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U. S. CHAMBER OF COMMERCE

INTERNATIONAL FORUM WITH

M. PETER MC PHERSON, AID ADMINISTRATOR

(THIS TRANSCRIPT WAS PREPARED FROM A TAPE RECORDING.)

Washington, D. C.

Thursday, 21 April 1983

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OMTglo 1 VOICE: The U.S. Chamber of Commerce presents
2 International Forum. today's guest speaker will be Peter
3 McPherson, Administrator of the Agency for International
4 Development. He will discuss today's opportunities for
5 American business in U.S. foreign aid programs. And now
6 today's International Forum; here's Jean Mazur.

7 MS. MAZUR(ph.): Welcome to International Forum.
8 The focus of today's program, the U.S. Foreign Aid Program.
9 The U.S. Government's approach to providing
10 foreign economic assistance is changing and that news is
11 good news for American business. The Reagan Administration,
12 recognizing the important role the private sector can play
13 in furthering the economic development of Third World
14 countries, has been actively redirecting its aid program to
15 include more of a private sector dimension.

16 A Bureau for Private Enterprise has been
17 established within the Aid structure and all regional
18 bureaus are expected to identify private sector projects to
19 support, as well. Closer working relationships have been
20 established with business, but many in the U.S. business
21 community question whether there are opportunities for their
22 companies provided by this new approach.

23 Here in our business studios to discuss the
24 condition of the U.S. Aid program today, where it is heading
25 and what it means for American business, are Frank Balance,

OMTglo 1 President, Action for World Development; Samuel Hale, Jr.,
2 President of Energy Development International; Steven
3 Dimoff, Director of the Washington office of the
4 U.N. Association of the U.S.; and moderating today's
5 discussion, Fred Stokeld, Director of International Economic
6 Policy here at the U.S. Chamber of Commerce.

7 MR. STOKELD: Thank you, Jean. People tend to
8 have strong opinions about foreign aid without necessarily
9 knowing much about the program's ingredients, so I thought
10 we'd better begin with a summary of what constitutes the
11 U.S. Foreign Assistance Program and how much money is
12 involved.

13 Steve, could you start things rolling with a few
14 labels and numbers to put all this in perspective?

15 MR. DIMOFF: Thank you, Fred. I think our Foreign
16 Assistance Program has two major sides to it: a bilateral
17 side, which essentially involves our relationship with
18 individual countries around the world, and the multilateral
19 side, which involves our contributions to the various
20 international lending institutions and international lending
21 organizations which have development programs.

22 As far as our bilateral program goes, we have a \$5
23 billion-a-year program in agriculture, population, health
24 and technical assistance activities. Our multilateral
25 activities include our contributions to the World Bank and
various regional development banks in Asia, Africa and

OMfglo 1 Latin America.

2 MR. STOKELD: Very good, Steve. And now, Sandy,
3 from the viewpoint of American business, what other main
4 questions are now being asked about U.S. Foreign Assistance
5 policy?

6 VOICE: I would say the perception of people,
7 particularly not in Washington, is still an agency that
8 largely funds human-needs-kind of activities: health,
9 education, the basic infrastructure. And in fact while a
10 lot of that still goes on, increasingly there are examples
11 of private-enterprise-development-sorts of projects.

12 Presumably, some of those Mr. McPherson will be
13 speaking about today, but increasingly within the last two
14 or three years there's been attention paid to incentives for
15 production, financing institutions, income-generation
16 opportunities, a very significant kind of change in basic
17 outlook that's not necessarily reflected in the numbers;
18 that is, within an agricultural project you may just do that
19 project differently than you did before.

20 MR. STOKELD: Now, Frank, the main question: Is
21 aid in the U.S. national interest? Is it really worth all
22 the bother?

23 MR. BALANCE: Fred, this is a question that people
24 have been asking ever since we got involved in aid programs
25 with the Marshall Plan at the end of the Second World War,

OMI glo 1 and while there's a lot of debate on the subject, I think
2 that most people who've looked at the program would say,
3 "Yes, it's very clearly in the national interest."

4 It's in the national interest generally in the
5 larger sense of our responsibilities in the world as the
6 leader of the Free World, and it is in our national interest
7 in a narrower sense from the economic perspective of the
8 business community, because there's a tremendous amount of
9 business generated in economic ties developed as a result of
10 the aid program.

11 We only have to look at, say, the headlines of the
12 last six months or so in terms of the role of U.S. banks in
13 international development; we realize the interconnectedness
14 of the world. And I'm sure it's a point that Mr. McPherson
15 will make as AID Administrator, but some of the facts are
16 that one out of four acres of U.S. farmland goes to exports
17 to developing countries.

18 Without that, U.S. farmers would be in real
19 trouble. Forty percent of U.S. exports now go to developing
20 countries, and they're our fastest-growing market for
21 exports, and in many ways they take the leading edge of
22 U.S. technology. So that our exports to developing
23 countries are very important and without an aid program and
24 the financing that it provides and the government contacts
25 that it provides, we would undoubtedly lose some of those

OMfglo 1 export possibilities.

2 So in fact we benefit both directly from the
3 contracts, from the fact that 70 percent of the aid money is
4 spent in the United States on contracts in this country, and
5 indirectly from the infrastructure created by the aid
6 program, by the climate created by business overseas, by the
7 education and training programs that aid funds, by the
8 health that makes for a healthier work force and so on.
9 So I think very definitely it's in our national interest.

10 MR. STOKELD: Very good, Frank. Now on that point
11 before we go downstairs, we can say something about the
12 national security aspects of the aid programs. I'm sure
13 Mr. McPherson will address those today, the importance of
14 our foreign policy interest that's in the Caribbean
15 Initiative that is being considered in the Congress this
16 week.

17 MR. BALANCE: Well, exactly. Of course, this is a
18 major aspect of the foreign aid program, and I think we
19 ought to say, as probably Mr. McPherson will say, that the
20 aid program is an instrument of U.S. foreign policy, and it
21 can accomplish a number of different objectives at once and
22 we hope it does. We hope it has humanitarian purposes, but
23 we mustn't forget that the foreign aid program is a foreign
24 policy tool of the United States designed to promote
25 U.S. interests in the world, and it should do that.

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1 The difficulty, I think, is that there's often
2 substantial disagreement about what promotes the
3 U.S. interest in the world. That's where the difficulty
4 comes.

5 MR. STOKELD: Exactly. And this is a related
6 point here, that the foreign aid traditionally hasn't had
7 much of a constituency of interest around the country, and
8 this is reflected somewhat in the Congress where I
9 understand out of the five last fiscal year appropriations
10 for foreign aid, I think only one of those years was a bill
11 actually appropriated. The money has always been voted on
12 the basis of a continuing resolution.

13 Do any of you see any change in the attitude of
14 Congress toward foreign aid with respect to placing higher
15 priority on it? Requiring, let's say, a more serious
16 consideration of the appropriations of funds for these
17 programs instead of leaving it to the system, as it were, to
18 float along?

19 VOICE: Well, I think the Administration's
20 initiative in setting up a Committee on Economic Assistance
21 goes a long way to trying to build a consensus on our
22 foreign assistance program. That consensus has not existed
23 for several years, and it's increasingly difficult to get a
24 consensus, given the various levels of military security
25 policy numbers that we're looking at, and the various

OMI glo 1 numbers that we're looking at.

2 The proportion has been the subject of much
3 dispute in Congress and it's been difficult to arrive at
4 some consensus on exactly what a foreign aid bill should be,
5 what the levels of security assistance should be vis a vis
6 development, actual development assistance.

7 VOICE: I might say something on that point, if we
8 have a moment here. And that is that generally speaking, in
9 the last few years there has not been very much controversy
10 over the development aspect of the aid program, the bilateral
11 aspect of the program. That part generally is approved
12 rather readily without much difficulty.

13 The problem comes in the security/ military side
14 of the program which is much more visible politically and
15 where there's real controversy involved, and that I'm sure
16 we'll get to later.

17 MR. STOCKELD: Exactly. I would imagine that
18 today Mr. McPherson will address the so-called private
19 sector emphasis and the bilateral aid programs. That also
20 raises a question Steve alluded to, that our aid program is
21 not just a bilateral program associated with the AID agency
22 or the multilateral programs, the World Bank and the other
23 regional banks. It has much of a private sector emphasis,
24 whatever that means, which we'll get into -- crept into the
25 World Bank's thinking; would you say, Steve?

OMfglo 1 MR. DIMOFF: I think the Treasury Department
2 assessment of the multilateral development banks, the
3 Administration has found that there is indeed a private-
4 sector emphasis in the Bank's programs.

5 There are various proposals that the
6 Administration is advocating in negotiations for
7 replenishments, greater co-financing of projects, a more
8 specific maturation and graduation policy of countries out
9 of the various development loan windows.

10 All in all, though, I think the Administration has
11 been rather positive in its emphasis on multilateral
12 development banks.

13 MR. STOCKELD: Very good.

14 VOICE: Fred, I might say at that point, that with
15 Tom Clausen coming in as president of the World Bank -- and
16 he was chairman of the Bank of America prior to being
17 appointed to his post as president of the World Bank -- that
18 there has been a substantial emphasis -- change in emphasis
19 and a move to the private sector in a substantial degree,
20 and it was a change that occurred almost simultaneously with
21 the Reagan Administration coming to power. It certainly was
22 given a push by the Regan Administration, and the Treasury
23 report that Steve refers was part of that effort.

24 But Tom Clausen had an inclination in that
25 direction. His bank had been heavily involved in lending to

OMTglo 1 developing countries, and he carried that same private
2 sector approach with him when he came to the World Bank. So
3 it's made a difference in the World Bank as well.

4 MR. STOCKELD: Excellent.

5 VOICE: I think there's one other point that's
6 important to consider about the private sector initiative,
7 and that is that it happens for mainly other reasons, that
8 more and more, not only AID aid but also multifederal aid is
9 coming to be focused on Africa simply because of the
10 pressing problems there. And particularly with the
11 graduation policy and so forth.

12 That, again, is going to focus more of the
13 strictly development resources on Africa, and I think most
14 of us in the business feel that Africa is by far the most
15 difficult environment in which to try to make the private
16 sector approach work, whether it's in agriculture, small
17 enterprise development, the financial institutions,
18 whatever. There's just less of a history there, less
19 infrastructure, a lot of other reasons.

20 MR. STOCKELD: Very good. That raises now the
21 question that some of the critics of the prevailing
22 traditional approaches to aid have tended to polarize around
23 whether basic human needs, which is that part of the aid
24 program which has placed priority on providing water,
25 irrigation, infrastructure, to these very poor countries,

OMI glo 1 as opposed to what we'd call the development of economic
2 activity in a more direct sense: manufacturing, farming and
3 so on.

4 There tends to be a division of opinion of which
5 side we should emphasize, and much of the criticism that we
6 see today on the aid programs suggests that the model to
7 follow is that of the so-called market economy as evident in
8 South Korea or Taiwan or Hong Kong, who graduated from aid
9 programs, as opposed to those systems which like Tanzania
10 and Zambia and Africa which have been the recipients of very
11 generous aid donations from many countries, but don't seem
12 to be showing much signs of economic progress.

13 How do we pick the bones out of this general
14 question of which side should be emphasized? Is this a
15 valid comparison?

16 We are ready for downstairs now, Jean?

17 MS. MAZUR: And now we will go live to the Hall of
18 Flags where Dr. Michael Samuels will introduce today's
19 featured guest.

20 DR. SAMUELS: Our three members of the business
21 community, upstairs in the Biznet studios. I would also
22 note that there is a chance that the entire video tape of
23 the full hour-long program that will be put together will be
24 sent around to all the AID missions throughout the world.

25 So when you think about questions to ask, you

OMTglo 1 might think about a larger audience than just this one here.

2 One piece of housekeeping before I introduce our
3 speaker, and that is to call the attention of all of you to
4 a brochure that is on the table in front of you advertising
5 the annual corporate briefing of the Association of American
6 Chambers of Commerce in Latin America.

7 This briefing is normally done in New York, but
8 it's being done here in Washington for the first time this
9 year. The briefing is done by senior corporate officials
10 active in local American Chambers in Latin America. So if
11 you or anyone in your company has an interest in Latin
12 America, you will not find a better-qualified presenter or
13 group of presentors than those who will be at this
14 briefing.

15 We are very honored this afternoon to have a very
16 special speaker. Peter McPherson is the Administrator of
17 the Agency of International Development and Acting Director
18 of the International Development and Cooperation Agency.

19 In this capacity he has brought long experience in
20 both government and the private sector to bear at trying to
21 address the nation's interests of both the human and
22 development nature throughout the world, and particularly
23 the developing countries.

24 We are honored as longtime supporters of the aid
25 legislation here at the Chamber of Commerce, and on behalf
of the U.S. business community, to have Peter speak to us

OMTglo 1 today and answer any questions you may have. Peter
2 McPherson.

3 (Applause.)

4 MR. MC PHERSON: Thank you, Mike. It is very nice
5 to be here. This group has been a long-supporting group of
6 foreign aid and it's especially nice to be here to talk
7 about it.

8 Let me be frank with you. Aid has long been
9 viewed by many Americans, perhaps some of you here today, as
10 an international welfare program. Some believe that we are
11 simply throwing money down a rathole. I'm here to dispel
12 those thoughts.

13 There are three key points I'd like to make today:
14 One, that aid does help the U.S. economy and in reality is
15 an investment in the American economy; two, that aid
16 increases our national security, especially as President
17 Reagan has restructured that program; and three, aid has
18 around the world experienced some dramatic successes, and
19 with our new restructured efforts, we believe we're going to
20 have even more of these successes.

21 Let me first begin with the U.S. economic benefits
22 of our foreign aid program. The degree of interdependence
23 between countries, ourselves and the Third World has
24 increased dramatically in recent years, and we believe will
25 continue to do so.

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2 Trade with developing countries has become an
3 important part of the U.S. economy. Every state in the
4 union is now involved in exporting to developing countries.
5 Let me cite some numbers. In 1981 our exports to developing
6 countries were 43 percent of the total exports. This
7 contrasted with about 10 years ago when only 30 percent of
8 the total exports were to developing countries.

9 The growth of U.S. exports is especially dramatic
10 to countries which have had rapid economic growth, such as
11 Brazil and Korea. U.S. exports and manufactures have shown
12 particularly strong growth. More than 80 percent of the
13 manufacturing jobs created, more than 80 percent in the late
14 1970s, were linked to exports; and fully one-eighth of all
15 U.S. jobs in manufacturing are now export-related.

16 Sales to poor nations mean about two million jobs
17 for U.S. citizens. Exports of agriculture products are very
18 important as well. Exports to developing countries of ag
19 products account for about 20 to 25 percent of gross farm
20 income; very significant in fact indeed.

21 In addition to generating jobs for workers
22 directly involved, there are many service-associated jobs
23 that create substantial employment and income for the
24 U.S. as well: grain elevators, transportation, insurance,
25 banking and so forth.

In brief, trade in general and the developing

OMTglo 1 world in particular have improved -- have been very
2 important to us. And as the Third World improves its
3 economic performance, the Third World's capacity to buy our
4 goods and services has increased enormously, to our obvious
5 benefit.

6 By the way, I might mention that about two-thirds
7 of the money that we send abroad in foreign aid comes back
8 to us immediately in the form of purchases of goods and
9 services. In short, what we send abroad, much of it comes
10 right back.

11 Recently, for example, an AID contract with a
12 manufacturer in Alabama, millions of dollars were generated
13 in the purchase of goods from that manufacturer and about
14 930 jobs were involved in that contract. That community
15 certainly thought that AID was relevant.

16 Let's look at the other side of the coin, what
17 the United States buys from developing countries. Our
18 society needs many imports to function, and strategic
19 minerals in particular come from developing countries.

20 For example, we depend upon developing countries
21 for 90 percent of our tin, vital to our electronics
22 industry; 88 percent of our bauxite without which our
23 aircraft industry simply could not go on; 75 percent of our
24 cobalt needed by our steel and nuclear industries, and so
25 on.

OMTglo 1 Just imagine a car without a starter switch, a jet
2 plane without an engine, a TV set without a picture tube, a
3 computer without a memory; or for that matter, a fourth of
4 July without fireworks.

5 Without imports from developing countries these
6 and other necessities and conveniences would be, to say the
7 least, uncommon. And we're depending more and more on Third
8 World countries for this kind of flow of goods, especially
9 as I mentioned to begin with, the strategic minerals.

10 Of course, some of the things that we import are a
11 lot more commonplace, perhaps not as vital, but important.
12 92 percent of our coffee comes from developing countries.

13 Let's turn now to another benefit of the foreign
14 aid program, national security. To a considerable
15 extent, U.S. security depends upon the political and
16 economic health in the Third World. Afghanistan, El
17 Salvador and the Middle East are examples of the impact
18 Third World countries have on the U.S.

19 In examining our overall security needs, this
20 Administration has tried to balance the budget demands with
21 the needs for a strengthened international situation.
22 President Reagan concluded that the U.S. national interest
23 demanded a strong foreign aid program, and he has personally
24 fought for that program on several occasions.

25 This is not surprising. The decision to provide

OMTglo 1 aid is a key foreign policy decision. Successive Congresses
2 and Administrations, beginning with Roosevelt and Truman,
3 have recognized the importance to our foreign policy of a
4 strong foreign aid program, and President Reagan was
5 continuing on with that tradition.

6 Why care about people thousands of miles away, so
7 many people ask, when we have our own problems here today?
8 Let's take a look at our neighbors to the south for a
9 moment. That will give us I think some clearer idea.

10 I'm sure you will agree that Latin America and the
11 Caribbean have a direct bearing on our national security.
12 Our vital concerns in the region include keeping the sea
13 lanes clear. Latin America and the Caribbean are important
14 to our efforts to limit the spread of nuclear
15 and conventional arms.

16 Still other important concerns have to do with
17 keeping down the flow of narcotics and of course
18 undocumented workers coming across to our borders.

19 Economic stagnation in the Caribbean could cause
20 -- and does cause -- misery and discontent leading to unrest
21 and exodus of the so-called boat people. The cost of
22 maintaining and relocating from the Caribbean coming into
23 the United States is staggering. 700 million from 1980 to
24 1982 was the cost.

25 We all know the problems of the Middle East. The

OMTglo 1 U.S. foreign aid there is a vital tool in our efforts
2 there, as it is in the Horn of Africa, in southern Africa
3 and so on.

4 And for all these benefits, economic and foreign
5 policy, the foreign aid program is really one of relatively
6 small cost, and I might say, is a relatively shrinking part
7 of the total Federal budget. The combined bilateral or
8 multilateral budget represents only 1 percent of the total
9 U.S. budget, 1 cent out of every dollars.

10 It's about .2 percent of our gross national
11 product. That's by comparison, I might note, of during the
12 1950s when the foreign aid program was about 3 cents out of
13 every Federal Government dollar, and was substantially
14 larger as a percentage of GNP.

15 Finally, let me spend a little time talking about
16 the successes of AID. Twenty-eight years ago, for example,
17 war had delivered the final blow, so to speak, to South
18 Korea, a nation already weak from years of hardship.
19 Massive destruction and wretched living conditions were
20 everywhere. Nine million people were homeless. The
21 fighting had leveled three-fourths of the country's very
22 limited industry. There wasn't enough food to go around.

23 The country never had -- and still does not
24 really have -- any natural resources to speak of. To make
25 matters worse, a large percentage of North Korea's people

2 OMTglo 1 had fled south. The Republic of Korea today is a vastly
2 different Korea from what I just described.

3 Visitors today see an industry on a grand scale
4 and signs of a rapidly growing standard of living. The
5 hustling populus is well fed, well clothed and well
6 educated. Everywhere there are signs of growing
7 prosperity.

8 Korea's evolution from poverty to prosperity is
9 one of our proudest contributions. We helped a determined
10 people to help themselves, to mobilize their potential and
11 to prosper. AID and the U.S. Government has left its mark
12 all over the country. A power plant generator along the Han
13 River bears a plaque with the U.S.-AID handshake. The
14 railroad and port facilities are reminders of the
15 U.S. contribution.

16 AID helped build schools and set up training and a
17 host of different vocations. In 1961 Korea's per capita
18 income was \$87. By the end of 1980, about 20 years later,
19 it had risen to 1,500. In a single generation Korea became
20 a major U.S. trading partner.

21 Our exports to Korea reached about 5 billion in
22 1980 and we're still growing. When I think of Korea, of
23 what it was and what it has become, I know we are doing more
24 than just fighting a rear-guard action against hunger,
25 poverty and ignorance. We are making a difference.

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1 The problems are really not too big to be solved.
2 The contribution of foreign aid, a dedicated population and
3 the right policies of poor countries together can make major
4 contributions and bring about major change.

5 Undeniably, I believe U.S. foreign aid has made
6 the world a better place. We have done more than just dent
7 the world hunger problem.

8 To take another example, India is one of the
9 poorest and most populous countries in the world. Most
10 people here remember seeing pictures of starving people in
11 that land not many years ago. Yet due in part to the help
12 from the United States, India has nearly achieved
13 self-sufficiency in food grains.

14 In the '50s and '60s, AID sent over agricultural
15 experts. We helped build fertilizer plants and irrigation
16 systems. We brought in Americans to train extension workers
17 and bolster research of high-yield crops. As a result,
18 India's grain production went from about 50 million tons in
19 middle 1950s to about 150 million, three times production,
20 by last year -- enormous food progress.

21 President Reagan has made the foreign aid program
22 a stronger program. We have benefited from some of the
23 mistakes in the past and of course there were some. We
24 certainly have moved away from any kind of program that was
25 in the nature of an international welfare program. We have

2 OMfglo 1 truly made this a self-help effort.

2 The President has consistently stressed individual
3 initiative in a free market system rather than government
4 intervention as the surest route to economic growth.

5 In unveiling the Caribbean Basin Initiative, for example,
6 the President outlined the need for a program to create
7 conditions under which "creativity, private entrepreneurship
8 and self-help can flourish." AID now fosters market forces
9 and local business conditions in developing countries.

10 In brief, we try to make full use of the magic of
11 the marketplace. Private enterprise is now a way of
12 thinking that is being institutionalized at AID. Before
13 this Administration, AID had almost stopped using the
14 private sector for development purposes. Now it is an
15 approach which we use throughout our agency.

16 Also, we're paying much more attention to policy
17 reforms in developing countries because policies are so very
18 important, so central in what happens: whether there's
19 economic growth or mere stagnation.

20 We see ourselves at AID as sort of development
21 bankers, bankers who put money on projects where there's
22 going to be a chance for growth, which usually means that a
23 country has to have a policy context which will encourage
24 growth.

25 Under this Administration, we use AID monies to

3 OMTglo 1 leverage or to encourage host governments to set up legal
2 rules of the game which will encourage rather than
3 constrict indigenous and American investment in poor
4 countries. We believe we can do no less in efficient use of
5 the taxpayers' monies.

6 In conclusion, we feel AID is 1) important to
7 U.S. economy; 2) a very important tool for our U.S. foreign
8 policy; and 3) we know that we've made some major
9 contributions over the years to poor countries. AID
10 benefits all of us, we believe: the U.S. businessman, you
11 here, the United States, and the Third world.

12 It's good to be here and I welcome your
13 questions.

14 (Applause.)

15 DR. SAMUELS: Thank you very much, Peter.
16 Mr. McPherson has agreed to answer questions not just on the
17 text of the speech that he gave, but also on specific
18 programs if you wish to ask them.

19 Are there any questions to start it all off? Yes,
20 ma'am.

21 VOICE: I saw in a recent newsletter that a
22 proposed foreign aid package to Lebanon was going to have a
23 certain amount of those funds tied to purchases of
24 U.S. products.

25 I think it's a \$150 billion aid package and \$69
26 billion of those dollars is supposed to be for purchases of

3 0Mfglo 1 products and services from here.

2 MR. MC PHERSON: Right.

3 VOICE: Has AID ever used this kind of package
4 before, and if not, do you think that AID will be using it
5 in the future?

6 MR. MC PHERSON: Yes, we have. We have about
7 \$300 million of the billion dollars going into Egypt going
8 for that purpose, and a substantial portion -- well, at
9 least some of the monies going into the Caribbean were used
10 for that purposes as well.

11 It is a program which I think has to be carefully
12 tailored to the situation, but indeed it is sometimes a
13 vital tool and we think that in Lebanon it's a good example
14 of where it's important.

15 In our reconstruction efforts into Lebanon, it
16 became clear to me that if we didn't watch it, the
17 U.S. would be the government to provide all the charity
18 relief and the French and Italians and everybody else would
19 walk away with all the big contracts for their businessmen.
20 And that was something I didn't think you would want me to
21 have happen and go unnoticed, and so we have put together
22 that package.

23 I think that over the next few years we're going
24 to find that Lebanon is a very important business partner
25 of the United States, and we're anxious to have our

4 OMFglo 1 foreign aid effort, our contribution to the reconstruction
2 be set up in a way that will contribute to that long-term
3 sound relationship.

4 VOICE: In speaking of allied programs with the
5 overall Agency for International Development, the Trade
6 Development Program brings together both private enterprise
7 elements as well as the return to the United States of
8 exports. We have seen a rather good growth in this but not
9 in relation to the rest of the nations, major nations of the
10 world with similar-type programs.

11 Could you comment on this growth and its future
12 as you see it?

13 MR. MC PHERSON: Last year the Carter
14 Administration had a Trade Development Program budget of \$4
15 million. We are asking Congress for fiscal year '84 to
16 propose \$22 million in the program.

17 I can envision a steadily expanded Trade
18 Development Program. I'm sure we have to take one step at a
19 time. Congress will probably give us this amount but there
20 is clear some hesitancy.

21 For those of you who don't happen to be aware of
22 this program, this is a program where we help finance
23 feasibility studies for projects that are going to be
24 constructed in Third World countries. If there's a major
25 dam or there's a major plant being put up in a Third World

4 0Mfglo 1 country, it's very important for U.S. business to be part of
2 the feasibility study on tht project, because once you're in
3 the door doing the feasibility study, the chances of your
4 being able to follow up with either executing the contract
5 or making major sales in connection with that are
6 considerably enhanced.

7 And so I have felt that this is something we
8 really ought to expand and we're doing it.

9 Incidentally, we've expanded that FDP budget, one,
10 by asking Congress for more money, but two, by shifting
11 money into FDP from other programs. Last year we put a
12 couple of million extra dollars into it. We've got a
13 separate program -- the Congressman here is smiling, he
14 knows how that's done -- we have in Egypt, we've got a
15 separate feasibility study program of about \$7 million.

16 I think that's one of the biggest contributions we
17 can make to everybody. We have started off with the
18 assumption that there should be a marriage between
19 U.S. business and development of the Third World, that we
20 shouldn't assume that there was nothing to be contributed or
21 somehow or other they should be separated. And I think the
22 Third world as well as the U.S. business community is going
23 to reap the benefits of this marriage for growth.

24 VOICE: One area of concern for the exporters has
25 been the area of mixed credits. The question that I have

2 OMTglo 1 is this. I know that they are best headed program in Egypt
2 and it has been quite helpful. The question is whether or
3 not AID is considering to expand is program on a worldwide
4 basis.

5 MR. MC PHERSON: We do have a program in Egypt, as
6 you just indicated, some \$75 million. A mixed credit
7 program, by the way, is a combination of government monies
8 which will in effect be able to reduce the interest rates
9 that foreign entities must pay for the purchases of goods or
10 services, so you're mixing government money -- with soft
11 money, if you will, with private money that will come on
12 harder terms.

13 Now we've taken a position that this is
14 essentially not a market force kind of thing, and that we
15 want to discourage it. We don't like it. Unfortunately, we
16 live in the real world and the French and some others have
17 not taken such a philosophical position on this matter, as
18 I'm sure most of you have become aware in your various
19 dealings, and so we have been forced to, in the case of
20 Egypt, move in and provide some mixed credits.

21 Now this has been in the nature of kind of an
22 expanded, kind of an Eximbank sort of function, if you
23 will.

24 Now, we have a paper out in which we say on a
25 case-by-case basis we'll look at further expansion of

4 OMFglo 1 mixed credits. We want to be sure that whatever we do in
2 mixed credits is in fact helpful to the country
3 developmentally.

4 We don't have any other program firmly in place
5 other than Egypt, but we are willing to look at it on a
6 country-by-country basis.

7 Frankly, I would like to expand that program in
8 Egypt. I mean I am prepared within the context of really
9 quite a large program to use as many dollars there as it
10 takes to have U.S. businessmen get a fair share -- to be
11 treated fairly, you might say.

12 VOICE: Although you touched upon this in your
13 address fleetingly, I was wondering if you could explore in
14 a little greater detail any encouragement that AID might
15 want to give to Third World countries in innovations in
16 financial institutions which could effectively realize some
17 of the trade benefits which you describe.

18 I'm thinking, for example, of revolving funds
19 which would attract private U.S. industry abroad.

20 MR. MCPHERSON: We have been supporting various
21 venture capital entities, for example, one in Jamaica, one
22 in Indonesia, various leading firm funds and so on. In
23 addition, we have recently entered into an agreement with
24 the Siam National Bank of Thailand in which we're
25 supplying a couple of million dollars. Siam National Bank

2 OMFglo 1 is supplying a couple of additional million dollars. It's a
2 very major institution in that country that basically is
3 focused on Bangkok.

4 Bangkok is entirely different than the rest of
5 Thailand. It's a big, big city and fairly high per capita
6 income and out in the northesast you get like a hundred per
7 person annual income. So it's -- and we've said to that
8 bank, "Look, we'll give you a loan, you match it, and in
9 turn you go out and have branches out in these ares where
10 you previously haven't been doing business."

11 In effect, trying to encourage with a little
12 incentive, a little soft loan money -- to be honest;
13 encourage that institution to expand and look beyond.

14 It's like this country; you have some institutions
15 that are very innovative and aggressive and very service,
16 or a whole range of society-oriented, and others
17 which aren't. And we think we can kind of prod and push to
18 get more done.

19 Incidentally, there's a point in connection with
20 that Thailand institution I wanted to make. A key part of
21 that loan is a little money for the bank to provide
22 training, managment training to the people who get the
23 loans. People who get the loans are going to be pretty
24 modest businessmen, agribusiness kinds of activity out in
25 the countryside.

26 I mention it because I'm a firm believer that

3 OMTglo 1 by and large the Third World doesn't need resources as much
2 as they need people with training.

3 Secondly, they need some technology and they need
4 institutions, but the bottom of progress almost always is
5 people who can do things.

6 Look at this community, look at the communities
7 where you came from, and I think you almost always find that
8 it's the people, it's the institutions that make for
9 economic growth. And we have moved away from -- it's not
10 the first time AID has done it, it's an old institution
11 that's tried almost everything, but we moved away from a
12 business where we try to give people goods and services
13 directly. It just doesn't work.

14 International welfare just doesn't work. You
15 don't give people fish, you teach them how to fish. And
16 that's a concept that goes through all of our activity,
17 including the Siam National Bank loan.

18 Yes, sir?

19 VOICE: Mr. McPherson, there are a number of
20 middle-income countries that are AID graduates, where we had
21 extensive programs. You've mentioned India and Korea.
22 There are others where there are a lot of linkages that over
23 the years have been developed, institutions that were
24 originally financed by AID. Many of them are still
25 developing countries, although they're middle income.

2 QMfglo 1 To what extent are the private-sector-oriented
2 programs -- and I know that IDP does operate in some of
3 these countries -- but to what extent are you planning or
4 thinking of extending the activities of PRE, the private
5 enterprise activities, to work with private-sector groups in
6 these countries in developing jobs and other types of
7 relationships?

8 MR. MC PHERSON: I would envision that the
9 principal instrument will continue to be the Trade
10 Development Program and the Overseas Private Investment
11 Corporation Insurance programs.

12 I don't envision there to be much private-sector
13 activity outside that we would be financing outside of
14 that. We continue to find so-called punch corps(?)
15 activity, which is an executive retired training grouping
16 that does enormously good things and they have a big program
17 in Mexico, and they have a big program in Mexico and Brazil,
18 but we're phasing out of the -- we're noticing someone here,
19 people contributing to this in the past -- anyway, this is a
20 program that has done enormously good things, but we think
21 that Mexico and Brazil, for example, are an economic level
22 where they probably ought to be doing their own thing.

23 Actually, foreign aid plays a role -- transfer of
24 resources in an innovative way plays a role, but keeping our
25 borders open for relatively free trade for countries like

2 0MTglo 1 Mexico and Brazil -- I mean, it has to be fair trade, but
2 having our borders open, relatively open, is to a greater
3 advantage to those countries probably than a foreign aid
4 program would be.

5 There's numbers of things that we can do and I
6 think we have probably played the major role that we should
7 in connection with those countries.

8 DR. SAMUELS: Peter, there was a question I wanted
9 to ask -- in the discussions among people who are interested
10 in development --

11 MS. MAZUR: We have been listening to Peter
12 McPherson, Administrator of the Agency for International
13 Development who is speaking this afternoon down in the Hall
14 of Flags.

15 He spoke this afternoon about the interdependence
16 of this country and those in the developing world and the
17 role AID plays in promoting the relationships. Specifically
18 he cited the number of U.S. exports sold in the developing
19 world: \$99 billion worth in 1981, he said. He also noted
20 the number of products traded to us by them: everyday
21 products like coffee and also things of more strategic
22 importance, for instance, certain minerals.

23 He spoke of the strategic importance of many of
24 these areas, specifically the Middle East and the Caribbean
25 Basin. He also made a case for foreign assistance programs.

1 OMTglo 1 He said they do pay off; he said "we are not throwing money
2 down the rathole" -- that's a quote. He cited South Korea
3 as an example of success. He outlined the Reagan
4 Administration approach to foreign aid, which he described
5 as stressing the free market system rather than government
6 intervention, and he said that as important and successful
7 as AID may be, its budget is shrinking.

8 Here to make sense of this and analyze what was
9 said is our panel. Fred, why don't you take it?

10 MR. STOKELI: One point Mr. McPherson made in
11 putting across his message was that South Korea provides an
12 excellent example of how aid can work to graduate a poor
13 country into one of economic self-sufficiency.

14 Frank, how valid is the South Korean case to other
15 countries involved in the aid program? Is it just apples
16 and oranges, or is there something to be learned and applied
17 there?

18 MR. BALANCE: Well, Fred, there is undoubtedly a
19 good deal to be learned and applied from the Korean
20 experience, and Korea really is a symbol for the economic
21 progress that a number of Asian countries have made, many of
22 which are aid graduates. And in that category of Korea are
23 often included, and I think probably Mr. McPherson mentioned
24 those, Taiwan, Hong Kong and Singapore -- all countries that
25 have made substantial economic progress.

1 OMfglo 1 I think however that we need to recognize that
2 there are some substantial differences between the Koreas,
3 Taiwans and so on, and some of the problems we're now
4 encountering with particularly the poorest countries in
5 Africa.

6 For one thing, the Asian countries by and large
7 had very long histories of education, they had relatively
8 well-trained manpower; particularly Hong Kong, Singapore and
9 Taiwan are really export platforms where the labor character
10 of the economy and the qualified labor force makes it
11 possible to add value to labor-intensive products which are
12 then exported.

13 It also, I might point out, because Mr. McPherson
14 also mentioned the trade issue, the countries also developed
15 in a time when we really were in a free trade mode. We are
16 still in that mode but there's a great deal more pressure of
17 a protectionist sort than there has been in a long time, and
18 to recommend that other people follow that same mode of
19 development requires many things that African countries
20 don't have; they're overwhelmingly agricultural, and many of
21 them dependent upon one or two raw materials, and frankly
22 the climate for raw material exports has been very poor
23 lately.

24 So the conditions of a Korea and the conditions of
25 African countries are really quite different. Meanwhile,

1 0Mfglo 1 the world economy has also changed, so that it is going to
2 be much more difficult in the '80s, say, for countries to
3 export their way to development than has been true in the
4 past.

5 I think they'll find it really much more difficult
6 in the protectionist leanings that we see, whether it
7 applies to textile or footwear or steel, whatever, are going
8 to be felt by the newcomers entering this field.

9 MR. STOKELD: Very good, Frank. That raises
10 another question I'd like to put to Sandy. Peter McPherson
11 made many references to this private sector approach in the
12 aid program today.

13 in your experience, what are some of the things we
14 should look for in this private sector approach? What if a
15 country doesn't have a private sector to begin with?

16 VOICE: Well, first of all, I'd say that every
17 country has a private sector, and not only that, but every
18 country has an entrepreneurial sector. In some places it's a
19 lot harder to find than others, but for example, an example
20 in Africa that's often cited is Kenya, where the small
21 farmer was really the dynamic force in the marketplace for
22 years.

23 But even if you go to a country, for example,
24 Sudan, one finds that when the government finally gets
25 around to having the kinds of incentives where a farmer

3 OMfglo 1 would have any kind of incentive to respond, the farmers do
2 respond. A lot of what we call lack of entrepreneurship is
3 lack of training in finance, accounting and so forth, but
4 in terms of wanting to go out and market something and
5 ability to respond when the incentives are right, I think
6 you'll find even to a great extent in Africa people do
7 respond.

8 What you often find, however, is government
9 policies where there is no incentive to become an
10 entrepreneur at any level. The other thing is I think AID
11 has in the past often used what I would call
12 non-entrepreneurial kind of approaches to its projects, and
13 I'll give you a couple of fairly trivial examples, but they
14 relate I think to the rest of AID.

15 In planting trees, and certainly deforestation is
16 one of the major problems throughout Africa and the tropical
17 zones generally, the traditional approach of AID and the
18 other donors has been simply to give the governments money
19 and let the forest departments go out and plant trees. Now
20 there's much more recognition of the fact that markets for
21 things from those trees exist in the countries and that you
22 can in fact give the farmers a good incentive to go out and
23 plant the trees themselves and do it on a self-sustaining
24 basis. It doesn't need that infusion year after year of
25 donor money.

2 OMIglo 1 Another example that we often use is a very little
2 one: cook stoves, where AID for a number of years would go
3 in and try to get the Peace Corps, private volunteer
4 organizations or whatever to go family by family trying to
5 show people how to make more efficient stoves, which was
6 going to take well into the year 3000, I suspect.

7 At the same time artisan and marketing networks
8 already existed which were making and selling stoves, and
9 now there's much more, say, "Let's stop and use that
10 existing artisan at work, not try to build something that's
11 in fact going to put it out of business."

12 I would find that I'd say something about trade.
13 think it's important to put the foreign aid program in the
14 context of what the Administration's been trying to do, to
15 fight a kind of rear-guard action to maintain some freedom
16 in world trade. And certainly if you look in the
17 Caribbean, for example, what's happened in the sugar markets
18 with the entry of particularly the EEC, far dominates any
19 kind of aid that we would give. I mean the economies have
20 suffered such a blow because of that that it's hard to
21 recoup from it.

22 MR. STOKELD: Excellent. Now there's a related
23 fact I'd like to discuss with Steve, because we are seeing
24 that the bilateral program is getting onto firmer ground
25 with respect to the interest in the government and

5 OMIglo 1 consulting with business as to the best way to fine
2 -tune this apparatus, while on the multilateral side our
3 support of the World Bank consumer organizations.

4 What is there to this charge of times that the
5 World Bank may be encouraging developments in some countries
6 which are opposed to U.S. interests? Is there anything at
7 all, or is this just hearsay?

8 MR. DIMOFF: Well, Fred, I think that the
9 multilateral development banks by and large serve American
10 interests very well. From the point of view of their
11 cost-effectiveness, they're very cost effective.

12 Secondly, they complement our bilateral efforts,
13 they enable us to really kind of build the infrastructural
14 projects which create the ability of the smaller bilateral
15 projects to be expanded and they're also very
16 cost-effective. For every one dollar that the
17 U.S. contributes, several other dollars will be contributed
18 by member countries.

19 So I think that they serve U.S. interests
20 extremely well, and I think that's reflected in
21 Administration policy, both in the past and in the present.

22 VOICE: Fred, I'd like to say something on that
23 point. I think it's important to recognize that while the
24 United States is the largest participant in the multilateral
25 institutions, it by no means has a veto power at these

2 OMTglo 1 institutions, so that if it comes actually down to a vote on
2 a particular loan, the United States, unless it pulls its
3 allies along, cannot actually block a loan to a country.

4 After all, they are multilateral institutions.
5 The developed countries, Europe, Japan and the United
6 States, have the clear majority and they clearly set the
7 policy. But the fact is that there may be occasions -- and
8 it's entirely appropriate that there are occasions when the
9 policy agreed upon by all the members of the World Bank may
10 not be exactly the same thing as the policy of the United
11 States in a particular instance.

12 And that probably is good because in fact one of
13 the reasons why -- certainly in the '70s -- more attention
14 was paid to the multilateral institutions is that they
15 provide a buffer against some of the more overtly political
16 involvement, and so that for people who are interested in
17 economic development without the very strong political
18 involvement that the bilateral program often led to, the
19 World Bank and the multilateral institutions have provided a
20 very good solution for that and continue to do so.

21 They buffer the political involvement so that you
22 don't find the World Bank on the carpet on El Salvador, you
23 find the U.S. bilateral aid program on the carpet.

24 MR. STOKELD: That was a good point. One key
25 question involves Congress, and of course the Administration

3 OMTglo 1 has already requested a billion dollar increase more or less
2 for the next fiscal year program, bilateral and
3 multilateral: 9.1 billion up from about 8 billion.

4 What do we think around the table of the prospects
5 for this package getting through the Congress? Can we
6 anticipate any cutbacks, or what's the situation?

7 VOICE: Well, Fred, we've already seen in the
8 House Foreign Affairs Subcommittee action yesterday on
9 Central America that there's strong opposition to the
10 Administration's request for substantial increase in funds
11 for El Salvador. I believe that was cut back in half; I'm
12 not sure of that altogether.

13 And secondly, the question of U.S. assistance to
14 Nicaraguan guerrillas attempting to overthrow the Nicaraguan
15 Government is a very important and very divisive political
16 issue, and Congress is arguing -- members of Congress are
17 arguing that this contravenes the Boland Amendment which was
18 passed last year, which prevents U.S. assistance to
19 overthrow the government of Nicaragua as opposed to
20 attempting to cut the supply of arms from Nicaragua to El
21 Salvador.

22 Also, when you consider that the vast portion of
23 the Administration's request for an increase in the AID
24 program is for security-related items, I think you will find
25 real controversy over those, and I would expect that if the

2 OMTglo 1 Senate Republicans are cutting the President's request on
2 defense as much as they are, you will not find great support
3 either, even in the Senate, for substantial increases in the
4 security portion of the AID program.

5 But Steve follows this very closely and maybe he
6 has some thoughts.

7 MR. DIMOFF: Well, I think the important factor is
8 the mix of security versus development assistance, and
9 Secretary of State Schultz recently testified on the Hill
10 that the bill is in fact comprised of 67 percent of
11 security/ military assistance and 30-some percent
12 development assistance, and that particular relationship
13 will be where most of the conflict occurs.

14 Those who have traditionally favored development
15 policies as the cornerstone of the foreign assistance
16 legislation will insist that that level be increased in
17 order to move the bill along in its congressional path.

18 MR. STOKELD: Very good. We're running to the
19 close of our time, but I'd like to quickly go around the
20 table just for any last observations we have. I guess I
21 could frame them in the context of a question: Is the aid
22 program here to stay? Do we expect to see any major changes
23 over the next few years? Do you feel good about the aid,
24 program, Sandy?

25 VOICE: I think it's here to stay and it's a

3 OMFglo 1 little like a glacier; that is, I think the private
2 enterprise thrust, regardless of who the Administration is,
3 is going to take years to permeate through the bureaucracy.

4 MR. STOKELD: Excellent. Steve, do you think it's
5 going to wax or wane?

6 MR. DIMOFF: Well, I think it will continue. I
7 don't believe that it's not subject to change. I think that
8 the basic thought of the foreign assistance bill is that
9 there's indeed a global interdependence, and that
10 interdependence requires that the U.S. contribute to that
11 development effort.

12 MR. STOKELD: Very good. Now Frank?

13 MR. BALANCE: It's here to stay, Fred. I think no
14 question about it. But certainly the Reagan Administration
15 has put its stamp on it and future Administrations will do
16 the same.

17 As we have said, the crucial issues turn out to be
18 the political issues, the political issues having to do with
19 who we're supporting in the world and what those governments
20 are like and whether that's in the U.S. national interest.

21 MR. STOKELD: Thank you, Frank. I guess I could
22 say in summary that the aid program, we would agree, is a
23 living example of enlightened self-interest. Its goals of
24 economic growth and political stability are important to the
25 United States in terms of jobs, in terms of security.

3 OMTglo 1 And the main thing is that today the government
2 that is responsible for carrying out this program is more
3 and more sincerely looking to business, to the private
4 sector, for advice on how best to fine-tune the apparatus of
5 the program.

6 I think on that note we'd like to thank
7 Mr. McPherson for being with us today and hope on behalf of
8 all of us here that his private sector emphasis indeed will
9 bear fruit over the next few years.

10 Do we have time for any last comments on this
11 point?

12 MS. MAZUR: Thank you for joining us on
13 International Forum. Join us again on April 27th at 11:00
14 a.m. Eastern Standard Time for Dateline International, the
15 program that offers timely analysis of international trade
16 policy and a perspective on how shifting world events affect
17 American business interests abroad.

18 I'm Jean Mazur for Bisnet(?)

19 VOICE: This has been a presentation of Bisnet,
20 the American Business Network, a service of the United
21 States Chamber of Commerce.

22 (Announcement.)

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