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INTERNATIONAL TRADE, AID, AND ECONOMIC DEVELOPMENT

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Executive Summary

This paper seeks to respond to the Administrator's interest to involve the Agency in a more meaningful way in the area of international trade policy. The paper focuses on how this can be accomplished both by AID/W and the Missions in the field.

The Administrator's interest in moving the Agency beyond the provision of bilateral assistance to dealing with other development issues parallels the thinking that led to the establishment of IDCA in 1979. IDCA failed to establish itself as the spokesman for development, and the Reagan Administration, while keeping the IDCA authorities, eliminated its independent staff and subsumed its functions in the AID Administrator, who is IDCA's Acting Director.

After a review of the structure of the interagency decision-making process on trade policy and the functions of USTR, the paper recommends that the Agency could make contributions to US trade policy in the following areas: help in influencing LDCs in regard to the GATT work program; assistance in preparation for the next round of multilateral trade negotiations; assumption of the role of USG spokesman for trade and development; support of the Bilateral Investment Treaty (BIT) Program; and establishment and management of a private sector advisory committee on trade with the developing countries.

With respect to the Missions, the paper suggests an approach for refocusing the policy dialogue to include trade policy reform. Because such reform is a macroeconomic issue, the Agency will have to pay greater attention to the recipient country's economy as a whole than to individual sectors or population groups. The inclusion of trade policy reform in the policy dialogue will necessitate a greater focus on the broader macroeconomic policies that are not, in the first instance, related to project assistance. To do so, AID will have to work closely with other US Government agencies to supplement the leverage of the traditional AID resources -- ESF, development assistance and PL-480 -- with the leverage resulting from greater access to the US market, investment promotion assistance and export credits that the US Government can provide the recipient. Not only would such linkages vastly increase the effectiveness of the policy dialogue in liberalizing LDC trade regimes but it would also permit the use of the policy dialogue for a wider spectrum of non-traditional trade policy objectives (e.g. getting the LDC to join the GATT or to negotiate a BIT with the U.S.).

Notwithstanding the Administrator's interest, the main question remains whether AID, as an agency, is prepared to change its mindset and assume this greater developmental function. The author is skeptical that the Agency is prepared to do so. The Administrator and senior management will also have to change their attitude and be willing personally to commit the time and effort to fully participate in the trade policy process. The Administrator must reinforce the staff's involvement on trade by attending the Cabinet-level TPC meetings; not doing so would be a signal to the Washington trade community that he does not view trade as a matter worthy of his time. In addition, AID will have to impress the other agencies that it has the credentials to weigh in seriously on international trade issues.

Assuming the proper change in attitudes and some allocation of additional resources to the effort, now may be the time for AID to begin to undertake some of the trade initiatives described in this paper in order to shed its present image as a foreign aid agency more interested in the subsectors of development than in the economy of the developing country as a whole.

I. Introduction

This paper seeks to respond to the interest of the Administrator of the Agency for International Development (A.I.D.) to involve the Agency in a more meaningful way in the area of international trade policy. The paper will focus on how this can be accomplished both in Washington and in the field by:

- -- analyzing the present trade policy decision-making process among the US Government agencies and AID's present role in that process;
- -- presenting possible approaches to increasing AID's role in the process; and
- -- providing suggestions on how the policy dialogue that is an essential element of AID's country programs can include trade policy reform.

On the surface, a case can be made that these issues should be treated separately. Nevertheless, the author believes that significant action must be undertaken both in Washington and in the field by AID -- i.e., both greater involvement in the trade policy decision-making process and the inclusion of trade reform in the policy dialogue -- if the AID contention that trade is important to economic development is to have any validity. This is especially important in light of the Agency's Private Sector Initiative of the last four years, which "is based on the premise that greater reliance on market forces hold the key to self-sustaining growth in developing nations." 1/

II. Trade and Economic Development

The importance of trade to economic development is underscored by the measurement of the earnings that are generated by LDC exports against capital inflows resulting from Official Development Assistance (ODA). In 1980, for example, export earnings for the non-oil exporting developing countries amounted to nine times the net inflow from all bilateral and multilateral foreign assistance.

Recent studies have shown that export-oriented strategies -- rather than those based on import-substitution -- have been more conducive to rapid growth. As Anne O. Krueger, I.B.R.D. Vice President for Economics and Research, has pointed out, "[A] growth strategy oriented towards exports entails the development of policies that make markets and incentives function better, while an import-substitution strategy usually involves policies designed to frustrate individuals' maximizing behavior under market incentives." 2/ In a more recent study of the effect of trade on employment and growth in less developed countries, Krueger cited the following advantages of an export promotion regime:

> (1) competition can be provided by the international marketplace and thus attention to quality control, to new techniques and products, and to good management practices is likely to be encouraged;
> (2) since export promotion generally entails subsidies in a variety of forms, the costs of excesses are more visible than in import substitution, and there are forces within the government, especially the Ministry of Finance, that therefore place pressures against greatly imbalanced incentives;
> (3) efficient firms and industries can grow rapidly without being limited to the rate of growth of domestic demand, and whatever economies of scale or indivisibilities there are can be exhausted; and
> (4) governments cannot achieve their ends by relying upon quantitative restrictions when fostering export growth and must therefore create incentives for exporting. 3/

For Jagdish Bhagwati, the "gains from an export-promotion strategy are ... largely in the removal of such unintended consequences of import substitution as excess capacity, excess inventories and bottlenecks." 4/ Bhagwati identifies another advantage of an export promotion strategy in its ability to induce greater capital inflows, which are encouraged by the prospect of higher exports, which, in turn, can finance the servicing and repatriation of debt. 5/ In addition, Bhagwati points out that the "type of 'tariff-jumping' direct investment induced by import substitution may lower real income in the receiving country, while under an export-promotion strategy the investment is more likely to take advantage of the country's abundant resources, particularly labor, and thus raise the country's (and the world's) real income." 6/

Finally, an outward looking strategy that minimizes governmental management of the economy and relies on the pricing mechanism to allocate resources exposes both the importer and exporter to the rigors of the international marketplace. By avoiding the price distortions in the production process that are generally associated with an import-substitution strategy, a market-oriented export promotion strategy does not discourage the realignment of the exchange rate in response to balance of payments disequilibria. 7/

In looking at the success of Brazil and South Korea in generating significant economic growth after switching from import-substitution to export-promotion strategies, Krueger concluded that "The logic of an export-promotion strategy seems to condition a number of other policies and to permit a number of other favorable factors to appear in a fairly systematic way ... Economic performance seems to have improved by considerably more than the direct contribution of the increment in exports." 8/

III. Trade, AID and IDCA

By emphasizing the role of market forces in the allocation of resources, export-oriented growth strategies and the Agency's Private Sector Initiative represent complementary approaches to development. As such, it is not unreasonable for AID, which is the agency that administers the US bilateral developmental assistance program, to be concerned about issues, that while developmental, appear to be outside its purview and mandate. In fact, the logical casting by the Administrator of his eyes beyond bilateral assistance to trade is not a new phenomenon. The late Senator Hubert J. Humphrey faced the same dilemma when he proposed in 1978 the establishment of a new semi-autonomous agency, the International Development Cooperation Agency (IDCA), to coordinate US development activities. IDCA was established in 1979, had a relatively lean staff during the Carter Administration, but during the last four years has been only a "shell" organization, with the AID Administrator acting as IDCA

Director. To be able to respond effectively to the Administrator's present interest, it is important to review briefly the history and raison d'etre of IDCA. */

The establishment of IDCA grew out of the belief that the Executive Branch was not adequately organized to reflect the growing importance of US economic relations with the developing countries. There was a growing recognition, at the time, that trade and investment by the developed countries in the developing countries had acted in a counter-cyclical fashion to help keep the western economies afloat in the wake of the OPEC oil price increases. Thus, the following arguments were cited at the time for the upgrading

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* The following narrative is, in part, based on the author's personal experience as Special Assistant to Senator Jacob K. Javits, who, as a member of both the Senate Foreign Relations and Government Affairs Committees, was one of the Senate managers of the IDCA Reorganization Plan of 1979. In addition, it is drawn from material made available to Congressional staff at the time.

of the US economic relationship with the developing countries:

-- Not only are US economic relations with the developing nations a growing feature of US foreign policy, but the LDC economic health is becoming a vital element in the future prosperity and security of the United States. Trade and investment data as well as the fact that an increasing proportion of raw materials essential to the US industrial base was being supplied by the developing countries was cited to support this contention.

-- As developing countries improve their economic conditions, they buy more from the United States, provide a more secure investment climate and are able to provide uninterrupted and increased supplies of vital raw materials. LDC economic growth, also, contributes to internal and regional stability, thereby enhancing the security interests of the United States.

-- It is, therefore, in the US national interest to promote stable, economic growth in the developing countries. That interest, and the policies that serve it, must necessarily be viewed as long term in nature, given the "huge and intractable" problems of development. While the long term U.S. interest in LDC development and US development policies are related to immediate US international political concerns and short-term, tactical foreign policy interests, they are also, in many ways, distinct from these concerns and interests.

-- A wide range of programs and policies supported by the U.S. Government -- in addition to development assistance -- were found that either served or had a considerable impact on the US interest in promoting development. Yet their programs also served other broad interests (such as trade policy, international financial policies, technology transfer, etc.) and in general were not coordinated with US development assistance policies to reflect US interest in development.

It was felt that since development was more than solely foreign assistance, a new organization -- superimposed on AID -- was needed. IDCA was thus established to address the resultant organizational problems:

-- No single US official had responsibility for establishing a comprehensive and coherent development strategy;

-- No agency or official had the authority to ensure that the various US programs affecting development were consistent with each other or complemented the programs of the multilateral organizations to which the United States contributes;

-- None of the agency heads testifying before the Congress on development assistance matters could speak authoritatively for the program as a whole or for the Administration's overall development policies and priorities; and

-- Developmental concerns were at times accorded insufficient weight in Executive Branch decision-making on trade, monetary and other non-aid economic issues that affect developing nations.

As a result of Reorganization Plan No. 2 of 1979, Executive Order 12163 and Executive Order 11269, IDCA and its Director were given the authority and responsibility to serve as the Executive Branch's central coordinating and policy-making unit for US economic relations with developing countries. The IDCA Director became the principal advisor to the President and the Secretary of State on international development matters and was given primary responsibility for setting overall development assistance policy and coordinating international development activities supported by the United States.

The basis for the Administrator's interest in trade does not result from any of the specific authorities vested in the IDCA Director. Rather it results from what was called at the time of the Congressional consideration of the IDCA reorganization plan, the IDCA Director's "kibbitzing" role. This referred to the IDCA Director's responsibility to ensure that development goals were taken fully into account in all Executive Branch decision-making on trade, financial and monetary affairs, technology and other economic policy issues affecting the developing countries; and emanated from his role as the President's principal development advisor. Thus, the IDCA Director was made a member of the Trade Policy Committee 9/ (see below) in order to bring a developmental perspective to its deliberations on international trade policy. While it was recognized at the time that trade could not and should not solely serve the US interest in promoting development, it was felt IDCA participation would help ensure that, whenever possible, trade policy developed in a way that was compatible with and supportive of US development policies.

During the less than two years that IDCA was in operation as an organization separate from AID and with its own staff, it failed to achieve this development coordination function for a number of reasons. In the first place, the IDCA Directorship was made an Executive Level Two Position -- just below Cabinet level and equal to the AID Administrator, whose policies and budgets he controlled. The IDCA Director was thus immediately perceived as not having the authority and position in the "Washington hierarchy" to either back up his "kibbitzing" role vis-a-vis the Cabinet officials or enforce his control over the AID Administrator.

IDCA's failure was also due to a tactical mistake that was made at the outset by the IDCA leadership. Rather than creating a "demand" for its services by engaging in a positive "developmental" dialogue with the other agencies (i.e., focusing on its "kibbitzing" role), it decided to flex its muscles and try to gain control over its constituent parts. It thus sought to gain budgetary and programmatic control over AID, the Overseas Private Investment Corporation (OPIC) and the Trade and Development Program (TDP), which had been autonomous organizations, but whose budgets and policies had been put under IDCA's control. IDCA quickly became embroiled in bureaucratic fights, which, as the "new boy on the block," it had trouble winning. IDCA was thus perceived, especially in the Congress, and even among its friends, as an unnecessary layer of bureaucracy between operational programs and the Congress rather than as a voice for development in the Executive Branch.

The Reagan Administration adopted this view of IDCA as an unnecessary bureaucratic layer. It also felt that IDCA had operated in a manner that had made coordination of the foreign aid program with US foreign policy objectives difficult. It thus did not appoint an IDCA Director -- the AID Administrator is the Acting IDCA Director -- and the IDCA "functions" were subsumed in AID. The Administration, however, decided to retain the legal authority and organizational capacity for the effective coordination of development aid and in 1981 did not support the Senate's attempt to abolish IDCA.

Today, the organizational lines that relate to development policy are more clearly drawn than they were under the Carter Administration's IDCA model. The AID Administrator has undertaken the IDCA coordination function, not as the President's development advisor, but in a way that will assure the integration of development aid into foreign policy-making under the Secretary of State. Rather than an attempted relationship of "equals," it is a "hierarchical" relationship that seeks to centralize the responsibility over economic development programs in the AID Administrator, but without the potential for conflict.

The problem with the present model is that its success is predicated on the assumption that AID as an agency can undertake the IDCA "kibbitzing" function. The view that AID could not move beyond being a provider of bilateral assistance was the reason behind IDCA's establishment and it does not appear to this author that the Agency has changed.

The Administrator's interest in having the Agency become more involved in trade has implications not only for the Agency's relationship with the other agencies and their functions but also for the internal operation of the Agency itself. This latter issue will be revisited at the end of this paper.

The question of whether the Agency can adapt itself in support of a stronger trade function must, however, be kept in mind during the forthcoming analysis, especially if the Agency is to avoid the cardinal mistake made by IDCA during the Carter Administration. For AID to be accepted by the established trade community in Washington or for it to be able to introduce trade policy reform into the policy dialogue, it must develop a "product" that is seen as meaningfully contributing to the process. It cannot be viewed as an extra organizational layer that wants to get involved in a highly topical "glamour" issue. It is the contention of this author that AID does have such a comparative advantage which it can offer the other US Government agencies. It lies in its ability to leverage the geographic expertise of the regional bureaus and Missions and their knowledge of the development needs of the recipient countries. As will be explained below, such expertise could be offered to the trade community in addition to the more "technical" expertise found in such central bureaus as the Bureau of Program and Policy Coordination (PPC), the Bureau of Science and Technology (S&T) or the Bureau for Private Enterprise (PRE). This will, however, require a broadening of the Agency's perception of its mission.

IV. AID and Trade in Washington

A. The Inter-Agency Decision-Making Process on International Trade Policy 10/

Decision-making on international trade policy involves probably the most institutionalized and structured process found in the economic policy area. The origin of this structure can be found in the Trade Agreements Act of 1934 that provided that before concluding a trade agreement, "the President shall seek information and advice with respect thereto from the United States Tariff Commission, the Departments of State, Agriculture and Commerce and from such other sources or he may deem appropriate."

As a result, the Trade Agreements Committee was formed to pool interagency information and to coordinate interagency activities and responsibilities so as to provide a coherent and balanced trade policy. The Committee, whose size and effectiveness fluctuated throughout the 1940's and 1950's, was chaired by the Secretary of State and had as its original members: the Departments of State, Agriculture, Commerce and Treasury; the Tariff Commission, the Agriculture Adjustment Administration, the National Recovery Administration and the Office of the Special Advisor to the President on Foreign Trade.

The present three-tiered structure was established under the Trade Expansion Act of 1962 and is the principal mechanism for developing and coordinating US Government positions on international trade and investment policy issues. It is administered and chaired by the US Trade Representative and has as its member agencies: the Departments of Commerce, Agriculture, State, Treasury, Labor, Justice, Defense, Interior, Transportation and Energy; the Office of Management and Budget, the Council of Economic Advisors, the National Security Council, and the International Development Cooperation Agency. (See Chart 1 for a schematic outline of US international trade policy interagency coordination).

The Trade Policy Committee (TPC), Trade Policy Review

Chart 1

U.S. INTERNATIONAL TRADE POLICY INTERAGENCY COORDINATION

PRESIDENT
OF
THE UNITED STATES

UNITED STATES TRADE REPRESENTATIVE
CHAIRMAN OF TPC & TNC

TRADE POLICY COMMITTEE (TPC)

UNITED STATES TRADE REPRESENTATIVE
(CHAIRMAN)
SECRETARY OF COMMERCE
(VICE CHAIRMAN)
SECRETARY OF AGRICULTURE
SECRETARY OF THE TREASURY
SECRETARY OF DEFENSE
SECRETARY OF INTERIOR
SECRETARY OF LABOR
SECRETARY OF TRANSPORTATION
SECRETARY OF ENERGY
SECRETARY OF STATE

ATTORNEY GENERAL
DIRECTOR OF THE OFFICE OF
MANAGEMENT & BUDGET
CHAIRMAN OF THE COUNCIL OF
ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT
FOR NATIONAL SECURITY
AFFAIRS
DIRECTOR OF THE U.S.
INTERNATIONAL DEVELOPMENT
COOPERATION AGENCY

TRADE NEGOTIATING COMMITTEE (TNC)

UNITED STATES TRADE REPRESENTATIVE
(CHAIRMAN)
SECRETARY OF COMMERCE
SECRETARY OF STATE

SECRETARY OF THE TREASURY
SECRETARY OF LABOR
SECRETARY OF AGRICULTURE

TRADE POLICY REVIEW GROUP (TPRG)

DEPUTY USTR (CHAIRMAN)

ASSISTANT SECRETARY
LEVEL MEMBERS OF AGENCIES
ON THE TRADE POLICY COMMITTEE

TRADE POLICY STAFF COMMITTEE (TPSC)

DEPUTY ASSISTANT USTR
FOR TRADE POLICY COORDINATION (CHAIRMAN)
MEMBERS REPRESENT AGENCIES ON
THE TRADE POLICY COMMITTEE
& AN ADVISOR FROM THE U.S.
INTERNATIONAL TRADE COMMISSION

USUALLY -- OFFICE/DIRECTOR
LEVEL

POSITION PAPERS ARE INITIATED
AT THIS LEVEL

Source:
USTR, *A Preface To Trade*

Group (TPRG) and the Trade Policy Staff Committee (TPSC) are the principal interagency coordination groups for most US trade policy decisions.

The TPSC is the primary operating group, with representation at the Office Director Level. AID is presently represented by Michael Unger of the Office of Economic Affairs of PPC, who is the AID official responsible for following trade policy issues on a day-by-day basis. Thirty-two subcommittees responsible for specialized areas and several task forces that work on particular issues support the TPSC. It is at the subcommittee level that the original drafting of interagency position papers is undertaken and participation at this level is crucial if the agency wishes to influence the direction of policy. AID is represented on a number of subcommittees that touch on LDC trade issues, such as countertrade and the Generalized System of Preferences (GSP). In 1984, 150 policy position papers were circulated to the agencies for clearance. Approximately 120 papers were presented for telephonic clearance, which disposed of the issues without requiring a TPSC meeting. As a rule, AID clears on all trade papers, since roughly 70% of all papers deal with functional or topical issues (e.g., "rules of origin") rather than geographic issues (e.g., "trade with Japan") and, therefore, have some relevance to trade with the developing countries.

If agreement is not reached in the TPSC, or if particularly significant policy issues are being considered, issues are taken to the TPRG. This group meets at the Assistant Secretary level, with AID representation provided by the Assistant Administrator for PPC. It is at this level that AID's senior management has the most involvement in trade policy issues.

The TPC provides for Cabinet-level review to resolve agency disagreements or to brief the Cabinet on major issues, generally in preparation for a Ministerial or Presidential bilateral which will involve the discussion of significant trade issues. The TPC meets 6 to 10 times a year. The AID Administrator, as IDCA Acting Director, sits on the TPC. When Presidential trade policy decisons (e.g., Section 301 retaliatory or Escape Clause actions), are required, the US Trade Representative, as the TPC Chairman, submits the recommendation and advice of the Committee to the President.

Reorganization Plan No. 3 of 1979 established the Trade Negotiating Committee (TNC) within the TPC to coordinate international trade negotiations. AID is not represented on the TNC. It is chaired by USTR and is composed of the Secretaries of State, Treasury, Agriculture, Commerce and Labor.

B. The Functions of the US Trade Representative

The mandate of the Office of the US Trade Representative has evolved since the office was first established in 1963. Today it has responsibility in the area of trade and trade-related investment and manages the system of private sector advisory committees. Before suggesting areas of possible contributions by AID, some background with regard to the specific USTR functions in these issue areas will be provided.

The US Trade Representative holds a Cabinet-level position with the rank of Ambassador and is the President's principal advisor on international trade policy. He is responsible for the setting and administration of overall trade policy. His responsibilities encompass not only bilateral trade issues with developing countries, but also functional issues, such as export expansion, commodity policy, unfair trade practices (policy not enforcement) and energy trade, that may impact on developing countries. In addition to policy responsibility, USTR has the lead responsibility for the conduct of all international negotiations, whether in a GATT, UNCTAD or OECD multilateral context or in a country-to-country bilateral context. In all these trade functions, USTR is assisted by the member agencies of the Trade Policy Committee and its subordinate bodies. He receives, but is not required to follow, their advice. (Of course, any Cabinet member can appeal to the President; this generally results in a TPC meeting or other Cabinet-level meeting with the President in attendance.)

The Reorganization Plan also expanded USTR's role in trade-related international investment. With the advice of the TPC, USTR is responsible for policy guidance on direct investment matters to the extent they are trade related and for negotiations concerning direct investment incentives and disincentives and bilateral investment issues concerning barriers to investment.

USTR spearheads an active international investment policy aimed at reducing foreign government actions that impede or distort investment flows and at developing an international system, based on national treatment and most-favored-nation principles, that permits investment flows to respond more freely to market forces. It has compiled an inventory of trade distorting performance requirements and other restrictions placed on foreign investors, which it presented to the GATT. While many of the more sophisticated actions were taken by developed countries (e.g., the Canadian Foreign Investment Review Act), many of the actions -- especially requirements that link the permission for entry of foreign investors or the provision of investment incentives to certain "performance requirements" -- are used by developing countries. To curb these LDC trade distorting actions, USTR is waging both a multilateral as well as a bilateral battle. It is continuing its efforts to get the GATT to adopt a work program to measure the extent such requirements distort trade and to develop a code of conduct within the United Nations Commission on Transnational Corporations (UNTNC) that is non-discriminatory as regards transnational corporations (TNC) and domestic enterprises and is in accord with international law in terms of responsibilities between TNCs and governments.

It is, however, in the area of bilateral investment treaties (BIT) that the USTR investment function parallels the work of AID. The US Government launched the BIT program, which is under USTR's overall responsibility, in late 1981. The purpose of the program is to negotiate investment treaties with interested developing countries. USTR, in fact, only begins BIT negotiations with countries which have requested such negotiations.

The treaties are designed to provide certain guarantees and protection for foreign investors, thereby offering them a stable and predictable legal framework within which to invest overseas. By sending a positive signal to prospective investors as to a country's investment attitude and climate, the program is consistent with AID's private sector effort in that it encourages a private sector role in development. Thus far, the United States has signed BITs with five countries -- Panama, Haiti, Senegal, Zaire and Egypt --; has also reached an <u>ad referendum</u> agreement with Costa Rica, and currently has negotiations under way with Cameroon, Gabon, Bangladesh, Liberia, Ivory Coast, Sri Lanka, El Salvador, Honduras, Burundi, Morocco, Malaysia, Turkey, Indonesia and the People's Republic of China.

USTR also manages the Private Sector Advisory Committee System which is designed to ensure that a formal mechanism exists to maintain a continuous and open dialogue between government and the private sector on trade policy. To this end, the primary objectives of the advisory system are: 1) to have private sector consultations with the US Government on implementation of the agreements negotiated in the Tokyo Round of the Multilateral Trade Negotiations and to assist in monitoring compliance with the agreements; and 2) to provide private sector advice to the President, the Congress and the USTR on the development of US trade policy, especially in such emerging trade issues as export promotion and export disincentives, as well as specific sector products, services and investment.

The advisory committees, which are managed by USTR in cooperation with the Departments of Commerce, Agriculture, Labor and Defense, fall into three categories:

At the top is the Advisory Committee for Trade Negotiations (ACTN), which is a presidentially appointed committee of 45 members and whose mandate is to provide overall guidance to the President, the Congress and the USTR on US trade issues. Its present Chairman, who is elected by the Committee, is Ed Pratt, Chairman of the Board of Pfizer, Inc.

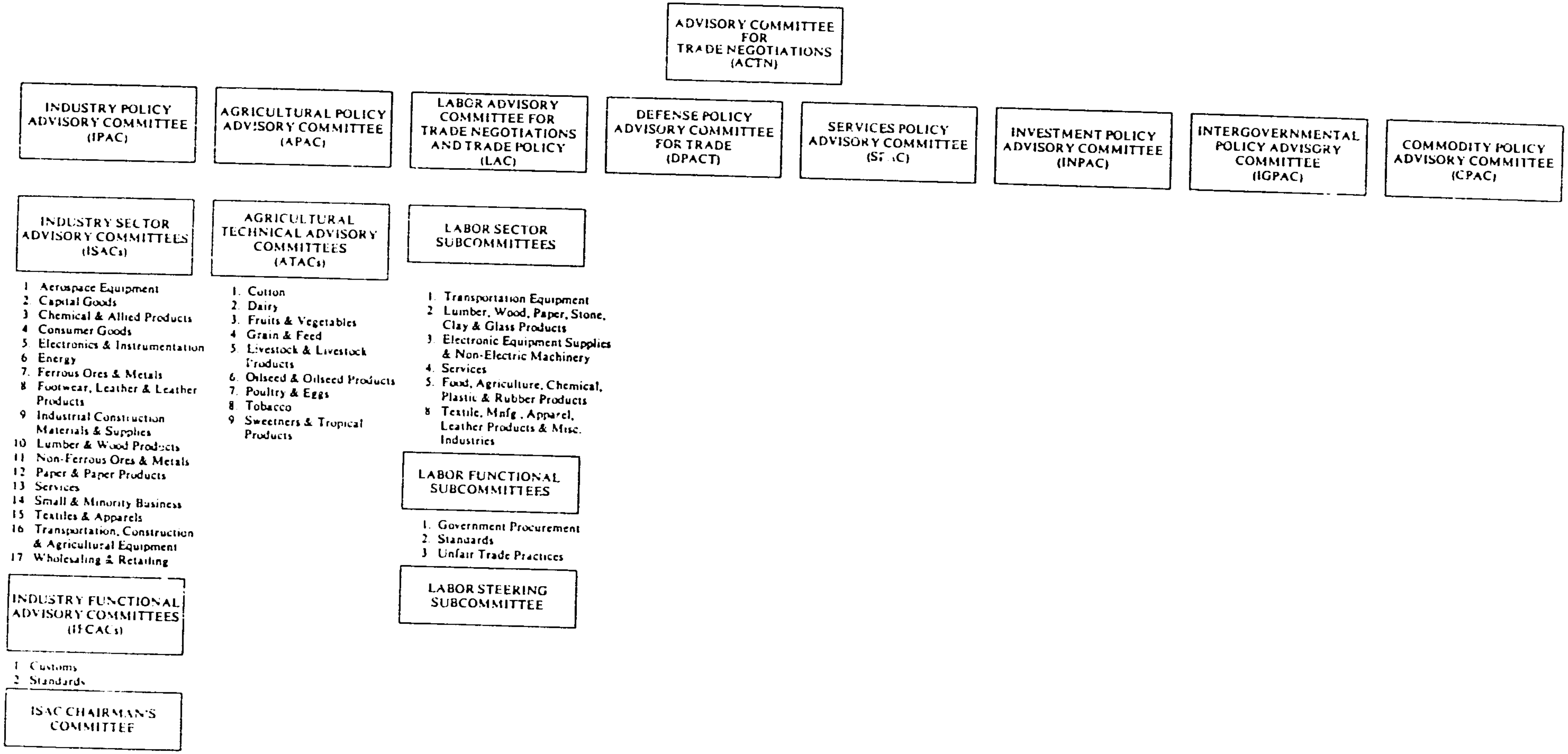
The second level of committees is composed of policy advisory committees in the specific areas of industry, agriculture, labor, defense, services, investments, commodities and intergovernmental affairs. Their responsibility is to advise the government on how trade issues affect the economies of their respective sectors.

The third level in the structure consists of technical and sectoral advisory committees that are composed of experts from their respective fields. The ATACs (Agriculture Technical Advisory Committees), ISACs (Industry Sector Advisory Committees) and Labor Advisory Subcommittees provide specific and technical information on problems within the private sector which are being affected by trade policy. (See Chart 2 for a list of the various advisory committees.)

Chart 2

Office of the United States Trade Representative

ADVISORY COMMITTEE SYSTEM



Source: USTR, Twenty Seventh Annual Report on the Trade Agreements Program

The members of the policy advisory committees and the technical and sectoral advisory committees are appointed either solely by the USTR or jointly with the Secretary of the relevant government agency.

C. AID and Trade Policy

Institutional membership on the Trade Policy Committee and its subordinate groups does not guarantee influence in the trade policy decision-making process. To establish itself as a force in trade policy as it affects development will require that AID prove, in the words of one USTR official, its "bona fides" in trade policy. It will not only have to get involved "conscientiously" in the work of the subcommittees at the staff level, which it has already begun to do, but will also have to follow up the staff work by sustained interest at the senior management level.

Assuming such a commitment by AID's senior management, the following are the areas in which AID could make a contribution to US trade policy:

-- Help in influencing LDCs regarding the GATT work program;
-- Assistance in preparations for the next MTN;
-- Support of the BIT program;
-- Assumption of role of US Government spokesman for trade and development; and

-- Establishment and management of private sector advisory committee on trade with the developing countries.

Each one of these issues will bring AID into a closer working relationship with USTR and the US Government trade community. While adoption of all of these suggested initiatives would lead to a new found AID involvement in trade policy, they are also independent of each of other and can be adopted <u>seriatim</u>.

<u>Help in Influencing Developing Countries Regarding the GATT Work Program</u>

The GATT operates by consensus and as such the work program it develops for itself must have the consent of not only the developed countries but also of the developing country bloc. In general, the work program desired by the United States for the GATT is more ambitious than that desired by our major trading partners and the leaders of the developing country bloc, such as Brazil, Colombia and India. USTR officials have suggested that AID could work with the "followers," those aid-recipient countries in, for example, Africa who are also members of GATT to convince them to intervene with the LDC leadership in GATT to be less obstructive and more positive to the GATT work program. If the smaller developing countries in the GATT were to begin to take a more independent line, this would permit the US

Government to focus on their views rather than just on those of the leading developing countries and would provide the United States with greater leverage against the LDC leadership in the GATT.

Providing this type of country service to the trade community as it relates to its primary institutional concern, the GATT, would help AID earn its trade bona fides. It would bring AID into the mainstream of the multilateral trade picture and would give it a role -- and therefore, the need for representation -- on US delegations to selected GATT meetings, such as the annual Ministerial and the annual review of the implementation of Part IV of the GATT, which relates to trade with the developing countries, and of the "Enabling Clause," conducted by the Committee on Trade and Development.

In addition, AID involvement in the GATT work program would complement any initiatives AID might take in restructuring the country policy dialogue to include trade policy reform. The US objective in the GATT is to encourage developing countries, commensurate with their level of economic development, to assume to the fullest extent possible the obligations of GATT membership. These obligations, which are based on market principles and embody the concepts of nondiscriminatory treatment, transparency and liberal market access, are similar to the objectives of trade policy reform, which seeks to open up the recipient country's trade regime to the rigors of international competition. AID participation in GATT discussions with the developing countries in Geneva would reinforce the bilateral approaches in their capitals and could only strengthen the LDC perception of the US seriousness about trade policy reform.

Assistance in Preparation For The Next MTN

In a sense, the United States is always preparing for the next round of multilateral trade negotiations, because GATT work programs are always defined in such terms. Multilateral negotiations essentially require extensive knowledge of the economies of both the United States and the other participating countries. The regional bureaus could tap both the expertise in Washington and in the Missions to provide the country-specific data with respect to import sensitivities and market potential in order to define US export interests. Also, based on its knowledge of the developing country's development plans, AID could help the trade community analyze the potential impact of US trade liberalization and concessions on LDC exports to the United States.

In addition, AID could assist in the development of a US strategy on how to get the developing countries as a group to the MTN table. Again based on its regional expertise, AID could suggest tradeoffs -- in terms of US and developing country concessions -- that could be used once multilateral trade negotiations were undertaken.

Assumption of the Role of USG Spokesman for Trade and Development

It is in this policy area that AID and the Administrator would most approximate the IDCA "kibbitzing" role. As an agency, AID would become the primary force and advocate on behalf of the development aspects of trade policy. When such functional issues as voluntary restraints on steel or on copper or the Textiles Agreement would come before the Trade Policy Committee structure, AID would ensure that the impact on the developing country economies was properly assessed and taken into account during the deliberations. To a large extent, AID would become a primary force and advocate for free trade within the US trade community and would act as a counterweight to the Commerce and Labor Departments in dealing with domestic adjustment issues. By raising the development question, AID would force a greater understanding within the US Government of the effects of countervailing duty, antidumping or escape clause decisions on LDC economic development. Similarly, AID could help prepare the US side for any bilateral discussions with key developing countries by providing information and data on the trade aspects of their economic development programs.

As part of the spokesman role, the Administrator and senior AID management -- including the regional Assistant Administrators -- would begin to give speeches on trade and development not only before development groups but also before trade groups. This would expose the trade community to AID and begin the process of educating the community to consider trade with the developing countries as an issue that also falls within the purview of AID. This will require perserverance on the part of senior management because it will have to demonstrate an ongoing interest in trade, attend TPRG and TPC meetings and participate in the deliberations whether or not they involve trade issues with the developing countries.

Support of the BIT Program

USTR acknowledges that, while the BIT program establishes a positive framework for improving private investment flows from the United States to developing countries, the political and economic climate of each country will be the critical factors in determining whether the actual investment will take place. AID has as one of the primary objectives of its Private Sector Initiative the use of grant assistance to provide support in such areas as investment promotion, training and capital market development. For example, AID has funded analyses of selected country activities to help establish a methodology to evaluate investment promotion programs and to provide guidance on establishing cost-effective programs. AID has funded technical work on the framework required to further develop the capital markets in Kenya and to liberalize the investment code of Liberia. In the area of training, AID has provided support for a one-year program to train investment advisors serving several Caribbean governments and has designed programs to help the Governments of Sri Lanka, Thailand and Jamaica attract foreign investment.

Thus, there appears to be a natural complementarity between AID's investment promotion focus and USTR's BIT program. Any future linkup could be either implicit or explicit. On the one hand, AID can continue to seek to improve the investment and business climate in the developing countries through a continuation of both PRE and Mission sourced projects. Such projects in countries that have already begun to talk with USTR about a BIT (USTR met with forty developing countries to discuss BITs in 1982-83) can only help to subtly improve the climate for eventual completion of a BIT. On the other hand, the linkage can be explicit, with USAID officials developing investment related projects after discussions with USTR and host country officials. These projects could be geared to meeting some of the deficiencies and lacunae that may be uncovered during ongoing BIT discussions. Or, the promise of assistance could be used as leverage to get a host country to complete a BIT. As one trade official said, "the vague promise of investment climate improvement [after a BIT comes into force] is not that great a lever." Furthermore, Mission officials in countries which have not yet considered entering into a BIT could raise the possibility during policy dialogue discussions on investment-related projects. Such an explicit relationship between the BIT program and the AID country program could be further strengthened by the inclusion of AID officials on US delegations negotiating BITs.

Establishment and Management of Private Sector Advisory Committee on Trade with the Developing Countries

The Administrator could contact Ambassador Brock and suggest that they jointly establish and appoint the membership of a Developmental Policy Advisory Committee that would advise the government on trade issues with the developing countries. Its first task could be a review and evaluation of the trade recommendations in the Report to the President of the President's Task Force on International Private Enterprise.

AID management of such an Advisory Committee, composed of private sector representatives that are interested in LDC trade -- rather than economic development -- would complement AID's Private Sector Initiative, and help familiarize the trade community with AID's efforts in this domain. It would also provide a certain degree of trade legitimacy for the Administrator, who could be on par with the Secretaries of Commerce, Agriculture, Labor and Defense, who already have specific policy advisory committees to advise them. Finally, a development policy committee could serve as a forum for the launching of AID's role as the spokesman for development that was described above.

In addition to the establishment of a specific policy advisory committee on development, the Administrator could offer his services to the ACTN and indicate his willingness to brief the members on trade issues with the developing countries. This would provide the same opening as a separate policy advisory committee, although it would not offer the continuity and freedom of management of a new and separate advisory group.

D. Trade and AID Staffing Implications

The establishment of AID's "bona fides" in trade policy will require the commitment of additional resources, especially in the staffing area. While some of the additional staffing needs may be met by shifts in personnel among and within the bureaus and the field, it is difficult to envisage AID's assumption of IDCA-type responsibilities beyond its present bilateral development responsibilities without some extra staff. This is true for both PPC and the regional bureaus.

PPC's role in trade policy will be greatly expanded with AID's adoption of IDCA-type responsibilities. In addition to its present responsibility of acting as AID's day-to-day interlocutor with USTR and the other trade agencies, PPC will become the primary locus for the coordination of the Agency's trade efforts. It will also act as the liaison between the trade community and the regional bureaus as they provide the Agency's regional expertise in trade and trade-related investment policy issues. This will require at least an additional staff person to supplement the trade policy work presently undertaken by the one economist in PPC's Office of Economic Affairs, which will continue. In addition to the trade policy responsibilities vis-a-vis the other agencies, the two trade specialists will also be called upon to provide greater staff support for the

Agency's principals as they assume the role of USG spokesman for trade and development.

The regional bureaus will also require additional staff to meet the increased regional involvement in trade policy. Trade economists will be needed to deliver AID's expanded responsibilities both in Washington and in the field (see below, Part V). The actual number of additional trade specialists will, however, vary with the relative importance and relevance of trade to the region's economic development (i.e., conceivably trade will play a greater developmental role in Asia and Latin America than in Africa).

While the commitment of additional staff resources is a necessary condition for the establishment of AID's trade "bona fides," it is not sufficient. What is also required is the allocation by AID's senior management of additional resources -- in terms of time and effort -- to international trade policy. Such sustained senior management interest will serve as the vehicle for the additional AID input in trade policy that will be generated by the additional staff.

V. AID and the Trade Policy Dialogue

A trade initiative in the field could complement AID's Washington initiative. By broadening the range of instruments available to AID for use in the policy dialogue, it could also broaden the trade issues covered in the dialogue.

It is not the intention of this section of the paper to review the literature on the policy dialogue between the aid donor and recipient. Rather, the section seeks to develop a framework for the inclusion of trade policy reform in the AID policy dialogue by relating the different forms of assistance to the policy dialogue and suggesting possible new directions for AID in this regard.

A. Foreign Assistance and the Policy Dialogue

While the importance of sound domestic economic and social policies as the dominant long-term influence on development has long been recognized by the Agency, its importance has once again been underscored by the Agency's Private Sector Initiative. As the President's Task Force on International Private Enterprise said in its recent Report to the President:

> Public sector funds can only supplement, not supplant, the resources that must come from the private sector in the form of trade and investment .... We believe that, in planning its foreign assistance budgets and future programs, the US Government should more strongly take into account the policies of recipients and devote a greater portion of its resources to those that actively encourage the development of private enterprise. Such an approach would serve as an incentive and a reward to those countries that are prepared to adopt sound policies and a disincentive to those that are not. 11/

It is especially important that the Agency be selective in choosing the elements of the policy dialogue. The dialogue should be concentrated in areas where it can make a difference. A 1982 AID Policy Paper on the Approach to the Policy Dialogue emphasized that the dialogue should also be in areas of the Agency's strengths and/or interests, and cited such areas as agricultural policy, parastatal enterprises, health and population, taxation and government expenditures and trade and tariff policy. 12/ In addition, the paper underscored the need to take a long-term view in the dialogue, in order to gradually "overcome, pacify or compensate groups that stand to lose from the economic reform," and to ensure that the resultant reform can be sustained long enough to provide an opportunity for results to be felt. 13/

Notwithstanding the consensus that the policy dialogue is in large measure a process of sharing information and ideas regarding economic policy actions and options and that a correct "tone" of the dialogue with the host government officials is uniformly agreed to be essential to the chances of its success, it is the potential leverage provided by the assistance program that is the "facilitator" of the dialogue. Aid -- the promise of future funds for successful policy reform or the conditions and future policy changes that are required for the immediate transfer of funds -- is one of the major elements driving the policy dialogue. The importance of the resultant resource flows cannot be minimized, especially in the case of trade policy reform. Notwithstanding its importance for the improvement of balance of payments and country credit worthiness, which is a more readily understandable goal for political leaders than improved economic efficiency, trade policy reform has frequently proven difficult because it infringes on established interests. Conversely, the domestic constituency for trade reform is often weak, as potential beneficiaries -- prospective entrepreneurs, workers and consumers -- cannot clearly perceive the potential benefits. This has led Anne Krueger to recommend that trade policy reform "should be accompanied by some stimulus to activity in the newly profitable industries ... to offset whatever decline will come about in the adversely affected industries." 14/

The assistance must, however, be given in an appropriate form that will relate to the desired policy change. In general, project assistance can serve as a good vehicle for the dialogue on the country's microeconomic policies -- such as those that affect the "demand, availability and prices of the products in the specific sector under consideration, and of the resources needed to produce them, as well as policies affecting the competitiveness of the product and resource markets in question." 15/

Trade policy reform is, however, a macroeconomic issue, which, in general, cannot be leveraged by or conditioned with project assistance. Rather, program assistance -- cash grants, Commodity Import Programs and other forms of general economic assistance -- has historically been viewed as the proper vehicle for such general policy dialogue. This approach was used during the 1960's when program lending was highly conditioned, with tranched releases keyed to meeting quantitative fiscal and monetary targets, often as defined by the IMF. 16/ In a report prepared for the President's Task Force on International Private Enterprise, Deborah Orsini cites the conclusion of a 1970 study on the use of program loans to influence public policy: "The program loan should be maintained as a major element of the assistance package in countries where the United States wants to influence overall policies and will supply the human and material resources necessary to do so and where the host government gives hope of success." 17/

Notwithstanding the political basis for ESF funding, its similarity to the program lending of the 1960's makes it an important vehicle for trade policy reform. This is especially true in countries where it takes the form of straight balance of payments support. In that case, the effectiveness of the funding is related to the country's overall economic performance and to the soundness of its macroeconomic policies, and host country officials will generally accept the legitimacy of the linkage between the assistance and policy changes. This generally increases their receptivity to the dialogue. A good case in point is the policy dialogue now under way between Secretary of State Shultz and the Government of Israel over Israel's stabilization program which is conditioned by Israel's request for additional ESF funding.

While the promise of future funds commensurate with the size of the desired policy reform improves the chances of a successful policy dialogue, there are instances when the funding of projects in a particular area gives AID some legitimacy in discussing related macroeconomic policy issues with the host government. Such project assistance may serve as an entree for the discussion of broader policy issues, especially if the connection between the efficiency of the project itself and the macroeconomic policy is not too indirect. 18/ Examples of such instances are projects under which technical assistance is provided precisely to study and help the government develop strengthened macroeconomic policies; or when the usefulness of the project depends on a policy change or when an unforeseen problem arises during the project implementation stage that requires a change in the policy environment. 19/

Between the extremes of project and program loans can be found sector loans. According to one observer, "this has been the most pointed aid instrument for policy dialogue." 20/ Whether a sector loan can be used to leverage policy dialogue on trade reform is dependent on how broadly or narrowly AID defines a sector. AID's present sectoral emphasis on agriculture and human resource development limits the use of sector loans for macroeconomic policy dialogue, although food aid under PL-480 could serve just as easily as a vehicle for such general policy discussions as for the more common discussion on specific rural development policies. AID's private sector loans, which seek to improve the host-country business climate, are, however, beginning to involve AID in such macroeconomic policy dialogues aimed at increasing the efficiency of the import regime as well as developing exchange and capital markets.

The World Bank uses its "policy-based sector adjustment loans" as a lever for such policy reform. For example, the Bank has focused on industrial restructuring and tariff reform in Morocco and on agriculture sector restructuring, which includes export promotion, in Brazil; and has provided credits to Mexico and Brazil for the establishment of an export development fund and to Ghana for an import reconstruction credit and an export rehabilitation project.

The most relevant recent experience with macroeconomic policy reform through a highly detailed general policy dialogue has been the trade liberalization efforts associated with the World Bank's Structural Adjustment Loan (SAL) program. Structural adjustment loans were introduced in March, 1980 and through September, 1984, 27 SALs were approved for 16 countries, totalling over $4 billion and accounting for about 10% of total Bank lending in that period. 21/ SALs are characterized by a comprehensive coverage of macroeconomic and sectoral issues, with a focus on policy and institutional reforms aimed at inducing greater efficiency. The stated objectives of SAL supported reforms have been summarized as follows:

> -- To achieve a more efficient use of resources and thereby contribute to a more sustainable balance of payments in the medium and long-term and to the maintenance of growth in face of severe constraints and
> -- to lay the basis for regaining future growth momentum. 22/

To qualify for an SAL, a country must have "both an immediate or medium term balance of payments problem and ... a credible program of policy reforms." 23/ In the SAL programs of 14 of the 16 recipient countries, changes in the trade regime were included in the "credible program of policy reform."

An important element of the initial dialogue is the "detailed articulation of the policy modifications to be undertaken within specified time periods." 24/ The Bank reaches an understanding with the government on a monitorable action program set out in a Letter of Development Policies, which is part of the formal loan documentation. Programs are typically formulated to accomplish the reforms over a period of five to seven years. The Bank monitors the program of policy changes, the components of which are made as specific as possible, with identified actions targeted for specific dates. SALs are generally tranched in two parts, with a review of the program prior to the release of the second tranche.

The trade policy reforms that the World Bank undertook focused on both the import and export regimes and sought to increase economic efficiency and growth prospects by reducing the policy biases inherent in an "uncoordinated analgam of measures imposed in pursuit of various objectives." 25/

The principal aims of the import policy reforms were the lowering of the protection given to industry and the reduction of the variability of this protection. Nearly all the SAL programs recognized that high import protection inhibits exports and that lowering protection would permit export expansion. Furthermore by reducing the impact of governmental interference, the decision as to which activities would grow or contract would be left to the interplay of private forces. The import policy reforms sought by the World Bank encompassed comprehensive tariff reduction and greater sectoral tariff uniformity; removal of quantitative restrictions or their conversion to more transparent tariffs; import licencing liberalization and various administrative changes that reduced bureaucratic involvement in the import regime. The World Bank was able to link complementary reforms of investment incentive programs with changes in the import regime in a number of SALs, again with the aim of reducing political influence in economic decisions.

Because of the overriding concern with the balance of payments, export increasing measures were included in every SAL supported program. These measures, which cover all phases of exporting, from establishing incentives to produce for export to actively supporting export marketing activities, included:

-- Removal of quantitative restrictions on exports;
-- Elimination or liberalization of export licensing regime;
-- Simplification of export administrative procedures;
-- Increase of prices to encourage exports;
-- Various financial support systems;
-- Reform of taxation system for exports; and

-- Changes in processing and marketing stages of exports. 26/

SALs only represent one-third of total Bank lending to SAL countries; the rest consists of project and sector lending. The complementarity between the two sets of lending programs provides some useful insight into the management of the Bank's policy dialogue. On the one hand, while comprehensive policy reforms supported through the SAL have often addressed issues that have already been touched upon by project loans, SALs have improved the overall policy framework, which, in turn, has enhanced the quality, implementation and productivity of individual projects. On the other hand, Bank projects have promoted adjustment and efficiency in key sectors, which have impacted on macroeconomic performance and have been used to develop further specific improvements started under an SAL loan. 27/ Such a comprehensive approach by the Bank to the use of complementary programs in a recipient country could serve as a model for a similar AID approach to the policy dialogue.

B. New Directions in the Policy Dialogue

David Steinberg, in The Economic Development of Korea: Sui Generis or Generic? suggests that an important lesson that can be drawn from the Korean modernization experience is the "need to focus attention on the economy as a whole rather than on industrial sectors or on a particularly disadvantaged group." He goes on to point out that this concern for a holistic approach is substantially different from the present AID emphasis reflected in the Country Development Strategy Statements that analyze the poor and what can be done to help them. "To concentrate on the economy as a whole," he concludes, "means essentially to concentrate on policy formulation." 29/

To do so, however, will require Agency-wide adoption of a new approach in the field similar to the one required of AID if it wants to assume the IDCA mantle on trade and development in Washington. To include trade policy reform in the policy dialogue will necessitate the expansion of the policy dialogue beyond sector-specific policy changes to the broader, more macroeconomic policies that are not, in the first instance, related to project assistance. As a senior AID official characterized it, a further change in the mindset of the Agency away from looking at issues sectorally is first required. Presently, the Agency is oriented to looking for policy change in the sectors and subsectors in which AID is carrying on its project assistance. Thus, one of the Missions has proposed a $75 million program grant, which will be provided in three tranches to a country whose government is being asked to raise its interest rates on rural credit. The grant is essentially a cash transfer but in terms of documentation it is being attributed to the rural credit system, on which other agricultural projects are being focused. When asked why such a cash grant could not have been used as part of an effort to achieve trade policy reform, a senior AID official argued that the Mission was not trained to think on those terms.

An important element in the expansion of the policy dialogue is thus the Agency's perception of its role in the field. Its mission cannot solely be the long-term objective "to assist in bringing the poorer developing countries nearer to the point where they will be integrated into the trading system," as one internal AID memorandum describes IDCA/AID's major task. Such an approach focuses the Agency on the assistance it gives in sectors and subsectors as its major tool in bringing about policy reform. Rather, the Agency should undertake a comprehensive approach and look at the wide spectrum of instruments available to the US Government in a given developing country as the vehicle for the policy dialogue. Linkages with trade and investment instruments as well as with other bilateral and multilateral programs in the country will provide the needed relationships between the resource transfer and the sought-after policy reform.

A comprehensive approach would supplement the leverage of the traditional AID resources -- ESF, development assistance and PL-480 -- with the leverage resulting from trade concessions, investment promotion assistance, and export credits that the US Government could provide the recipient. Thus, trade concessions and OPIC assistance could be part of a package in support of trade policy reform that could include the provision by AID of financial resources that would help buffer the government from the cost of implementing the difficult measures or further build the domestic capacity for required trade policy analysis. One recent review of AID's private sector activities concluded that linkage of US trade policies to policy reform in the developing countries could vastly increase the effectiveness of the policy dialogue. 30/

Such linkage with other policy instruments would also provide AID with a much wider spectrum of trade policy issues to include in the policy dialogue beyond those SAL-type reforms that immediately come to mind. Thus a policy decision in Washington to push non-GATT developing countries to join GATT could be supported, in part, by the introduction of the issue in the policy dialogue. Or, AID project assistance could be used to help improve the investment climate of a recipient in preparation for a BIT negotiation with the United States. Or, AID training assistance for trade and financial economists and commercial specialists could be used to begin a policy dialogue on export expansion and the need for a sound exchange rate policy.

These illustrative trade policy issues involve general conditions that lend themselves to qualitative rather than quantitative measures. Such conditionality is normally shunned in favor of policy changes that involve more precise, specific criteria. It thus is essential that a change take place in the mindset of the Agency that will reward both the pursuit of these linkages with non-traditional policy instruments and the recognition of the significance of the leverage that they offer in expanding the policy dialogue to include such macro-economic issues as trade policy.

VI. Conclusion

The Administrator's interest in involving the Agency in trade reflects his desire in having the Agency assume the IDCA functions as they relate to trade policy. The question, however, remains, whether the Agency is prepared to assume that function.

To do so, an attitudinal change is required in the Agency. In addition to being a providor of bilateral assistance, the Agency will have to be sensitive to and knowledgeable about the wider economic factors that affect the developing countries. Thus, the regional bureaus and missions will have to interact with the other US Government agencies to gain a grasp of the range of economic tools available to AID for use in the policy dialogue and the wider spectrum of trade policy issues that can be included in the dialogue. The regional specialists will also have to be prepared to provide data, information and analysis in support of US trade and investment initiatives in which AID is involved as part of the trade community in Washington. The author's discussions within the Agency lead him to the conclusion that they are presently not prepared to do so.

An attitudinal change of a different sort is required of the Administrator and senior management. AID cannot wish its way into trade policy. It must earn its way, not only through hard work at the staff level (which is already occurring) but especially through a commitment by the Administrator to participate in the Cabinet-level TPC and other meetings on trade. AID cannot be a member of the US Government trade policy community on a part-time basis. For example, sending the Assistant Administrator for PPC, who already represents AID at the TPRG, to TPC meetings in the Administrator's stead is a clear signal to the trade community that the AID leadership views trade as a matter not worthy of its time. Furthermore, the Agency must recognize the value of and provide the resources for AID participation in US delegations to multilateral meetings in the OECD and the GATT that deal with trade with developing countries. The representation must be consistent and at the proper level.

In the final analysis, whether AID can assume the IDCA functions is not only an attitudinal question. It is also a matter of resources. The Carter Administration recognized the dual nature of the issue when it established an IDCA to coordinate development as an entity separate from AID and with additional resources for a small staff.

The Reagan Administration, while deciding to keep the IDCA authorities, subsumed IDCA's functions in AID without any increase in resources. One can legitimately ask whether now is a propitious time to test which model works best, especially at a time when the Agency is cutting back its administrative budget. On the other hand, the Agency's experience with its private sector thrust has begun the required attitudinal transformation within the Agency and the resultant momentum should not be lost. A logical first