:

- o Assistance will have been provided and recommendations made to field Missions for improving the environment to stimulate positive trade policy reforms in the region through the development of comprehensive trade and investment strategies;
- o Information sources will be developed on opportunities for trade and investment in Latin America and the Caribbean as a basis for facilitating trade enhancement;
- o trade and investment barriers will be reduced, with trade and investment increased in target countries.

#### C. Project Components:

The project will consist of six complimentary components, each aimed at supporting achievement of the EOPS:

- o Technical assistance and support to analyze trade and investment policy climate;
- o Technical support for field Missions in program strategy development;
- o Technical assistance to field Missions to develop approaches to educate the indigenous private sector and develop support for open trade policies through policy analysis support and seminars;
- o Outreach to the U.S. business community to promote opportunities for trade and investment in the LAC region and to build support for open trade policies;
- o Information collection, analysis, and dissemination; and,
- o Liaison with other U.S. government, multilateral and donor agencies.

1. Technical assistance and support to analyze trade and investment policy climate

The Enterprise for the Americas Initiative, announced by President Bush on June 27, 1990, creates a vision of hemispheric free trade for the western hemisphere. This initiative sets out a guiding policy framework for all U.S. government activities in trade and investment and LAC/TI has been charged with taking the lead role for A.I.D. in coordinating the implementation of this initiative. In addition, the recently enacted Caribbean Basin Initiative II legislation and the recently introduced Andean Trade Initiative legislation spell out particular subregional trade and investment policy priorities for which LAC/TI is to take the lead A.I.D. implementation role.

These initiatives require a shift in focus from earlier export promotion efforts toward open trade environments which encompass export and investment promotion, but also stress multi-directional trade as priority. The project will support assessments of the trade and investment climate in select countries to develop recommendations of priority areas needing to be addressed to enhance trade and investment. These assessments will identify targets of opportunity, areas of comparative advantage and constraints to development of trade and investment and provide recommendations for policy dialogue and general program direction to these Missions. These joint Mission-LAC/TI assessments will be conducted at the request of Missions in which the policy environment shows potential for positive results. LAC/TI will use the services of a technical assistance contractor, the Latin America and Caribbean Business Development Center at the Department of Commerce, possible collaboration with OPIC, and specific support grants to organizations such as C/LAA to identify policy and regulatory constraints to trade and investment and areas of comparative advantage as a basis for LAC/TI guidance to field Missions. In addition, specific sectoral guidance will be prepared (e.g., tourism, electronic assembly, nontraditional agriculture exports) by LAC/TI in conjunction with other LAC offices, based analyses generated through the TID project and through other projects (such as the LAC/TECH project in LAC/DR/RD).

Selection of countries for this project component will be based on performance both in macroeconomic and business environment terms, willingness of Missions to participate, geographic and political priorities and trade/investment diversity. LAC/TI will make final determinations in the selection of countries, based on consultations with Missions, other LAC Bureau Offices, STATE, USTR, DOC and other relevant government agencies.

## 2. Technical support for field Missions in program strategy development

In addition to providing general guidance for policy dialogue directions, LAC/TI is charged with providing field Missions with specific guidance on strategic directions for trade and investment programming. Experience to date in export promotion and diversification and in investment promotion throughout the region have provided several valuable lessons for future program and project designs. Based on project supported assessments, LAC/TI will provide Missions with specific recommendations for trade and investment strategy development, primarily through use of a technical assistance contractor. In addition, other LAC Bureau resources will be tapped for strategy development, especially with regard to areas such as agricultural trade where the LAC/TECH project already has considerable resources which can contribute in this area. The emphasis in this project component will not be project design, but rather strategy development, addressing critical areas of intervention which can produce significant impact on trade and investment activity in target countries. Subsequent project design will fall outside of the scope of this project and will be supported by Mission or other LAC Bureau sources.

## 3. Promotion of open trade policies in the indigenous private sector

As a complement to providing field Missions with specific guidance on policy directions and trade and investment strategic planning, the project will support specific activities to assist field Missions in developing strategies to educate and mobilize the indigenous private sector in host countries on long-term effects of open trade policies and building support in host countries for open market policies. Through the technical assistance contract, PASA intervention and support grant activities, programs will be developed to engage the local private sector in empirical policy analysis, and subsequent open discussions of economic and financial implications of policy change. In addition, specific fora (lectures, seminars, etc.) might be supported in target countries in which policy and business environments are shifting and discrete intervention with the indigenous private sector could yield support for these changes.

## 4. Outreach to the U.S. business community

As a complement to work with field Missions and host country private sector leaders, LAC/TI is also actively involved in promoting trade and investment opportunities for U.S. businesses in the LAC region. Under this project, LAC/TI will develop an outreach program to the U.S. business community to inform its members of trade and investment opportunities in the region, on

programs which can support them in seeking out business deals in the region, and provide information on the relationship between open trade policies and U.S. export development and in building U.S. business comparative advantage. In particular, project technical assistance and PASA support will: organize fora for discussions with U.S. business on LAC trade policy, opportunities, and challenges at several select locations around the U.S.; and arrange support for trade missions in the LAC region, although in no case will funding be provided for private U.S. business participation in trade missions. The target of these activities will be U.S. businesses; particular organizations (e.g., Chambers of Commerce, World Trade Centers, State Development Agencies) might be used as intermediaries but only to the extent that they provide relevant access to appropriate businesses interested in the LAC region.

##### 5. Information collection, analysis, and dissemination

In support of its outreach activities and to provide background materials for monitoring, evaluation and strategic planning, LAC/TI will use the project to collect trade and business information relevant to countries of the region, undertake analyses of trends for interpretation and referrals, and make information available to U.S. and host country businesses, A.I.D. decision makers and other relevant sources to promote open trade policies in the region. The technical assistance contract and PASA collaborators will hold primary responsibility for organizing, collecting, analyzing and reporting on project generated data, under LAC/TI guidance. In addition, the implementing entities under this project will work closely with other A.I.D., OPIC and Department of Commerce mechanisms which collect relevant data (e.g., A.I.D.'s Center for Development Information and Evaluation, LAC/TECH, the National Trade Data Bank) to assure that there is consistency in data collection, lack of overlap in efforts and coordination of activities. Data to be collected and analyzed include: (a) investment climate data; (b) trade data; and, (c) indirect impact of A.I.D. assistance on U.S. exports. Investment climate data will be collected primarily by the Latin America and Caribbean Business Development Center at the Department of Commerce and OPIC, under PASA arrangements, so that businesses seeking information or business counseling can obtain accurate and timely information on the legal and regulatory environment of prospective investment sites and sector-specific capacity information. Trade data collected under the project will not be significant new information, but rather a compiling of existing information for LAC/TI specific analysis purposes. A.I.D. impact data will be compiled from reports of field Missions and will seek to quantify the broader U.S. exports stimulated by A.I.D. assistance, but not directly as a result of A.I.D. procurements. When existing data sources exist, the project will seek to use these sources, rather than generate new information.

6. Liaison with other U.S. government, multilateral and donor agencies

In its role in implementing EAI, CBI and ATI, LAC/TI will call on this project to provide necessary background and analysis to function effectively in interagency fora and with other donors and multilateral institutions. This involves translating A.I.D.'s role in fomenting economic growth and reforms in LAC countries into actions which ultimately lead to the attainment of U.S. trade initiative objectives. This component will provide analytic support to A.I.D. field Missions and to LAC/TI to carry out A.I.D.'s mandates in developing hemispheric free trade. Under PASA arrangements with DOC and OPIC, the project will provide analytic support for A.I.D. participants at intergovernmental meetings; necessary research and preparatory work will be executed under the technical assistance contract to carry out this project component. In addition, necessary technical data collection and analysis will be provided to guide A.I.D. interactions with multilateral and other donor agencies related to trade and investment promotion in the hemisphere.

IV. IMPLEMENTATION ARRANGEMENTS

A. Administrative Arrangements

The project components will be implemented through three instruments: an 8(a) set-aside technical assistance contract; PASAs with U.S. government agencies such as the Department of Commerce and OPIC; and, specific support grants to institutions involved in policy and strategic planning leading toward hemispheric open trade (e.g., C/LAA for its Miami Conference on the Caribbean). The DOC PASA already exists and continuation of activities under this project will most likely be through amendments to this existing agreement. The execution of the six project components will be carried out as indicated in Table 1.

Table 1

COMPONENT	IMPLEMENTING INSTRUMENT		
	8(a) TA CONTRACT	PASAS	GRANTS
T&I Climate Analysis	X	X	X
Strategy Development	X		
Developing Local Support	X	X	X
U.S. Outreach	X	X	X
Information	X	X	
USG/Donor Liaison	X	X	

### B. Implementation Plan

Table 2 delineates how the project will be implemented.

Table 2

IMPLEMENTATION/OBLIGATION SCHEDULE			
Obligating Document	Amount	Approx. Date of Oblig.	Term
8(a) Direct Contract	2,000,000	3/91	3 years
DOC/OPIC PASAs	1,000,000	3/91	2-3 years
Grant Agreements	400,000	4/91	Ltd Scope
Evaluation/Audit	200,000	na	na
<b>TOTAL</b>	<b>3,600,000</b>		

### C. Procurement Plan

It is anticipated that the technical assistance contract will be awarded to an 8(a) small business firm that is qualified in international trade and investment. A three-year contract will be signed after project authorization to include:

- o approximately 20 person-months of technical assistance provided to LAC/TI for trade and investment strategy development with field Missions;
- o approximately six host country trade and investment assessments;
- o support for approximately 24 trade and investment promotion activities within the U.S.;
- o development of an information system to monitor, analyze and provide relevant data on trade and investment to U.S. and host country businesses and to A.I.D. senior management.

Funding to a Participating Agency Service Agreement (PASA) with the Department of Commerce will provide continuing support for the Latin America and Caribbean Business Development Center. This Center serves as an information clearinghouse for trade and investment data and serves as a "one-stop-shop" for U.S. businesses interested in the LAC region. This PASA was originally funded under the PSIP and continued funding will be provided under the TID project. In addition, funding may be provided to other U.S. government agencies involved in trade and investment development, such as OPIC, to support project components.

In addition, it is anticipated that LAC/TI will provide grant funding to Caribbean/Latin America Action (formerly Caribbean/Central America Action) to support its annual Miami trade and investment conference to promote high-level policy dialogue, outreach to U.S. businesses and work with host country businesses to promote open trade policies. Similar grant support for other such organizations which are integrally involved in similar activities might also be considered within the funding levels approved for the project.

#### D. Gray Amendment

Gray Amendment objectives will be met through the procurement of services from an 8(a) firm for project technical assistance.

#### E. Project Monitoring and Evaluation

Project monitoring will be carried out by the project officer in LAC/TI, relying on project reports and direct contacts. The technical assistance contractor will work closely with LAC/TI and will provide at least quarterly status reports. The PASA A.I.D./DOC liaison individual is charged with information exchange and provides weekly updates on activities under the PASA as well as formal quarterly reports on activities

and accomplishments. Any other PASAs executed under the project will include similar reporting requirements. Specific support grants to C/LAA and other such organizations will be for finite, discrete activities and will be monitored directly and through required grantee reports.

Project progress in meeting EOPS and objectives will be reported twice annually through the Bureau semi-annual reporting process. Evaluation of activities consisting mainly of technical assistance support to A.I.D. Missions will be carried out as specific task orders are accomplished, based primarily on Mission feedback. A budget line item has been included to provide for specific external project-wide evaluations as deemed appropriate by the LAC Bureau.

In addition, funds are provided for audit of the technical assistance contract and support grants funded under the project. Audits of PASAs are not permitted and are thus not anticipated in the project.

## V. FINANCIAL PLAN AND COST ESTIMATES

### A. Financial Plan and Project Budget

The total estimated cost of the Trade and Investment Development Project is \$3.6 million. A breakdown of the various cost components of all major activities to be provided is presented in Tables 3 and 4 below. Not reflected in this table are the various "counterpart" or in-kind contributions to the achievement of the project, as these are not accurately quantifiable at this point. Life of Project counterpart contributions to the PASAs and the specific support grant activities are estimated to be approximately \$300,000 and \$750,000 respectively.

Table 3

TRADE AND INVESTMENT Development PROJECT SUMMARY FINANCIAL PLAN (\$000)	
ELEMENT	AMOUNT
T&I Climate Analysis	\$450
Strategy Development	1,000
Developing Local Support	325
U.S. Outreach	1,175
Information	300
USG/Donor Liaison	150
Evaluation/Audit	200
TOTAL	\$3,600

Table 4

TRADE AND INVESTMENT Development PROJECT FINANCIAL PLAN BY FISCAL YEAR (\$000)				
ELEMENT	FY 1991	FY 1992	FY 1993	TOTAL
T&I Climate Analysis	150	150	150	\$450
Strategy Development	300	400	300	1,000
Developing Local Support	100	125	100	325
U.S. Outreach	400	400	375	1,175
Information	100	100	100	300
USG/Donor Liaison	50	50	50	150
Evaluation/Audit	50	75	75	200
TOTAL	1,150	1,300	1,150	\$3,600

#### B. Methods of Implementation and Financing

Table 5 illustrates the methods of implementation for the project, which are the for-profit contract, PASAs and grants. The methods of financing are preferred methods of financing under

the Administrator's Payment Verification Policy Guidance and represent no deviation from the Mission's general assessment of financing policy and procedures. Table 5 shows the Methods of Implementation and Financing for the project.

Table 5

Methods of Implementation and Financing				
Project Elements	Type of Assistance	Method of Implementation	Method of Financing	Amount (\$000)
Trade and Investment Climate Analysis	AID Direct	For-profit Contractor	Direct Pay	200
	Grant	PASA	Direct Pay	100
	Grant	Grant Agreement	FRLC	150
Strategy Development	AID Direct	For-profit Contractor	Direct Pay	900
	Grant	Grant Agreement	FRLC	100
Developing Local Support	AID Direct	For-profit Contract.	Direct Pay	200
	Grant	PASA	Direct Pay	50
	Grant	Grant Agreement	FRLC	75
U.S. Outreach	AID Direct	For-profit Contractor	Direct Pay	400
	Grant	PASA	Direct Pay	700
	Grant	Grant Agreement	FRLC	75
Information	AID Direct	For-profit Contractor	Direct Pay	200
	Grant	PASA	Direct Pay	100
USG/Donor Liaison	AID Direct	For-Profit Contractor	Direct Pay	100
	Grants	PASA	Direct Pay	50
Eval/Audit	AID Direct	For-Profit Contractor	Direct Pay	200
TOTALS				\$3,600

ANNEX A  
 Project Design Summary  
 Logical Framework  
 Trade and Investment Development  
 598-0797

Life of Project: US\$3.6 million

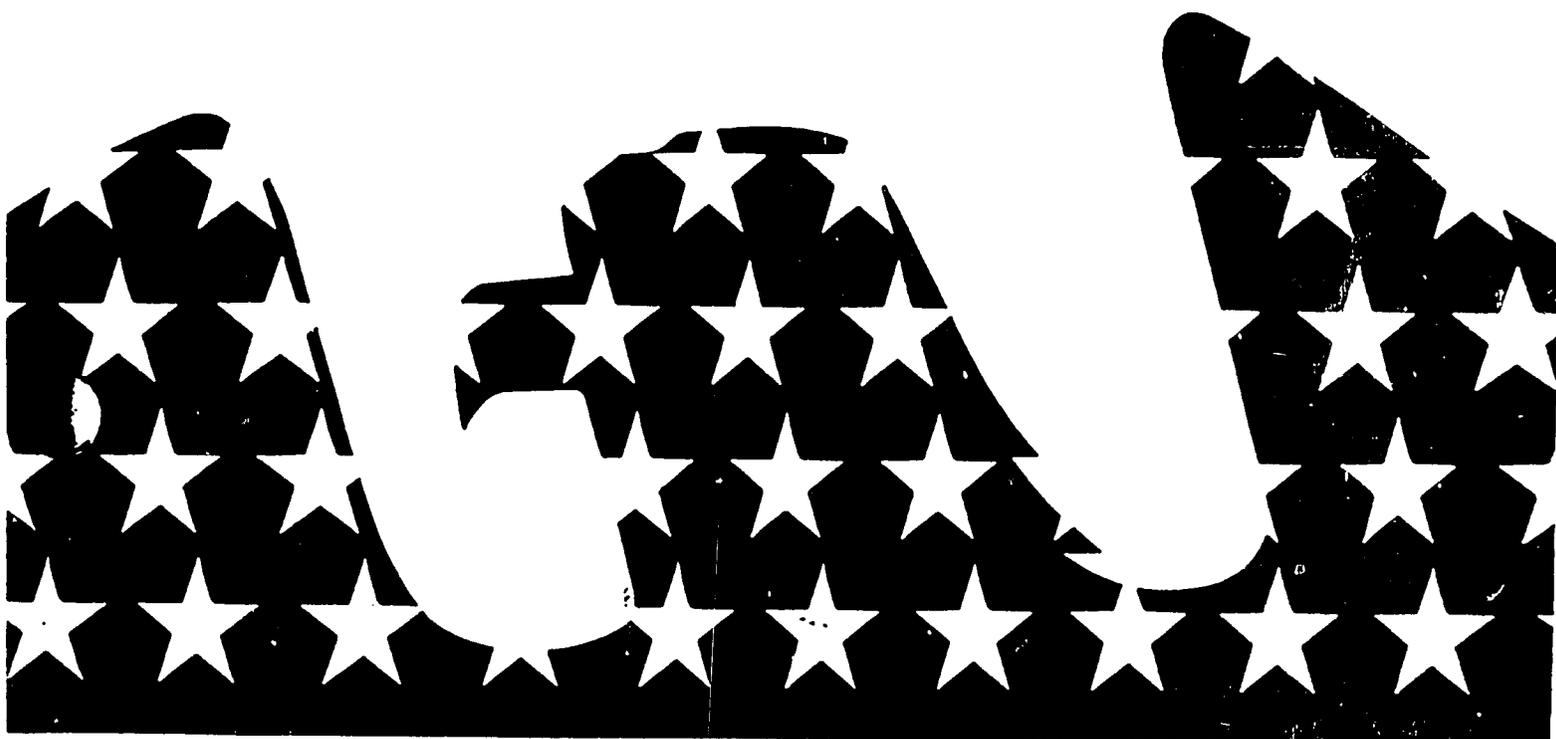
PACD: 09/30/94

Date Prepared: 02/91

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS																
<p><b>GOAL:</b>            To foster a hemispheric free trade environment in Latin America and the Caribbean.</p>	<p>Hemispheric free trade block developed, including:            -Free trade agreements among and between nations;            -Joint Trade and Investment commissions with the U.S.            -Removal of tariff and non-tariff barriers to trade.</p>	<p>Regional trade and economic data from:            -USTR            -AID            -State            -Embassies            -IFIs, IMF            -Files</p>	<p>-EAI implemented            -Mexico free trade agreement (model) approved;            -IDB sector lending conditioned on trade policy.</p>																
<p><b>PURPOSE:</b>            To stimulate and support open trade policy development and/or reforms through A.I.D.-assisted programs.</p>	<p><b>EOPS</b>            1. Country environment Assessments &amp; recommendations for A.I.D. programs result in positive trade policy reforms in the region;            2. Facilitate information and opportunities for trade and investment in LAC;            3. A.I.D. policy dialogue aimed at regional trade barriers.</p>	<p>-TA Contractor reports/Mission Assessments;            -Mission reporting (SARs, APs, Evals)            -Trade data collected;            -IMF, IDB            -PASA impact evaluation</p>	<p>-USAIDs adopt trade and investment programs and projects into portfolios;            -HC policy dialogue environments are open and productive;            -Congress appropriates sufficient levels to meet trade initiative objectives</p>																
<p><b>OUTPUTS:</b>            1. Trade &amp; investment assessments &amp; program design assistance provided to AID field missions;            2. Country assessments completed to gear USAID programs to T&amp;I focus;            3. Info mechanisms developed to measure AID's impact in improved T&amp;I in the region.            4. Outreach program implemented to inform US/LAC businesses of regional T&amp;I opportunities.            5. Trade information disseminated (clearinghouse).</p>	<p><b>Output Indicators:</b>            -Target countries participate in trade and investment climate assessment activities;            -6 Country trade strategies developed;            -24 Trade and Investment promotion activities in U.S.;            -TA contractor developed information system available to provide information on impact of A.I.D. on promoting U.S. trade;            -DOC LACBDC system in operation to provide investment and trade information on LAC countries and provide support to U.S. businesses;            -3 regional conferences/seminars conducted (i.e. C/LAA)</p>	<p>-TA Contractor reports;            -Mission Assessment reports;            -LAC USAID's SARs, APs, PPs and obligation documentation-Operational automated information system;            -Investor interviews;            -Evaluations</p>	<p>-USAIDs agree to participate in trade and investment strategy development activities;            -Appropriate ADP equipment (hardware and software) is made available to LAC/II;            -AID staff available to input and update data on regular basis, maintain system.            -APRE plays a role in information and brokering services for U.S. entities.</p>																
<p><b>INPUTS:</b>            1. T&amp;I Climate Analysis            2. Strategy Development            3. Developing Local Support            4. US Outreach            5. Information            6. USG/Donor Liaison            7. Evaluation/Audit</p> <p>TOTAL</p>	<p><b>Budget (US\$000):</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">\$450</td> </tr> <tr> <td></td> <td style="text-align: right;">1,000</td> </tr> <tr> <td></td> <td style="text-align: right;">325</td> </tr> <tr> <td></td> <td style="text-align: right;">1,175</td> </tr> <tr> <td></td> <td style="text-align: right;">300</td> </tr> <tr> <td></td> <td style="text-align: right;">150</td> </tr> <tr> <td></td> <td style="text-align: right;">200</td> </tr> <tr> <td style="border-top: 1px dashed black;"></td> <td style="border-top: 1px dashed black; text-align: right;">\$3,600</td> </tr> </table>		\$450		1,000		325		1,175		300		150		200		\$3,600	<p>-SARs            -OYB            -MACS reports</p>	<p>-Planned OYB levels made available.</p>
	\$450																		
	1,000																		
	325																		
	1,175																		
	300																		
	150																		
	200																		
	\$3,600																		

# A.I.D. Policy Paper

## Trade Development



**U.S. Agency for International Development**  
**Washington, D.C. 20523**  
**July 1986**

**PN-AAV-461**



**A.I.D. Policy Paper**  
**Trade Development**

**Bureau for Program and Policy Coordination  
U.S. Agency for International Development  
Washington, D.C. 20523**

**July 1986**

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# TRADE DEVELOPMENT POLICY PAPER

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## Executive Summary

World trade is one of the primary keys to international economic growth and development; LDC exports are of increasing importance in achieving a level of sustained economic growth that will improve the living conditions of the poor. Because foreign assistance is a relatively less significant source of foreign exchange for LDCs, countries that seek self-sustained economic growth will have to rely principally on an expansion and diversification of trade to meet their energy needs, and finance imports of capital goods, intermediate inputs, and, in a number of cases, food. The purpose of this policy paper is to provide direction to A.I.D. in the encouragement of appropriate LDC trade policies and a framework for the design of trade-related programs and projects.

For developing countries, sound trade policies are an integral component of an effective development strategy that will stimulate growth and the productive use of natural and human resources. The opening of markets to foreign trade is an important step in accelerating economic growth. Exports play a vital role in long-term job creation and overall employment in an LDC's economy.

Despite the advantages of an outward-looking trade policy as a mechanism for achieving economic growth, there are many barriers that must be overcome before such a policy can be pursued successfully by an LDC. These barriers include import substitution strategies; LDC parastatal policies and their impact on private investment; the LDC's lack of international marketing information, experience, and networks; industrialized countries' trade barriers and market access policies; low and unstable prices of primary products; financing constraints and LDC indebtedness; and increased use of countertrade.

The U.S. view of appropriate trade policies for both developed and developing countries derives from the same basic principles to which the United States itself subscribes. A.I.D.'s policy on trade and its role in development are fully consistent with and derive from the following three fundamental principles of U.S. trade policy: (1) free and open trade benefits all nations; (2) fair trade is essential to support free trade; and (3) an effective international trading system is essential to preserve open markets and

growing and fair trade. These basic principles have been the cornerstone of U.S. trade policy for over 37 years, and complement the United States' belief that only through a strengthened international trading system can effective rules governing fair trade be established, trade liberalization be negotiated, and disputes be settled.

A.I.D.'s trade development policy is designed to encourage LDCs to utilize international trade as a key instrument in the process of achieving broad based, sustained economic growth, and place a greater reliance on complementary domestic competitive markets that support more open trade policies.

A major focus of the trade development policy is on building developed country and LDC private enterprise ties on a continuing, long-term basis, consistent with the broad American objectives of trade liberalization. The formation of such ties should lead to:

- development of stronger LDC economies based on the efficiency of market-based resource allocation;
- development and strengthening of mutual economic interests between developed countries and LDCs;
- encouragement of entrepreneurship, economic institution building, and reliance on sources of private finance; and
- adoption of appropriate economic policies.

A.I.D. will focus its trade development efforts within the framework of the four pillars. Specifically, the policy directs that A.I.D. policy dialogue, programs, and projects (1) establish a policy environment that is conducive to private enterprise and expanded participation in international trade; (2) encourage the transfer of technology, skills, and information required to expand and diversify LDC agricultural and industrial bases for export production in areas with comparative advantages; (3) support trade and investment promotion efforts; (4) introduce or expand private sector competition in the export or import of essential or economically important commodities; (5) broaden the scope of export development projects to provide for greater U.S.-LDC two-way trade opportunities; and (6) encourage prudent investments in infrastructure to improve an LDC's trade

position. The guidance reflects A.I.D.'s experience with trade policy and projects, and should be applied when a Mission has made the decision to pursue trade or export development as part of its economic development strategy.

## Trade Development Policy Paper

### I. Introduction

World trade is one of the primary keys to international economic growth and development; LDC exports are of increasing importance in achieving a level of sustained economic growth that will improve the living conditions of the poor. Because foreign assistance is a relatively less significant source of foreign exchange for LDCs, countries that seek self-sustained economic growth will have to rely principally on an expansion and diversification of trade to meet their energy needs, and finance imports of capital goods, intermediate inputs, and, in a number of cases, food. A.I.D. will assist LDCs in improving their ability to trade because, through expanded trade, industrialized and developing countries benefit from increased economic efficiency, higher levels of income and employment, and greater access to technology. This approach is consistent with U.S. Government trade policy, which has historically promoted policies oriented towards liberalizing world markets and limiting government management of trade and investment.

The purpose of this policy paper is to provide direction to A.I.D. in the encouragement of appropriate LDC trade policies and a framework for the design of trade-related programs and projects. It is intended to be useful to Missions in thinking about and conducting their dialogue with LDCs on trade policy and in crafting A.I.D. interventions where appropriate. This policy paper builds upon A.I.D.'s experience with trade and export development and its private enterprise initiative. It supersedes "AID Policy on Trade, Investment and Development" (dated May 15, 1978).

### II. Trade and Investment in LDC Economic Growth

The opening of markets to foreign trade is an important step in accelerating economic growth. Exports play a vital role in long-term job creation and overall employment

in an LDC's economy. If the processes used for export production are labor-intensive, the country will realize significant employment gains in the short- and long-term.

Although foreign assistance may be needed in the early stages of development of the poorest LDCs to help provide capital and to develop export-oriented institutions, this aid becomes less important as an LDC's capacities to export are strengthened. Once their industrialization process begins, aid should be used to encourage those countries receiving assistance to graduate in a timely fashion from that assistance. For example, the economic well being and growth prospects of many emerging middle-income developing countries now depend on their ability to access international product and financial markets rather than on foreign assistance. Export earnings in many LDCs contribute a far more significant proportion of foreign exchange resources than Official Development Assistance; the LDC's export earnings of \$324 billion in 1983 amounted to 10 times their inflow of resources from foreign aid. With the flow of foreign assistance unlikely to expand in the foreseeable future, reliance on trade as a means to earn foreign exchange will be of even more critical importance for most LDCs.

Recent studies have confirmed the strong relationships between export- or outward-oriented strategies, a reliance on open market trading policies, and economic growth in LDCs.\* The success stories of many of the Newly Industrialized Countries (NICs) illustrate this point. Although the characteristics of individual NICs differ, four factors were very important for their success and ability to compete in world markets: (1) a reliance on export promotion and the international economy as major sources of expansion for their manufacturing and industrial sectors; (2) a commitment to achieving market-based economic growth that enabled them to alter domestic policies accordingly; (3) a sustained investment in human resources development; and (4) close cooperation between government and the private sector. Another

\*See Jagdish Bhagwati, *Anatomy and Consequences of Exchange Control Regimes* and Anne O. Krueger, *Liberalization Attempts and Consequences*, National Bureau of Economic Research, New York, 1978; and Alvin Rabushka, *Free Markets and Economic Development in Postwar Developing Countries*, U.S. Agency for International Development, December 1983.

important factor contributing to this growth was the presence of a proper mix of export-oriented development policies and import substitution policies. In some cases, this meant that economic growth was spurred by, or relied in part on, a sound agricultural sector.

The NICs, who accounted for much of the impressive LDC economic growth during the 1974-1980 period, are now expanding their activities into more complex, skill-intensive, and higher wage manufacturing. As these more advanced NICs (like South Korea, Taiwan, Hong Kong, and Singapore) progress to higher technology products (such as consumer appliances, electronics and computers), there is potential for other nations to take advantage of opportunities to supply more labor-intensive manufactured goods on world markets. In fact, a second group of countries that includes Colombia, Malaysia, Thailand, and Tunisia has recently accelerated economic growth via the export of labor-intensive manufactured goods.

An LDC can maximize its benefits from freer trade to attain sustained economic growth and a reasonable approximation of full employment only if the opening of its economy to international markets is accompanied by domestic policies which foster market-based resource allocation and permit development of those activities in which it has a comparative advantage. A country that restricts trade and controls (or distorts) its internal resource allocation through administrative measures is most likely forcing some of its resources to flow into less efficient uses. Government policies and administrative efforts that ignore this fact cause some production to become more costly than the domestic market will bear. This restrictive approach could cause, in effect, a "tax" on the production in which the country may have a comparative advantage in order to "subsidize" the production in which it has no comparative advantage. These efforts to protect LDC economies from competitive world trade also result in a diversion of resources that could be applied to other development problems.

As an LDC removes import and export restrictions and controls, the market will allocate resources away from less efficient uses and toward productive activity in which they are more suited. This shift of resources to their more efficient use

accounts for an initial period of increased specialization in production (as well as a genuine savings to an economy). The relaxation of import restrictions will also provide indigenous businesses with access to the financial, technological, and managerial inputs necessary to fuel economic growth. In the longer run, as a country's human resource base develops, a country may expand the number of activities in which it has a comparative advantage. Such diversification of production is important for stability and sustained growth in order to hedge cyclical or secular declines in export prices.

Increasingly, trade and investment flows are interrelated. The opening of markets to foreign direct investment also provides a way for LDCs to diversify their economies at the same time they gain access to new technology and managerial skills. Open and fair investment policies are essential to an expansion of investment and technology transfer. An open and stable investment environment will position developing countries to acquire the capital necessary for private sector development. Less government intervention in the economies of developed and developing countries with correspondingly fewer restrictions on domestic and foreign investment will greatly assist rapid development and growth in world trade.

### III. Obstacles to Improving LDC Trade Capabilities

In the near term, there is some doubt about the capability of many LDCs to compete successfully in world markets or to serve as major sources of world demand. Despite the advantages of an outward looking trade policy based upon open markets, there are many barriers that must be overcome before such a policy can be implemented by an LDC. These barriers reflect problems that are both internal and external to LDCs. Although the nature of these barriers varies from country to country and generalizations may not be applicable in all LDCs, some of the more severe obstacles are common to many LDCs.

#### A. Import Substitution Strategies

Many LDCs have promoted import substitution strategies for economic growth and employment generation. These strategies are generally initiated by enacting temporary protection, such as high tariffs, for infant industries against foreign competi-

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tion. Although these tariffs have gradually been decreased, they remain well above developed country tariffs and are used increasingly in tandem with nontariff barriers to protect these industries.

This new form of protectionism is difficult to dismantle once it has been established. In these instances, import substitution leads to increased inefficiency in the domestic market (encouraged by government policies that subsidize industries in which a country may have no comparative advantage) and keeps foreign products out of LDCs on a selective basis. It is better for an LDC to develop its economy through development of the market with increased exports leading to an appropriate percentage increase in imports than to try to do so behind barriers of import substitution.

Inward-looking development strategies utilize a variety of measures to allocate imported goods toward priority areas (as perceived by the LDC). These measures include an overhauled exchange rate, restrictive exchange controls, tariffs, and quantitative import and export restrictions. Such interventions in the market favor certain imports, but cause high prices to be charged on imported items not under official exchange rates. Moreover, productive activities in which the country has a comparative advantage may also be severely affected by the restrictions on imports of intermediate goods, the higher export price of their products, the higher transaction costs due to controls on trade, and the tax effects of cross-subsidies required to sustain the inefficient producers in other industries or sectors.

#### **B. LDC Parastatal Policies and their Impact on Private Investment**

Since inefficient sectors or industries cannot survive unless policies are in place that distort price signals, an economy that restricts trade almost always requires the use of parastatals or government-sanctioned private monopolies to provide the necessary goods and services. The existence of the parastatals or monopolies creates additional obstacles to liberalization in the future, through the creation of "vested interests" as well as the inability of such enterprises to compete against more efficient private concerns. Developing countries find themselves in the dilemma of wishing to attract private investment in a sector where a public company exists,

while at the same time having to shield the less efficient public company from full competition.

In this conundrum, the private investor often loses. Existing foreign or indigenous investors often become frustrated by the favorable treatment and the unfair competitive advantage given public companies and may often see their firms forced out of business, while the LDC spends precious resources keeping the SOEs afloat. Similarly, foreign or indigenous private investors may sometimes be discouraged from entering the market altogether because of the more favorable treatment extended to the public enterprise.

#### **C. Lack of International Marketing Information, Experience, and Networks**

Many firms in LDCs find it difficult to obtain the technical skills or knowledge needed to identify products appropriate for export. The lack of information is a particular problem when new export activities require a clear technical and managerial understanding of production possibilities, a firm grasp of present and future market conditions, and international marketing skills. Among the factors contributing to this lack of market information are the (1) high cost of obtaining information; (2) lack of knowledge about new business practices; (3) insularity of many LDC businesses from market channels; and (4) costs of developing contracts and sales networks.

#### **D. Trade Barriers and Market Access**

In the wake of a global recession in the early 1980s, followed by an imbalanced recovery concentrated almost entirely in North America, many industrialized countries are intensifying and expanding protectionism for their domestic industries and agriculture against imports from LDCs. A major concern about the renewed protectionism is that it poses new obstacles against products that might form the basis of a feasible export expansion program by these LDCs. Although some analyses indicate that the new protectionism has had a modest impact on the volume of trade, the following considerations have been raised:

- the adverse effects on trade may show up later, since investment in export-oriented activities will be inhibited and since some of the measures are only recent;

- the pattern of trade may have been distorted even though total trade has not fallen; and

- in the absence of these protectionist measures, trade would have expanded much faster than gross national product, so that a shift to more export-oriented growth is being inhibited.

Widespread protectionism would lower long-term growth by reducing international trade, economic flexibility, and the productivity of capital and labor, as well as serve as a disincentive to greater foreign trade and investment in LDCs.

The United States market has been more open to LDC exports than have those of our major trading partners in recent years. In both 1982 and 1983, for example, a majority (55-60 percent) of LDC exports of manufactured goods to the industrialized countries went to the United States alone. Our more robust economic recovery, and the high value of the dollar, have drawn imports to our economy. The fact that such a large percentage of manufactures from LDCs is entering our market, despite strong protectionist pressures, is testimony that U.S. barriers to imports are relatively low.

#### **E. Low and Unstable Prices of Primary Products**

Many LDCs, especially the lowest income nations, specialize in the export production of one or a limited number of primary products. Due to technological advances in the production of substitute goods and a softening of world demand, a number of these products have experienced downward price trends.

#### **F. Financing Constraints and Indebtedness**

Much of the funds borrowed by the non-oil producing LDCs in the 1970s was invested in projects that did not produce foreign exchange earnings sufficient to cover the ensuing debt service. The debt service burden has, in turn, reduced the amount of foreign exchange available for new investments, and caused private banks to exercise more cautious lending policies than in the past. New foreign investments in LDCs have slowed as well, cutting off a valuable source of funds for economic growth and limiting indigenous investment possibilities.

#### **G. Increased Use of Countertrade**

Many LDCs resort to countertrade\* arrangements because of the weakness of commodity markets and their deteriorating foreign exchange positions. Countertrade is always less efficient than normal commercial transactions—bilateral arrangements are cumbersome, costly to LDC governments, deprive LDC companies of direct marketing and financing experience, and, in some cases, intensify downward price pressures on LDC commercial exports. When LDCs deal with foreign exchange shortfalls by using countertrade as an export financing mechanism, they should take care that the comparative advantage is clear and there is minimum distortion to market allocation. Although, as a matter of policy, the U.S. Government does not oppose the participation of private enterprises in countertrade arrangements (as this may be one of the few ways that they can meet some of their import needs), it does not support government-mandated countertrade.

#### **IV. U.S. Trade Policy and Its Relevance to LDCs**

The U.S. view of appropriate trade policies for both developed and developing countries derives from the same basic principles to which the United States itself subscribes. For developing countries, sound trade policies are an integral component of an effective development strategy that will stimulate growth and the productive use of natural and human resources. A.I.D.'s policy on trade and its role in development are fully consistent with and derive from the following three fundamental principles of U.S. trade policy:

- Free and open trade benefits all nations. The United States believes that free trade and open markets permit the principles of comparative advantage to work, produces more jobs, more productive use of natural resources, more rapid innovation, increased consumer choices, a higher standard of living, and higher incomes. (Comparative advantage does not mean LDCs must continue to depend on natural resources as the

\*Countertrade may be defined as transactions in which the seller provides the buyer with deliveries (such as technology or finished products) and contractually agrees to purchase goods from the buyer equal to an agreed-upon percentage of the original sales contract value. Countertrade is a term that encompasses barter, buy back, counterpurchase, offset, and compensation trade.

principle export; it means a greater opportunity for them to develop non-traditional exports.)

- **Fair trade is essential to support free trade.** The United States believes that fair trade must be based on mutually acceptable rules that give no country an unfair advantage. Trade opportunities derive from the principles of comparative advantage, not artificial advantages that create barriers or close markets. (Fair trade principles are as relevant to industrial as to developing countries since the benefits to growing world trade should not be limited to one group at the expense of another.)

- **An effective international trading system is essential to preserve open markets and growing and fair trade.** The United States believes that only through a strengthened international trading system can effective rules governing fair trade be established, trade liberalization be negotiated, and disputes be settled. The interests of developing and industrial countries can best be realized through participation of all countries in the GATT. (In particular, developing countries' active participation in trade negotiations under GATT auspices is the only effective means to assure that their trade interests are considered and respected.)

These basic principles are inherent in the General Agreements on Tariffs and Trade and, therefore, have been the cornerstone of U.S. trade policy for over 37 years. Although the basic principles of U.S. trade policy have not changed during these years, the importance of trade to the world economy and to economic development has grown.

More open trade and investment policies are particularly important for debt burdened developing countries. The major element of Treasury Secretary Baker's Program for Sustained Growth is the adoption of policy reforms that maximize the contribution that trade and investment can make to the growth and adjustment process of developing countries. For example, those developing country economies that have continued to advance during the debt crisis of the 1980s are those that have adopted outward oriented growth strategies characterized by open trade and investment policies.

## V. A.I.D. Policy for Trade Development

A.I.D.'s trade development policy is designed to encourage LDCs to utilize international trade as a key instrument in the process of achieving broad based, sustained economic growth, and place a greater reliance on complementary domestic competitive markets that support more open trade policies.

A major focus of the trade development policy is on building developed country and LDC private enterprise ties on a continuing, long-term basis, consistent with the broad American objectives of trade liberalization. The formation of such ties should lead to:

- development of stronger LDC economies based on the efficiency of market-based resource allocation;
- development and strengthening of mutual economic interests between developed countries and LDCs;
- encouragement of entrepreneurship, economic institution building, and reliance on sources of private finance; and
- adoption of appropriate economic policies.

This policy is consistent with two of the principal goals set forth in the Foreign Assistance Act of 1961, as amended: (1) the promotion of conditions enabling developing countries to achieve self-sustained growth with equitable distribution of benefits; and (2) the integration of the developing countries into an open and equitable international economic system.

## VI. Specific Components of A.I.D.'s Policy

A.I.D. will focus its trade development efforts within the framework of the four pillars. Specifically, the policy directs that A.I.D. policy dialogue, programs, and projects (1) establish a policy environment that is conducive to private enterprise and expanded participation in international trade; (2) encourage the transfer of technology, skills, and information required to expand and diversify LDC agricultural and industrial bases for export production in areas with comparative advantages; (3) support trade and investment promotion efforts; (4) introduce or expand private

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sector competition in the export or import of essential or economically important commodities; (5) broaden the scope of export development projects to provide for greater U.S.-LDC two-way trade opportunities; and (6) encourage prudent investments in infrastructure to improve an LDC's trade position.

This guidance reflects A.I.D.'s experience with trade policy and projects, and should be applied when a Mission has made the decision to pursue trade or export development as part of its economic development strategy. Whether explicit trade development activities should be initiated by Missions depends upon several factors, including Mission priorities, staff capacity, and country strategy. It is not expected that all Missions have the staff capabilities to undertake these activities. However, even if program or project interventions may not be called for, policy dialogue activities should be considered and carried out if at all possible. Missions should look to private sector contractors and consultants; business, trade, and professional associations; and U.S. and LDC private enterprises involved in trade for assistance in designing a trade strategy. AID/W will help Missions where it can.

#### **A. The Policy Environment for Trade and Investment**

##### **1. The Trade Environment**

LDCs can most effectively enter the international trading system by pursuing trade-oriented strategies that reduce import protection in favor of economic diversification, competitive markets, and technology acquisition. A.I.D.'s efforts to help strengthen the trade capabilities of LDC private enterprises can be truly effective only if they are carried out in a policy climate that encourages market-based activity and maximizes the capabilities of the private sector.

Therefore, A.I.D.'s first effort related to trade should be directed towards establishing and improving a policy environment that is conducive to private enterprise and expanded participation in international trade. Over the long term, it will be these policies, coalescing around trade-oriented strategies, that will be the dominant influence affecting an LDC's economic growth.

Trade-oriented strategies seek to eliminate, or at least minimize, economic distortions so that the prices of exports reflect as near

as possible the real opportunity costs of the items to the country. Successful export strategies usually include the following:

- the reduction or elimination of duties and quotas on imports essential to the production of exports;
- the reduction or elimination of taxes and quotas on exports;
- the simplification of licensing and other bureaucratic procedures needed to export;
- the reduction, to real levels, of transaction costs associated with the handling of exports and related imports (e.g. licensing requirements, embarkation and disembarkation processes, etc.)
- elimination of subsidies on exports; and
- exchange regimes that reflect market rates.

Missions should pursue a policy dialogue with host governments to remove existing trade restrictions and controls. Political and social resistance to reevaluating import substitution policies and adopting an export orientation may be particularly strong in countries that have an elaborate structure of import substitution supports and considerable sunk investment in non-competitive import substitution industries. It may require the reversal of many long held, politically-based policies and the decline of inefficient industries. Any change in business activities to support exports may involve resistance by those who face possible losses. Opposition may arise from owners and managers of inefficient firms that would have their markets opened to competition, from workers threatened by displacement, and from others who benefit by the status quo. Missions should explore, with LDC governments and private enterprises, alternative uses for the human and financial resources that had been devoted to these industries.

Although this is a difficult process for some LDCs, this difficulty is not infrequently exaggerated by LDC politicians. Countries that have limited their import substitution efforts, and instituted policies to keep their import substitution industries competitive with imports, are likely to be less resistant to policies that would increase trade. If restrictions can be removed and the immediate adverse impacts of removing protection are hedged or lessened, the potential

for sustained economic growth will be dramatically increased. Although this may be easier said than done, it is important to pursue our targets here.

In a number of LDCs, the enactment of those policies that support the expansion of exports and the removal of those policies that restrict trade, must be accompanied by fundamental policy changes that may have more profound consequences for the economy at large. These may include:

- open market sales of foreign exchange;
- liberalization of financial systems so that the market will determine domestic rates of interest;
- elimination of laws or conditions that reduce or eliminate competition in production and trade; and
- policies that ensure that establishment of wage and benefit packages more nearly reflect the value of labor input.

There is no single rank ordering of the issues related to improving trade that can be applied in each Mission's policy dialogue with the host country. In some LDCs, opportunities may emerge to program A.I.D.'s assistance in direct support of a comprehensive policy reform program that will have a significant impact on improving trade and moving away from import substitution policies. In other LDCs with a relatively long tradition of import substitution and central management of their economies, A.I.D. assistance may have to be programmed to help the host country overcome fundamental fears of exposing its economy to world (and domestic) market forces. In such countries, A.I.D. may need to support a learn-by-doing approach focused on the development of a country's comparative advantage in nontraditional exports. Missions should obviously be careful not to augment distortions or introduce new disincentives into an LDC economy; their actions should be consistent with or designed to reinforce market-oriented activities and to encourage predictability in LDC policies.

Critical to the success of an open trading strategy is stability in government policies affecting trade and investment in particular and economic growth in general so that exporters, importers, and investors can develop long-term linkages. Stability contributes to confidence that public policies

favorable to economic growth and the development of a competitive private sector will continue (assuming that they exist in the first place), which is necessary to encourage the long-term commitment required for trade and investment.

An important policy issue that should be discussed with host governments is the use of standards. Generally accepted standards, both for product quality and for measures and weights, are crucial to the efficient functioning of markets and their growth. Standards permit the rapid and wide spread of information that, in turn, is needed for truly competitive markets. The lack of common minimum standards often frustrates achievement of the consistent quality needed for trade in large quantities or over great distances. This is especially essential to the development of agricultural trade in LDCs; it is also one of the major inhibitions to small scale manufacturers. In addition, many LDCs utilize unfair and arbitrary standards to discriminate against foreign products.

There are many vehicles available in LDCs for standards development. Government attitudes toward standards need to be improved through the policy dialogue. Trade associations can help to promote voluntary industry-wide standards. A.I.D. should encourage LDC private and public institutions to develop and strengthen quality and other standards. A.I.D. should also work with host governments to eliminate the use of product standards, testing, and certification procedures that unfairly restrict imports.

Missions should also consider providing aid to LDC business associations in order to involve more deeply the indigenous private sector in the policy dialogue. These groups, representing the local business community, should be a primary mechanism for keeping the host government institutions aware of private sector concerns with respect to trade and other government policies or programs that affect business.

## 2. The Investment Environment

Foreign direct investment offers LDCs a way to acquire new production facilities at a lower risk than financing and building their own operations. The investments bring new technology, provide employment, and transfer new managerial skills.

In order for LDCs to attract foreign investment, businesses must be confident that such countries pursue realistic economic policies and maintain a stable and open investment environment. Missions should encourage LDCs to adopt a market-oriented investment climate so these countries will be able to attract the investment capital essential for private sector development. The basic elements of an open investment environment include policies that:

- treat investors equally on most-favored nations principles and provide comparable treatment to foreign and domestic investment (in such areas as taxes);
- conform to internationally recognized standards for compensation in the event of expropriation;
- permit the transfer of profits and other funds associated with investments;
- do not encourage performance requirements that mandate conditions on investments regarding local content, exports, or equity;
- provide adequate and effective protection of intellectual property rights such as copyrights, patents, and trademarks; and
- provide effective means for settling disputes.

The attractiveness of a particular LDC market to potential investors depends upon the restrictions that the country imposes on such relationships. If approval and import licensing procedures are excessively lengthy, foreign equity limitations stringent, and requirements to export a portion of the production or to source local goods unreasonable (without regard to availability, price, and quality), then a foreign investor may be discouraged from pursuing LDC investments or joint ventures altogether. Even if the investor is not put off at the outset, the government approval process may require the investor to spend a great deal of money before any returns can be realized. Investors sometimes have cancelled projects if delays are too prolonged.

In addition, foreign companies should (1) not be limited to producing for small segments of the market, or to concentrate on exports, as protection for competing local concerns; (2) have access to foreign exchange to acquire needed imported in-

puts; and (3) be allowed to hire management talent of their choice, regardless of nationality. These obstacles to investment suggest additional agenda items for Missions' policy dialogue with host governments.

The issue of intellectual property rights, raised above, deserves special attention. Inadequate intellectual property rights protection continues to hinder foreign investment and innovation in many LDCs. If the country fails to guarantee patents and copyrights, and to license and protect trademarks, investors will be reluctant to come to that country in the first place and, in any event, will be hesitant to make the most up-to-date methods of production or formulas available to local partners. Many countries that wish to comply with internationally recognized copyright, trademark, and patent conventions, however, often lack the resources and capabilities to enforce these conventions. A.I.D. should undertake efforts to assure LDC governments that proper enforcement of copyright, trademark, and patent conventions is essential to strategies intended to increase the transfer of technologies and expand LDC access to information.

## B. Trade Diversification and Technology Transfer

A country's comparative advantage in production for international trade is not static; new competitors emerge and old ones disappear, technology changes, essential resources become scarce, substitute products become available, and consumer preferences change. Successful participation in international trade requires the dynamic involvement of producers and governments in a process of regular adjustment of practices and policies, respectively, that responds to current market conditions and anticipates future trends. LDCs are particularly vulnerable to a loss of their comparative advantage in production because of their limited human resource base, limited access to new technology, and limited access to market information, as well as rigidities imposed by poor policy.

Where appropriate, Missions should direct program and project resources to encourage the transfer of technology, skills, and information required to overcome the limitations that threaten the comparative advantage of LDC exports or inhibit the

**emergence of new areas of comparative advantage in production.** In this regard, A.I.D. programs should seek ways in which the capacity of indigenous firms can be increased in order to engage in, expand, or diversify exports.

One important method of achieving this objective is through the encouragement and facilitation of cooperative business relationships or joint ventures between developed and developing country private enterprises (such as joint ownership ventures, licensing, contract manufacturing and assembly, management contracting, and supplier agreements). These types of business relationships serve as a means for promoting trade linkages between private enterprises, and are based on the mutual desire of the involved firms to improve their competitive position in the world market.

These business relationships usually result in a new source of inputs and substantial transfers of technology, managerial techniques, marketing expertise, and market information to the LDC entrepreneur; represent a way to minimize costs and share risks; and open up access to markets and channels of distribution. They also provide a conduit for information on world market conditions which is almost impossible to obtain from publications usually available within the LDC or from contacts with other indigenous firms. The LDC firm's adoption of the management and quality control standards required for success in the world market results in immediate financial gain. Missions should encourage joint ventures (as well as other forms of cooperative business relationships) as additional sources of technical assistance for LDC private enterprises.

Special attention should be given to the development of producers in new lines of exports. Such action is particularly suitable for nations whose export earnings are tied to a few primary products that experience wide fluctuations in world prices. In addition to diversifying an LDC's export base and market risk, nontraditional exports are less likely to compete with most U.S. producers. However, A.I.D.-supported country export development projects should not favor some individual exporters at the expense of others, as this might lead to the exclusion of potentially viable exporters and the subsidization of current exporters.

The services sector (finance, training, software, maintenance, and others) is a major and growing component of trade and an important complement to the efficient use of capital in LDCs. Developing countries frequently restrict business opportunities in these areas, assuming that these can be reserved for local entrepreneurs; however, these restrictions are often at substantial costs in terms of access to technologies and management practices. A.I.D. should encourage LDCs to open up their economies to imports of services, and develop the local private sector institutions and technological capability to complement foreign-supplied services.

A growing number of sophisticated manufactured imports require continued service input to keep them in operation; this input, in many cases, may not be available in the importing markets (such as user training or maintenance). A.I.D. should encourage countries to overcome the tendency to buy only the capital components of a particular technology, and to devote greater attention to the technical information and process technologies that may be embodied in more complete packages.

Finally, increasing developing country to developing country trade is another method for stimulating economic development. Food emergencies often exist in one country while its neighbors may have adequate or even abundant food supplies. A combination of poor information, inefficient (or non-existent) market channels, and the absence of transport are often as important as lack of foreign exchange or credit-worthiness in keeping normal trade and market activity from quickly dissolving these emergencies. As more LDCs adopt the proper trade environment and overcome their financing constraints, indebtedness, and barriers to "national self-interest," there will be greater opportunities for inter-LDC trade.

### C. Trade and Investment Promotion

Trade and investment promotion are important for promoting and diversifying exports, attracting new capital and technology, and generally improving the participation of a country in the world market. Missions are encouraged to review the variety of approaches available for export and investment promotion. In

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developing export promotion projects, Missions should perform appropriate analyses to identify exportable products, determine potential markets, and make realistic determinations of the changing environment in which the potential export products must compete, as well as identify cost-effective ways to have local firms evaluate their prospects and undertake marketing initiatives.

### 1. Private Sector Activities

**A.I.D. Missions are encouraged to support the development of private sector institutions that can help indigenous entrepreneurs improve their export capacity and capabilities, as well as attract foreign investors. Where there are existing private sector organizations providing trade and investment promotion and services, Mission projects should rely on the private sector to continue providing these services and channel assistance for this activity directly to private sector entities.\***

The development of private sector institutions may consist of establishing export promotion centers and marketing offices (channels of distribution); business associations that promote the sharing of technologies and technological innovation; private financial institutions (export financing and credit facilities, industrial and agricultural banks, and other financial intermediaries); export trading companies; and other institutions. For example, in the area of export promotion, USAIDs should examine the possibility of contracting (through competitive bidding) for a promotion facility to be established within one of the local business associations or other firms, rather than establishing one within a government ministry.

**Mission programs should also seek opportunities to assist current and potential LDC export industries to gain needed information and technology to enhance their competitive position. A.I.D.'s assistance could support management and technical training for LDC producers, exporters, private bankers, and lawyers; promote access to advisory and consultant services for LDC firms and industries; support the develop-**

\*This approach is consistent with A.I.D. policies on Institutional Development and Private Enterprise Development, which emphasize reliance on the private sector rather than the public sector where there is a choice and when host country conditions make this possible.

ment of product and market information services; and assist firms conducting market analyses to identify new areas of comparative advantage. In providing such assistance, Missions should seek ways to work directly with the private sector through chambers of commerce, trade associations, labor organizations, and other private institutions.

### 2. Public Sector Activities

A number of LDC governments are involved in trade through incentive programs designed to promote specific export activities or attract imported capital for new commercial ventures. In some countries, particularly NICs, such programs have been quite successful. Experience in many LDCs, however, suggests that government-managed export or investment promotion schemes have not been successful and may have retarded growth and development by introducing market distortions into the economy. This has often resulted because (1) LDC investment promoters are often government officials with little business experience; (2) government promotion agencies often operate within the context of governmental bureaucratic and legal structures that often complicate otherwise simple activities;\* and (3) management decisions on the targets and types of incentives were responsive to perceptions of government rather than based on market conditions, which inhibited the growth of exports or the attraction of capital.

**In general, A.I.D. Missions are advised to exercise considerable caution before agreeing to support LDC government-managed export or investment promotion schemes. Assistance to LDC governments for export and investment promotion schemes should have as its objective the fostering of market-based trade between their private enterprises and foreign markets (similar to the services provided by the U.S. Foreign Commercial Service and the U.S. Foreign Agricultural Service). Support may be given when the following conditions are met:**

- The proposed incentive scheme does not violate any international or U.S. laws, conventions, or agreements related to export

\*SRI International, *An Assessment of Investment Promotion Activities*, Final Report prepared for the Bureau for Private Enterprise, Agency for International Development, Washington, D.C. January 1964.

subsidies, anti-dumping, or other unfair trade practices.

- The proposed incentive scheme does not target commodities that would conflict with statutory provisions (e.g. FAA Section 620(d)) and existing Agency policies proscribing activities that would result in direct competition with U.S. enterprises.
- The incentives are appropriate to specific, identified constraints on exports or investment and their duration must be terminated within a reasonable period of time (as agreed upon by the Mission and the host government).
- Decisions on general areas in which incentives will be targeted and the types of incentives provided must be made in close consultation with a broadly representative group from the LDC's private sector, and must be consistent with efficient use of the country's resources.
- It should not add unnecessarily to the host country's restrictive practices or to already excessive red tape, which would inhibit trade.

Missions should investigate providing technical assistance to host governments to help them effectively implement their trade programs and streamline their procedures. This could include, for example, consolidating the decision-making authority over export and investment licenses and other necessary permits in one centralized institution, or supporting training for LDC public sector personnel who are central to the export process (such as personnel in ministries of trade and commerce) to strengthen their effectiveness in representing their country's commercial interests overseas.

Evaluation of costs and benefits is a crucial activity if a Mission chooses to pursue a public sector approach to export promotion. These promotion programs can be subjected to cost/benefit analysis, since quantifiable costs are incurred and quantifiable benefits are achieved. Costs may include the operating budget of the promotion agency, marginal expenses of applied promotion techniques, cost of the project, and the costs associated with incentives provided. Among the benefits are the eventual economic gains derived from new investments (in the form of employment, income, foreign exchange earnings, and tax revenues).

Missions may also wish to encourage LDC governments to adopt laws that allow the establishment of free trade zones as a means of encouraging private enterprise development. In addition to the manufacturing and assembly activities derived from the import of duty- or tariff-free items into these zones, there may develop indigenous suppliers that provide backward or forward linkages to firms in these zones.

### 3. Small Enterprises and Entrepreneurs

Special attention should be given to exports by small and medium enterprises. The production techniques employed by these entrepreneurial firms are generally less capital- and import-intensive than those of large firms, which makes them an important economic force in areas in which the LDC develops its comparative advantage. These enterprises may be important sources of employment and can compete favorably on world markets due to the low wages that prevail in LDCs. If market forces justify small scale enterprise exports, Missions should carefully look at ways to encourage them. This may take the form of supporting directed programs in financial institutions, organizing cooperatives, or providing information and training, as well as insuring that the policy environment does not discriminate against small and medium enterprises and allows them to contribute to export expansion. Missions should look to existing LDC private and public sector institutions that deal with small enterprises rather than undertake direct support to individual firms.

### 4. Government-restricted Markets

Government-restricted markets will become more commonplace as LDCs increase their exports and pose market challenges to competitors in industrialized countries. Missions are aware of the growing tendency by industrialized countries to levy import quotas or other trade barriers in response to LDC exports (such as higher tariffs, tariff-rate quotas, orderly marketing arrangements, or some combination of these). Although protectionist sentiment in the United States has received considerable publicity, the United States' openness to LDC imports and President Reagan's strong stand in support of free trade should be borne in mind in discussions with host country officials.

A.I.D.-supported export projects may achieve progress only to see target market potential diminish because of unforeseen restrictions. A.I.D. currently has restrictions in place for sugar, palm oil, and citrus exports to the United States (see AID Policy Determination #71: AID Financing of Palm Oil, Citrus and Sugar Projects and Related Products). The U.S. maintains quotas on textile products under bilateral agreements with certain countries. Therefore, countries not covered by such bilateral textile agreements are free to ship textile or apparel products to the U.S., but Missions should be aware that a large increase in shipments that result in market disruption in the U.S. may trigger imposition of a quota on the particular products. (Other actions can result from countervailing duty or anti-dumping investigations against particular countries' unfair trading practices.) Although an LDC's actual export production may be small in relation to these developed country markets, it could add to the displacement of manufacturers or workers in the developed countries when taken in the aggregate with other countries' exports of the same products.

In an effort to avoid the imposition of quotas or other restrictions on LDC exports to the United States, U.S. supply and demand projections for the particular product to be produced should be undertaken when planning export projects that would include the United States as a potential market. Similarly, export data from A.I.D.-supported export promotion projects and private sector trade efforts in neighboring LDCs should be included in these analyses. Among the other factors that Missions should consider are the potential injury to U.S. producers (based upon the export potential of the project), and the condition of the U.S. industry that would be affected by the LDC exports.

At present, an A.I.D.-supported export development project in one LDC may be prepared in isolation from an export development project in another LDC. The potentially negative impact that one country's export development will have on export efforts or import needs of other LDCs in the region is often not taken into account. A.I.D. should not encourage potential LDC exporters to compete with each other for restricted markets; Regional Bureaus are in a position to help guard against this problem. Regional Bureaus should advise Missions on potential export

conflicts and opportunities when reviewing CDSSs, Action Plans, and Mission project proposals in their respective regions. Where practicable, Regional Bureaus should first look at the countries within their jurisdiction as regional sources of supply and demand. It might also be useful if Regional Bureaus shared information on their trade-related programs.

#### D. Trade Monopolies and Parastatals

LDC governments have become heavily involved in their country's international trade by granting special rights to import or export essential or economically important commodities (such as fuel, agricultural inputs, and food) to one or a few firms. In many cases, the firm receiving the sole right to import or export is a parastatal or state-owned enterprise (SOE).

Generally, the granting of special trade privileges results in a separation of the domestic resource allocation decisions from world market signals so that these SOEs concentrate their efforts on production in a secure and protected market, and on the manufacture of products that are below world quality standards and above world price levels.

Over time, the SOE's production or consumption generally requires substantial subsidization and may discourage private enterprise involvement in the import or export of particular commodities. In addition, the country itself becomes locked in a particular pattern of trade and technological dependency that hastens its loss of comparative advantage in key exports. State trading companies also are more likely to seek countertrading arrangements. To the extent that countertrade transactions are less efficient and introduce distortions in trading patterns, the state trading companies themselves can intensify their country's economic problems, especially if the controlled commodities constitute a large portion of a country's exports.

These particular trade restrictions and their ensuing price distortions on fundamental economic activity have profound consequences for the entire LDC economy in terms of fostering inequity and suppressing economic growth. A.I.D. strongly encourages and supports efforts to introduce or expand private sector competition in the export or import of essential or economically important commodities. It is recognized, of course, that many LDCs may

raise political and social objections to this approach; the dialogue in this area is of great importance.

**A.I.D. resources may be programmed to assist LDCs to terminate trade monopolies and oligopolies, dismantle marketing boards, and divest parastatals.\*** When A.I.D. resources are used to start a policy dialogue to initiate the dismantling of a marketing board or the divestiture of an SOE when there is no initial commitment from the LDC, Missions must show that any improvement in the performance of the marketing board or SOE resulting from our assistance will contribute to increased dependence on market forces and the eventual dismantling of the marketing board or divestiture of the SOE. Clear benchmarks of substantial progress toward market-based operations and divestiture must be established and adhered to in the assistance program. **In general, if the SOE is providing unfair trade competition to private enterprises, restricting private enterprise development, or is enjoying special trade privileges or preferential treatment, these activities should be phased out before funds are provided to the parastatal in accordance with A.I.D. policy.**

#### **E. U.S.-LDC Trade Promotion**

What is good for development should not be inconsistent with what is good for the expansion of mutual economic activity between U.S. and LDC private enterprises. **A.I.D. should broaden the scope of its export development projects to provide for greater U.S.-LDC two-way trade opportunities. A.I.D., in concert with other U.S. government agencies, should also increase its efforts to make U.S. companies aware of A.I.D.'s varied activities. Many mechanisms are available for accomplishing these linkages. These include:**

- **Interagency cooperation.** Missions and AID/W should seek greater cooperation with other government agencies that are seeking greater U.S.-LDC trade and investment ties, such as the Overseas Private Investment Corporation, the Trade and Development Program, the U.S. Export

\*A.I.D.'s involvement in the dismantling of marketing boards and parastatal divestiture should adhere to policy as stated in A.I.D.'s Policy Paper on Private Enterprise Development (March 1985) and Policy Determination #14 on Implementing A.I.D. Privatization Objectives (June 1986).

Import Bank, the U.S. Department of Commerce (the U.S. and Foreign Commercial Service, and other offices within the International Trade Administration), the U.S. Department of State (embassy economics officers, in particular), and the Office of the U.S. Trade Representative (which administers the Generalized System of Preferences).

- **Brokering.** In recent years, a small number of U.S.-based organizations have begun to offer commercially viable packages of consulting, brokering, and facilitation services designed to help LDC firms (particularly small- and medium-sized enterprises) by furthering their relationship with U.S. private enterprises. These brokering services include identifying potential U.S. and LDC firms interested in entering into joint ventures or other collaborative business relationships; providing information to the potential collaborating firms about business conditions, risks, policy, and other concerns; and assisting client firms to identify technology or other inputs needed to exploit a particular business opportunity. Similarly, the International Executive Service Corps (IESC), through its Project ABLE, looks to match emerging or existing LDC firms with U.S. suppliers and customers.

- **Joint ventures.** The benefits derived from joint ventures and other cooperative business relationships between firms in developed countries and LDCs were identified in Section VI.B. It should be noted, however, that these business relationships result in more than a one-way transfer of knowledge and experience from the developed country firm to the LDC partner. In reality, valuable skills in marketing products in LDCs and redesign suggestions to adapt products for LDC markets can be transferred from the LDC firm to the U.S. partner.

- **U.S.-LDC trade associations.** As many business associations are cooperative efforts between foreign and host country private enterprises, Missions should consider providing assistance to these associations so they can help foster trade and increase access to technology and information between indigenous and foreign private enterprises.

- **Mixed credits.** The use of mixed credits and other concessional financing programs by foreign governments presents a growing problem for effective development

assistance and trade development. Mixed credits do not directly promote two-way trade; however, A.I.D. recognizes that other donors are actively using mixed credits to subsidize their own exports and that this can put U.S. exporters at a serious competitive disadvantage. Therefore, until such time as an effective agreement is reached with other bilateral donors on restricting the use of mixed credits for export financing, A.I.D. will use the U.S. tied aid credit program (under ESF funding) for defensive purposes in selected countries to match the concessional credit terms offered or arranged for in support of a tender of a non-U.S. supplier in an international tender competition in which a U.S. supplier is the lowest responsive bidder. This approach is consistent with the new mixed credit program announced by President Reagan in his September 23, 1985, statement on trade policy.

It is important that A.I.D. be responsive to U.S. private sector activities in LDCs, as early participation in export sales is critical in building long-term trade and investment relationships. Many of our foreign assistance activities currently generate additional future demand for U.S. products directly through the need for replacement or spare parts, the purchase of complementary equipment, and familiarization with U.S. products. These activities are also encouraged.

#### F. Economic Infrastructure

LDCs have attempted to promote greater international trade through investments in economic infrastructure. Infrastructure has been built to (a) relieve transportation and communications bottlenecks; (b) ease congestion at seaports, airports, and other transfer points; and (c) attract new investment by site improvement or new site development. Infrastructure has also been built to open new areas for resource development and exportation. Investments in infrastructure to improve an LDC's trade position can be very beneficial but should be undertaken only when (1) there are firm assurances that the expected complementary private investment in export production will occur; (2) the LDC has firm commitments from the principal investors who will use the facilities; and (3) adequate provision is made to maintain these facilities.

Support for infrastructure should not be used as an incentive to investment in the

absence of such conditions. In addition, A.I.D. resources should support trade-related infrastructure only when the host country's policy environment is supportive of competitive trade or when A.I.D.'s investment in infrastructure is in exchange for appropriate export-oriented policies.

For the most part, LDCs should undertake trade-related infrastructure investments (such as widening roads or improving ports) only when there is clear evidence that the capacity of current facilities will restrict trade unless the improvements are carried out in a timely manner. Furthermore, before initiating such infrastructure, LDCs should ensure that current policy and practices (particularly regarding maintenance) result in the efficient use of existing facilities.

To a considerable degree, trade-related infrastructure benefits a distinct group of entrepreneurs in an LDC. Consequently, A.I.D. should seek ways in which the capital costs of trade-related infrastructure are shared by the private firms that receive the majority of the benefits. In this regard, there is considerable room for the use of capital levies or debentures subscribed to by firms engaged in export production or other aspects of trade, or introduction of a system of user fees that provides for full cost recovery of the trade-related infrastructure. Additional guidance on the use of A.I.D. resources for infrastructure is presented in Section V.I. of the revised Private Enterprise Development Policy Paper.

#### G. U.S. Trade Policy Coordination

A.I.D. is also involved in the U.S. trade policy coordination process. The major U.S. government fora for consideration of most trade issues and resolution of agency disagreements on U.S. and international trade issues are the White House Economic Policy Council, chaired by Treasury Secretary, and the Trade Policy Committee (TPC), chaired by the United States Trade Representative. The TPC coordinates (1) interagency views on U.S. positions for multilateral trade negotiations, (2) recommendations for the President on certain import remedies, and (3) U.S. Government policy on international investment issues, international commodity negotiations, and other trade policy matters. A.I.D. participates in the TPC (and its staff committee and review group structures) under the auspices of the office of the Director of the

**International Development Cooperation Agency.**

**PPC represents IDCA at the TPC and in its working groups. Some LDCs are, in particular sectors, exporting products that fall under U.S. export controls or quotas. PPC will serve as a channel between U.S. Government trade experts and A.I.D. Missions with information on how to help LDC exporters deal with the myriad of U.S. and international trade agreements, when this information is not available through direct communications. (Brief descriptions of the General Agreement on Tariffs and Trade (GATT) and the U.S. Generalized System of Preferences (GSP) program, two of these agreements and trade preference programs, are provided in Appendices B and C.) PPC will also provide U.S. trade policy decision-making entities with information on the impact of U.S. trade policies on LDCs, and will continue its efforts to press for open U.S. and LDC economies through the trade policy coordination process.**

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## ANNEX A

### THE WHITE HOUSE

Office of the Press Secretary

FOR RELEASE AT 11:30 A.M. EDT  
MONDAY, SEPTEMBER 23, 1985

#### The President's Trade Policy Action Plan

#### FACT SHEET

The President's trade policy is based on five principles:

1. Free trade and fair trade are in the best interest of the citizens of the United States. Free trade produces more jobs, a more productive use of our nation's resources, more rapid innovation, and a higher standard of living. Free trade also advances our national security interests by strengthening the economic and political systems of our allies. Fair trade based upon mutually acceptable rules is necessary for support of free trade.
2. The United States plays the critical role in ensuring and promoting an open trading system. If the United States falters in its defense and promotion of the free worldwide trading system, the system will collapse, adversely affecting our national well-being.
3. The United States' role does not absolve our trading partners of a major obligation to support a more open trading system. This obligation includes: dismantling trade barriers, eliminating subsidies and other forms of unfair trade practices, and entering into trade liberalization negotiations in the GATT.
4. The international trading system is based upon cooperation. Since World War II, we have made significant progress in moving toward an open worldwide trading system. Protectionism threatens to undermine the system. Our trading partners must join us in working to improve the system of trade that has contributed to economic growth and security of ourselves and our allies.
5. America has never been afraid to compete. When trade follows the rules, and there is an equal opportunity to compete, American business is as competitive as any. This is fair trade and we will not impair it.

When these conditions do not exist, it is unfair trade, and we will fight it.

The President has taken a number of actions to translate these principles into policy.

#### Making Free Trade Fair Trade

The President will vigorously pursue U.S. rights and interests in international commerce under U.S. law and the GATT, and will see that other countries live up to their obligations and trade agreements with the U.S. More specifically:

1. The President will attack foreign unfair trade practices. The President has directed the United States Trade Representative to initiate or accelerate unfair trade practice proceedings, the first time done so by a President of the United States. Other actions, when appropriate, will be taken. Proceedings accelerated or initiated so far are:

- Japanese leather and leather footwear import restrictions;
- European Community canned fruit subsidies;
- Korean insurance policy barriers;
- Brazil's import restrictions on micro-electronics products; and
- Japanese tobacco restrictions.

2. To discourage our trading partners from seeking unfair advantage by using predatory credits to subsidize their exports, the President will propose that Congress approve a fund of \$300 million in grants which would support up to \$1 billion in tied-aid credits to maintain U.S. markets in the face of this practice.

3. The President has directed the United States Trade Representative to initiate and accelerate both bilateral and multilateral negotiations with countries where the counterfeiting or piracy of U.S. goods has occurred. The Administration will increase efforts to protect intellectual property rights (patents, copyrights, trademarks), with a view toward possible legislative or administrative initiatives.

4. The President has directed that a strike force be established among the relevant agencies of the Federal Government, with the task of identifying unfair foreign trade

practices and executing the actions necessary to counter and eliminate the unfair practices.

5. The President has directed the Secretary of State to seek time limits on the current discussions with Japan designed to open access to specific Japanese markets, at the end of which specific commitments will be evaluated and follow-up procedures begun. New sectors will be added that offer the promise of expanded U.S. exports.

### **Promoting Free Trade and Exports**

The United States is a great trading nation. The health of our economy depends on both exports and imports. The President's goal is to preserve as free and open a trading system as possible. A free and open system will be a fair system.

1. The President seeks to engage our trading partners in multilateral negotiations in the GATT to achieve freer trade, increase access for U.S. exports, provide more effective dispute resolution, and strengthen the fabric of the international trading system.

The President wants to use the multilateral negotiating process to eliminate unfair trade practices and improve access for U.S. exports, particularly agriculture and high technology, and address newer forms of international trade problems, including intellectual property protection, services trade, and investment issues.

2. The President will also explore possible bilateral and regional trade agreements that would promote more open trade and serve U.S. economic interests.

3. The President has directed the Secretary of Commerce and the Economic Policy Council, in conjunction with the President's Export Council, to review current export promotion activities with a view toward strengthening them and increasing private sector involvement. The Commerce Department will also work with state governments interested in expanding their export promoting activities.

4. To better assist workers in adjusting to the dynamics of the world trading system, the President has directed the Secretary of Labor and the Economic Policy Council to review existing worker assistance programs to assure that they promote an effective policy that contributes to maximum capacity for change, mobility, and increased productivity.

### **Improving the World and Domestic Economic Environments**

The trade deficit has grown because economic difficulties abroad have persisted while the U.S. has been more successful in utilizing our economic opportunities. Better balance in world economic performance must be achieved.

1. To do our share in achieving the needed balance in the world economy and lowering the value of the dollar, the United States must reduce excessive government spending. The President will hold Congress to no more than the spending levels established in the Senate budget resolution.

2. The President will press for his tax reform proposal, which is essential to strengthening the economy and making U.S. businesses more competitive in international markets.

3. The President has directed the Economic and Domestic Policy Councils to review, and if warranted, seek to amend antitrust laws that impede our international competitiveness. The President will also use the trade leverage created by domestic deregulation to seek to open foreign markets.

4. The President authorized the Secretary of the Treasury to join his counterparts from other major industrial countries yesterday to announce measures to promote stronger and more balanced growth in our economies and the strengthening of foreign currencies. This will provide better markets for U.S. producers and improve America's competitive position.

5. The United States is prepared to consider the value of hosting a high-level meeting of the major industrial countries to review, implement and build upon the Group of Ten monetary studies by considering in a cooperative fashion, the policies and performance of the major industrial countries, and how these can be improved to promote convergence toward non-inflationary growth.

6. The President has also directed the Secretary of the Treasury to use the international financial institutions to encourage debt-burdened LDCs to reduce government impediments to the functioning of markets, encourage private sector production, and substitute equity capital for debt by encouraging both domestic and foreign investment.

**Legislation which would reflect the President's principles and policies would include:**

### **1. Trade Negotiating Authority.**

Authority to support trade negotiating initiatives including:

- a new round of negotiations;
- elimination of non-tariff barriers (current authority expires January 3, 1988);
- tariff reductions; and
- compensation to other countries when the U.S. increases tariffs (through Congressional action or Customs reclassification) to avoid unilateral foreign retaliation against U.S. exports.

### **2. Intellectual Property Rights.**

Further protection of intellectual property rights (patents, copyrights or trademarks), including:

- protecting against trade in articles that infringe U.S. process patents;
- extending the patent term for agricultural chemicals to match that for pharmaceutical inventions;
- eliminating the requirement in Section 337 of injury to an efficiently and economically operated U.S. industry as a precondition for a relief where the International Trade Commission found a patent, trademark or copyright infringement;
- more liberal licensing of technology under the antitrust laws;
- better protecting "firmware" through amendments to U.S. copyright law; and
- eliminating Freedom of Information Act abuses by giving affected companies notice and an opportunity to oppose release of their business confidential information.

### **3. Export Promotion.**

Promote U.S. exports through:

- submitting legislation authorizing and appropriating approximately \$300 million in grant funds to enable the Administration to offer \$1 billion in mixed credit loans to targeted buyers. This program is designed to enable U.S. exports to compete effectively in third country markets until we can eliminate predatory mixed credit competi-

tion through negotiations;

- clarifying the accounting provisions and liabilities of foreign agents under the Foreign Corrupt Practices Act of 1977 to reduce disincentives to export; and

- allowing U.S. companies to export new drugs and biologicals not yet approved by the Food and Drug Administration to countries where they can be sold lawfully.

### **4. Existing Trade Laws**

Strengthen the antidumping and countervailing duty laws with a predictable pricing test for non-market economies, place deadlines on Section 301 dispute settlement, and establish Section 201 fast track procedure for perishable items.

## **ANNEX B**

### **Background Information on the General Agreement on Tariffs and Trade (GATT)**

The General Agreement on Tariffs and Trade (GATT) is a multilateral agreement subscribed to by 90 governments that together account for more than four-fifths of world trade. Its basic aim is to liberalize world trade and place it on a secure basis, thereby contributing to international economic growth and development. GATT is the only multilateral instrument that sets rules for international trade; these rules govern the trade of its member countries and the conduct of their trade relations with one another.

The substantial reduction of tariffs and other barriers to trade is a principal aim of the GATT. During the negotiations held in GATT's first 25 years, the tariff rates for thousands of items entering into world commerce were reduced or bound against increase. The concessions agreed upon in these negotiations have affected a high proportion of the total trade of contracting parties and have indirectly affected the trade of many nonmembers as well, as many tariff concessions have been extended to all trading partners under the most-favored-nation (MFN) principle. Under this principle, countries agree to extend automatically to other trading partners the same treatment as that given to the "most favored" trading partner.

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GATT's original Articles of Agreement incorporate several basic principles which all signatories agree to follow. Two of these are discussed below. The first and most basic is to conduct trade on a non-discriminatory basis. Under the "most-favored-nation" clause, a GATT nation must treat all other signatories as favorably as any other nation when administering and applying its tariff charges. GATT gives no nation special advantages, except in certain important cases. For example, LDCs may receive preferred tariff treatment as in the Generalized System of Preferences (GSP).

A second basic principle is the concept of national treatment. Not only must a nation treat all foreign countries equally, but it also must not discriminate between foreign and domestic goods once foreign goods enter its local market. Its goal is to prevent internal domestic taxes or other regulations from replacing any tariffs removed as trade barriers.

Much of the attention of the latest round of multilateral trade negotiations (The Tokyo Round), which took place between 1973 and 1979, was designed to shape the multilateral trade system and international trade relations into the 1980s and beyond. The Tokyo Round resulted in the further lowering of many tariffs. A major new focus of that round was liberalization of nontariff measures that restricted or distorted trade, in contrast to earlier rounds of trade negotiations where tariff reduction was the primary objective. However, the negotiations revealed that many apparently unfair NTBs were actually domestic policies with various goals, some legitimate and some unfairly restricting trade.

It also defined special rules for developing countries' participation in the world trading system. Under the concept of "special and differential treatment," developing countries asked to be treated more leniently as to the degree of concessions they were expected to give in trade negotiations. They also asked the developed countries to extend the legal basis under which developing countries receive preferential treatment under the GSP. Developed countries accepted the principle of "special and differential treatment" of developing countries in areas of the negotiations where it was feasible and appropriate, including preferential tariff treatment, provided that the

developing countries would forego such special and differential treatment as their development, financial, and trade needs permitted (the concept of "graduation")

Five codes of behavior, incorporating the "special and differential" principle, were negotiated by the Tokyo Round's conclusion. They cover subsidies and countervailing duties, government procurement, technical barriers to trade (standards), import licensing procedures and customs valuation.

## ANNEX C

### Background Information on The U.S. Generalized System of Preferences Program (GSP)

The Generalized System of Preferences (GSP) is a program of tariff preferences granted by industrialized countries to developing countries to assist them in their economic development by encouraging greater diversification and expansion of their exports. In 1968, the United States joined with other industrialized countries in supporting the concept of granting tariff preferences as a means of facilitating development through the auspices of expanded trade rather than increased aid. With the expectation that developing countries and territories could be encouraged to become more active participants in the international trading system, 19 developed countries instituted GSP programs in the early 1970s. The United States implemented its program in 1976 pursuant to the statutory authority contained in the Trade Act of 1974.

Trade with developing countries and territories has increased dramatically since the inception of the GSP program. The U.S. GSP program currently provides duty-free treatment for approximately 3,000 products from 140 developing countries and territories; however, these GSP imports represent only about 3 percent of total U.S. imports.

The GSP program is vitally important because of: (1) its recognition that trade is an effective and cost-efficient way of promoting broad-based sustained economic development; (2) the program's ability to provide greater access for U.S. exports in the markets of developing countries; and the desire to (3) promote the integration of

developing countries into the international trading system; (4) assist developing countries in generating sufficient foreign exchange to meet their international debt obligations as well as further stimulate U.S. exports to these countries; and (5) maintain the program's role as an important element

of U.S. foreign policy with respect to developing countries. Many GSP beneficiary countries consider the program an important indication of the seriousness with which the United States views its policy of encouraging self-sufficient economic development.

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Agency for International Development  
Washington, D.C. 20523

LAC-IEE-91-30

## ENVIRONMENTAL THRESHOLD DECISION

Project Location : LAC Regional

Project Title : Trade and Investment  
Development Project

Project Number : 598-0669

Funding : \$3.6 Million

Life of Project : 3 Years

IEE Prepared by : Kim Brown, LAC/DR/PSS

Recommended Threshold Decision : Categorical Exclusion

Bureau Threshold Decision : Concur with Recommendation

Comments : None

Copy to : Melinda Keenan-Wood, Director  
LAC/TI

Copy to : Kim Brown, LAC/DR/PSS

Copy to : Howard Clark, REA/SAM

Copy to : Wayne Williams, REA/CEN

Copy to : IEE File

John O Wilson Date APR - 8 1991

John O. Wilson  
Deputy Chief Environmental Officer  
Bureau for Latin America  
and the Caribbean

ENVIRONMENTAL DETERMINATION

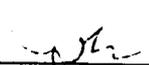
Project Location : LAC Regional  
Project Title and Number : Trade and Investment  
Development Project  
Number 598-0669  
Funding : \$3.6 Million  
Life of Project : 3 Years  
Prepared by : Kim Brown, LAC/DR/PSS

A. Activity Description: The purpose of this project is to stimulate and support free trade policy development and/or reforms in the Latin America and Caribbean (LAC) region through A.I.D.-assisted programs. The six basic components of the project include: 1) Policy technical assistance and support; 2) Technical support for field Missions in program strategy development; 3) Technical assistance to field Missions to educate and develop support for open trade policies in the indigenous private sector; 4) Outreach to the U.S. business community to promote opportunities for open trade and investment in the LAC region and to build support for trade policies; 5) Information collection, analysis and dissemination; and, 6) Liaison with other U.S. Government, multilateral and donor agencies.

B. Discussion: A.I.D. funds will be used for trade and investment climate analysis, strategy development, developing local support, U.S. outreach, information collection, analysis and dissemination, and USG/Donor liaison. The activities, when weighed against the criteria of Section 216.2(c)(1)(i) and 216.2(c)(2)(i), (iii) and (v) of A.I.D.'s Environmental Procedures, are considered to qualify for a categorical exclusion for which the Initial Environmental Examination is generally not required.

This statement is submitted for the Bureau Environmental Officer's review in accordance with Section 216.2(3).

C. Recommendation: Based on the above, it is recommended that a Categorical Exclusion be approved by the Bureau Environmental Officer.

  
\_\_\_\_\_  
Jeffrey W. Evans, Acting Director, LAC/DR

  
\_\_\_\_\_  
Date

Clearance:

LAC/TI:MKeanan-Wood draft date 3/12/91

LAC/DR/PSS:KBrown:3/7/91:doc0681M