

agenda

agency for international development

SEPTEMBER 1980



**GLOBAL 2000:
A WARNING**

DEVELOPMENT UPDATE

Brazil's goal of automotive fuel self-sufficiency will require the planting of more sugarcane than is planted in the 65 other countries that grow the crop.

The line dividing priority domestic issues from those of the world's agenda becomes increasingly blurred. Our own country's list of priorities is now almost identical with those of other nations—energy, food, natural resources, population, strategic and monetary concerns. For the majority of our citizens these are bread and butter issues. They affect our lives and our livelihoods. A decision made in Riyadh raises the cost of a gallon of gas in Dubuque. A bad harvest in Brazil pushes up the price of a cup of coffee in Times Square. . . . The growing interdependence of the world community means that foreign policy has rapidly become everybody's business." From a statement by John E. Reinhardt, director of the International Communications Agency, before a House Subcommittee.

Oil and the Third World: "In the low-income Third World countries dependent on imported oil, the 1979 oil price rises are slowing the movement toward auto-centered transport systems. Higher oil prices are reducing the amount of oil that can be imported to run automobiles as well as the foreign exchange available to import cars. And for consumers, they are translating into higher gasoline prices." So says Lester Brown, head of the Worldwatch Institute, writing in "Running on Empty."

"Tasks women do are invisible and undervalued," says Gloria L. Scott of the World Bank. "If one would withdraw the work women do (in developing countries), the community would be toppled."

Why are so many people in developing countries still living in such poverty? asks Edwin M. Martin in his book "The United States and the Developing Countries." "The obstacles to progress vary from country to country," he says, but among the most critical are: "a cultural heritage not yet adapted to the needs of a modern industrial society, unfavorable climate, the competition they face with our already thriving and powerful societies, and the misleading examples our apparently successful systems often set for their societies with their quite different problems and possibilities."

The development connection: Why have more than 90,000 Cubans fled to the United States in recent weeks? Aside from political considerations, most authorities believe the exodus results from several years of deepening economic frustration. Severe problems in sugar and tobacco production—two of Cuba's two major agricultural industries—have contributed to the difficulties of providing adequate economic and educational opportunities for a young and rapidly growing labor force. The result has been a rising tide of restlessness and disaffection, particularly among those Cubans with relatives in the U.S.

Population growth and national security: "In such an environment (of excessive population growth)," Maxwell D. Taylor, former chairman of the Joint Chiefs of Staff, wrote recently, "we may expect terrorist violence and frequent armed conflicts to arise within and between nations in their struggle for the scarce necessities of life. A densely populated country is always a potential enemy to a neighbor with markedly fewer people."

Correction: In the July-August issue of *Agenda*, we stated that Indonesians earn an average of \$132 a year. The correct figure is \$312.



Cover: If nations fail to act quickly, the world will be vastly different in the year 2000. Dangerous trends are pointing the way toward overcrowding, pollution, deforestation and famine. So says *The Global 2000 Report to the President*, the U.S. Government's first attempt to look at population, resources and environment from a world perspective. See article beginning on page 2.

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CONTENTS

September 1980, Vol. 3, No. 7

Global 2000: A Warning	2
The Price of World Leadership Secretary of State Edmund S. Muskie	11
Will the Dirigible Rise Again?	14
Investing in Development Kay Chernush	16
Trade Adjustment: Aid to U.S. Workers James Bednar	20
Middle Income Countries: Who are They Keith E. Jay	24
Viewpoint Latin America: Consequences of U.S. Neglect Otto J. Reich	28

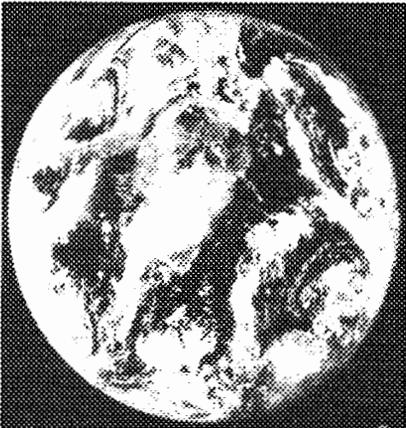
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GLOBAL 2000: A WARNING



Shortly after assuming office in 1977, I directed the Council on Environmental Quality, the Department of State, and other government agencies to study the profound changes that may take place in our world's population, natural resources and environment through the end of the century.

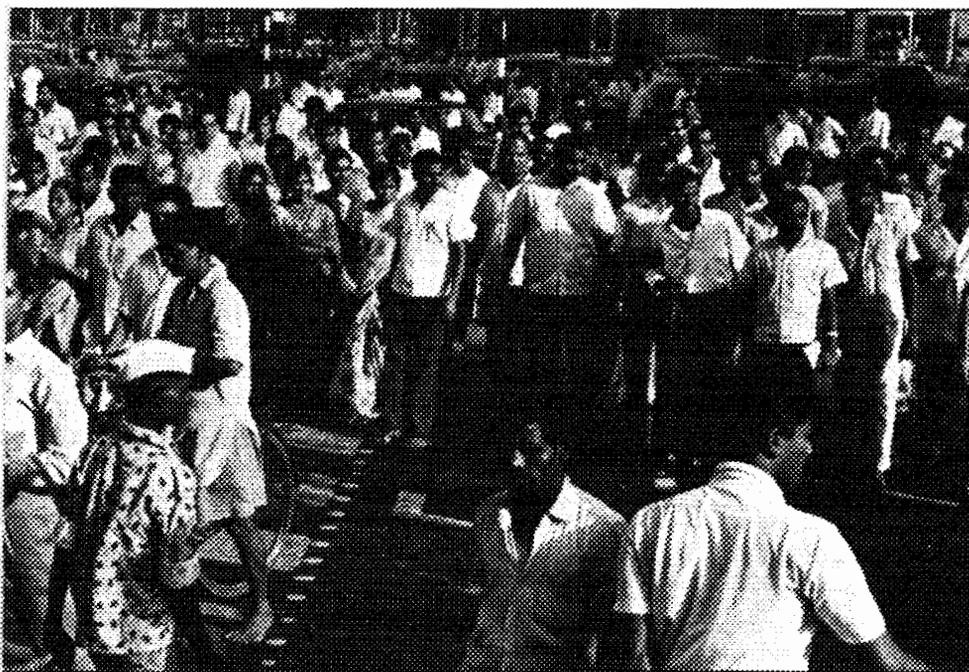
Never before had our government or any government attempted to take such a comprehensive long-range look at inter-related global issues such as world population, agriculture, water resources, forest resources, energy needs, and the overall environmental quality of the earth we live on.

The Global 2000 study is now completed. Its report projects global conditions which could develop by the end of this century, assuming that present trends and patterns around the world continue. Many of the report's findings must be of great concern to all of us. These findings point to developments related to the world's peoples and resources that our prompt attention can begin to alleviate. We will make use of the information from the Global 2000 Report in carrying out public policy wherever possible. In addition, we must continue to analyze the serious issues it raises.

It is important to understand that the conditions the report projects are by no means inevitable. In fact, its projections can and should be timely warnings which will alert the nations of the world to the need for vigorous, determined action, at both the national and international levels.

The United States is not alone in responding to global popu-

The earth may no longer be able to support life as we know it, unless nations act now.



lation, natural resource and environmental issues. The recent Venice Summit declaration committed the Western industrial nations to cooperate with developing countries in addressing global food, energy and population problems. The summit nations agreed on the need for a better understanding of the implications of resource availability and population growth for economic development. In the United Nations many of the key issues raised in the Global 2000 Report are being included in the formulation of a new international development strategy.

A number of U.S. and international responses to critical global issues are already under way. For example, since the United Nations Conference on the Human Environment in 1972, our government has contributed actively to a series of world conferences on these issues, and to follow-up actions.

There are less than 20 years left in our 20th century. The time to look forward to the world we want to have in the year 2000 and leave to succeeding generations is now. It is my firm belief that we can build a future in which all people lead full, decent lives in harmony with a healthy and habitable planet. And I believe that the skills, experience, vision and courage of the American people today make the United States a natural leader in charting and guiding humanity's course towards a better world tomorrow.

The world in the year 2000—more crowded, more polluted, and even less stable ecologically, and more vulnerable to disruption than the world we live in now, unless the nations of the world act quickly and decisively to change current policies. Serious stresses involving population, resources, and environment are clearly visible ahead. Despite greater material output, the world's people will be poorer in many ways than they are today.

Projections of global population, natural resources and environmental trends are reported and analyzed in *The Global 2000 Report to the President: Entering the Twenty-First Century*. The report was prepared by the President's Council on Environmental Quality (CEQ) and the U.S. Department of State.

For hundreds of millions of the desperately poor, the outlook for food and other necessities of life will be no better; for many it will be worse. This, in essence, is the picture emerging from the projections of probable changes in world population, resources, and environment by the end of the century, as presented in the Global 2000 study. The projections do not predict what will occur. Rather, they depict conditions that are likely to develop if there are no changes in public policies, institutions, or rates of technological advance, and if there are no wars or other major disruptions. A keener awareness of current trends, however, may induce changes that will alter these trends and the projected outcome. The report presented these principal findings:

POPULATION

World population will not slow down very much in the next 20 years. The number of people on the globe will grow from 4 billion (in 1975) to 6.35 billion in 2000—more than 50%. The rate of growth will slow only marginally, from 1.8% a year to 1.7%. In terms of sheer numbers, population will be growing

faster in 2000 than it is today, with 100 million people added each year, compared with 75 million in 1975. Ninety percent of this growth will occur in the poorest countries.

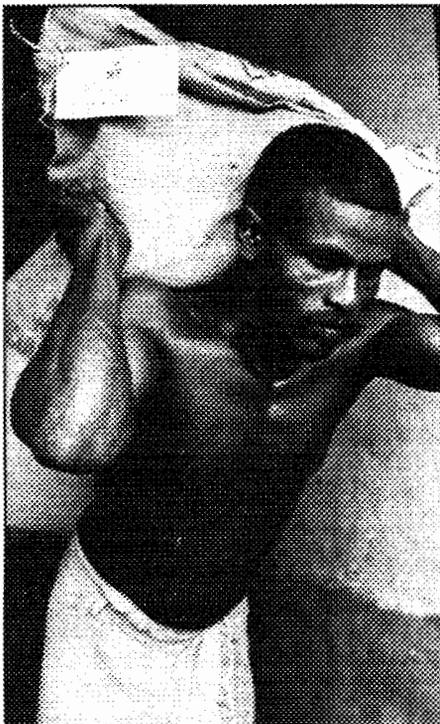
INCOME

While the economies of the less developed countries (LDCs) are expected to grow at faster rates than those of the industrialized nations, the gross national product per capita in most LDCs will remain low. The average gross national product per capita is expected to rise substantially in LDCs, especially in Latin America, but in the great populous nations of South Asia it will remain below \$200 a year (in 1975 dollars). The large existing gap between the rich and poor nations will widen.

FOOD

World food production is expected to rise 90%. This translates into a global per capita increase of less than 15% over the same period. The

World Food production is expected to rise 90% over the 30 years from 1970 to 2000.



bulk of that increase goes to countries that already have relatively high per capita food consumption. Meanwhile per capita consumption in South Asia, the Middle East, and Africa will scarcely improve—or will actually decline below present inadequate levels. At the same time, real prices for food are expected to double.

There will be only 4% more arable land available by 2000, so that most of the increased output of food will have to come from higher yields. Most of the elements that now contribute to higher yields—fertilizer, pesticides, power for irrigation, and fuel for machinery—depend heavily on oil and gas.

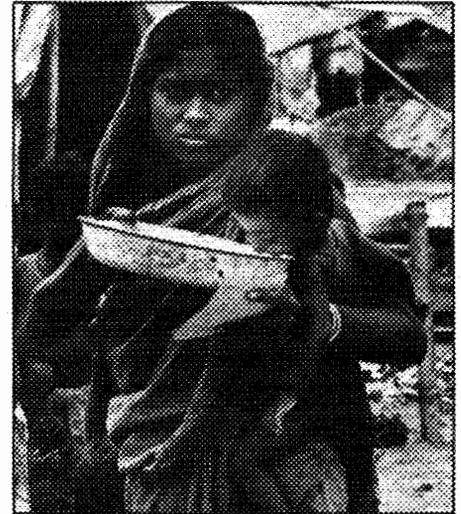
ENERGY

During the 1990s, world oil production will approach geological estimates of maximum production capacity, even with rapidly increasing petroleum prices. The study projects that the richer industrialized nations will be able to command enough oil and other commercial energy supplies to meet rising demands through 1990. But with the expected price increases, many less developed countries will have increasing difficulties meeting energy needs. For the one-quarter of humankind that depends on fuelwood, the outlook is bleak. The need for fuelwood will exceed available supplies by about 25% before the turn of the century.

While the world's finite fuel resources—coal, oil, gas, oil shale, tar sands, and uranium—are theoretically sufficient for centuries, they are unevenly distributed; they pose difficult economic and environmental problems; and they vary greatly in their amenability to exploitation and use.

NONFUEL MINERALS

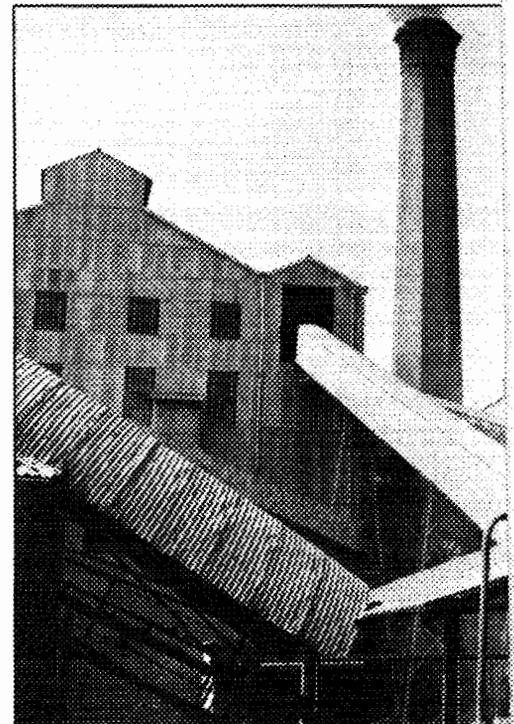
Nonfuel mineral resources generally appear sufficient to meet projected demands through 2000,



There will be nearly 100 million more people each year and most will go hungry.

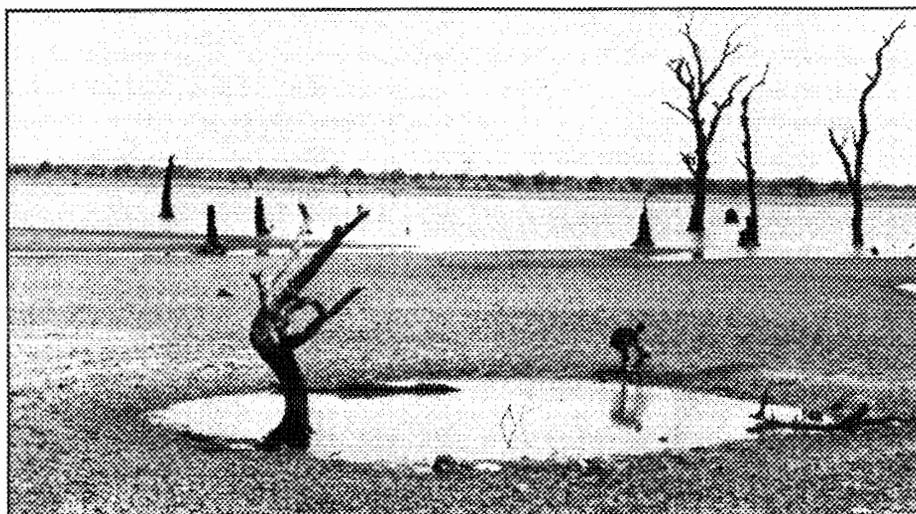
but further discoveries and investments will be needed to maintain reserves. In addition, production costs will increase with energy prices and may make some nonfuel mineral resources uneconomical. The quarter of the world's population that inhabits industrial countries will continue to absorb three-fourths of the world's mineral production.

While coal and other finite fuel resources are theoretically sufficient for centuries, they are unevenly distributed.



WATER

Regional water shortages will become more severe. In the 1970-2000 period population growth alone will double the need for water in nearly half the world. Still greater increases would be needed to improve standards of living. In many LDCs, water supplies will become increasingly erratic by 2000 as a result of extensive deforestation. Development of new water supplies will become more costly virtually everywhere.



By 2000, some 40% of all the forests left in developing countries will be gone.

FORESTS

Significant losses of world forests will continue over the next 20 years as the demand for forest products and fuelwood increases. Growing stocks of commercial-size timber are projected to decline 50% per capita. The world's forests are now disappearing at the rate of 18-20 million hectares a year (an area half the size of California), with most of the loss occurring in the humid tropical forests of Africa, Asia, and South

America. By 2000 some 40% of the remaining forest covering LDCs will be gone, according to the projections.

CROPLANDS

Worldwide, farmland will deteriorate, due to erosion, loss of organic matter, desertification, salinization, alkalization, and waterlogging. Already, an area of cropland and grassland approximately the size of Maine turns to barren wasteland each year, and the spread of desert-like conditions is likely to accelerate.

ENVIRONMENT

Atmospheric concentrations of carbon dioxide and ozone-depleting chemicals are expected to increase at rates that could alter the world's climate and upper atmosphere dangerously by 2050. Acid rain from increased combustion of fossil fuels (especially coal) threatens damage to lakes, soils, and crops. Radioactive and other hazardous materials present health and safety problems in increasing numbers of countries.

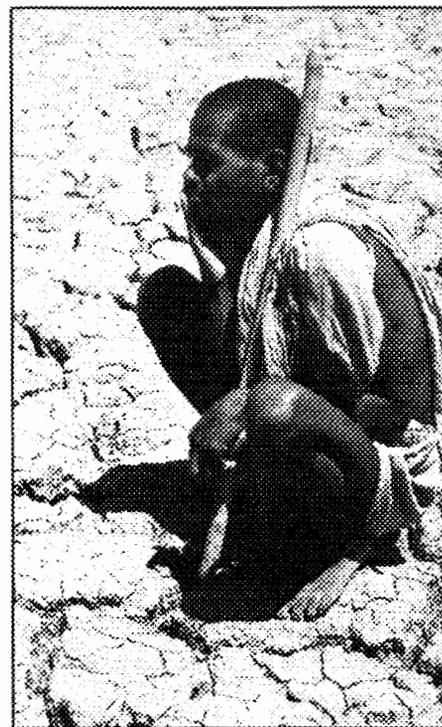
Plant and animal species will become extinct with growing frequency. Hundreds of thousands of species—perhaps as many as 20% of all species on earth—will be ir-

retrievably lost as their habitats vanish, especially in tropical forests.

CONCLUSIONS

The Global 2000 projections, may actually understate the impending problems. The methods used to carry out the study led to certain gaps and inconsistencies that tend to impart an optimistic bias. For example,

Already an area of land about the size of Maine turns to barren wasteland each year.



most of the individual projections for the various sectors studied—food, minerals, energy, and so on—assume that sufficient capital, energy, water, and land will be available in each of these sectors to meet their needs, regardless of the competing needs of the other sectors. More consistent, better-integrated projections would produce a still more emphatic picture of intensifying stresses, as the world enters the twenty-first century.

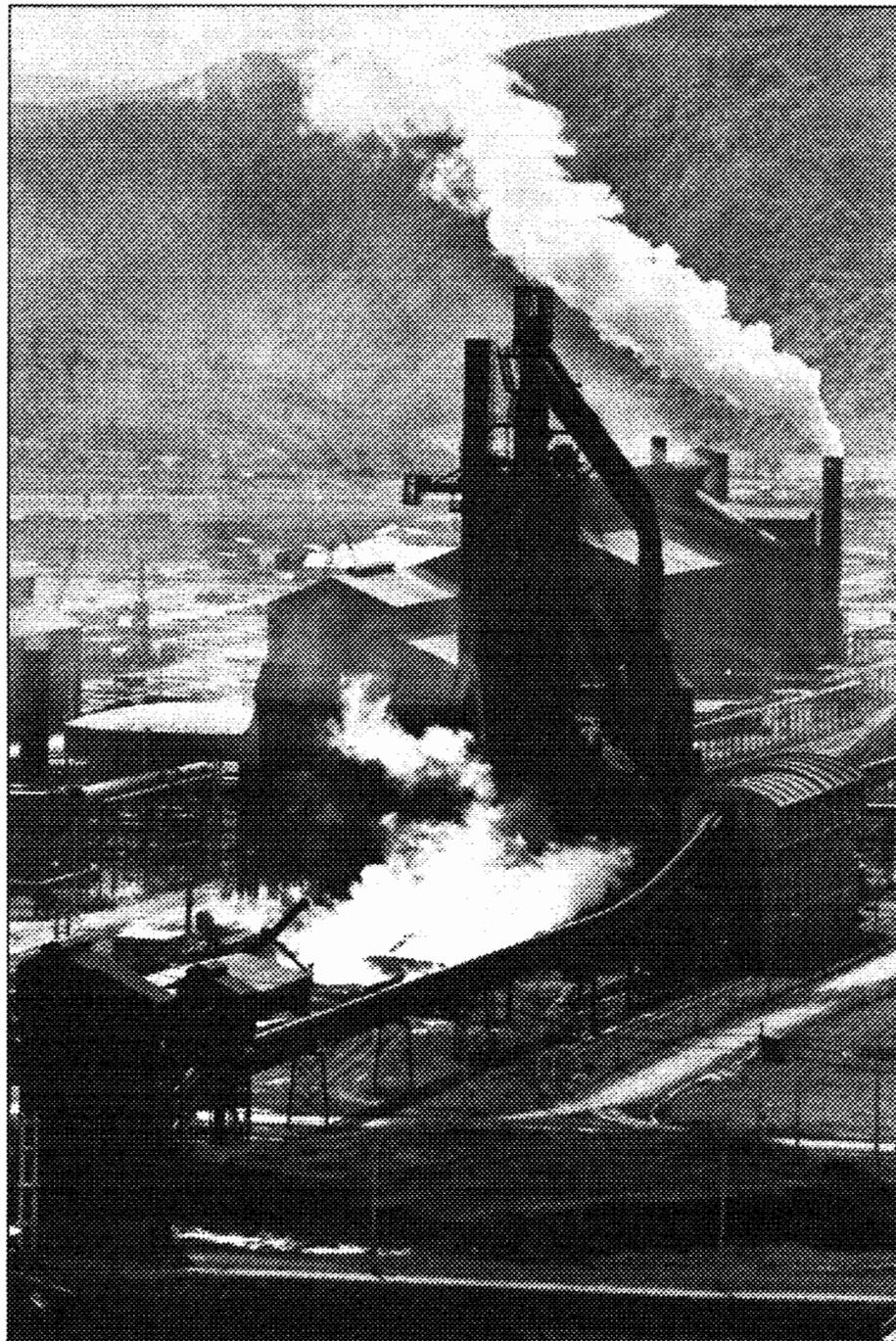
At current and projected growth rates, the world's population would reach 10 billion by 2030, and would approach 30 billion by the end of the 21st century. These levels closely correspond to what the U.S. National Academy of Sciences estimates as the maximum carrying capacity of the entire earth. Already the populations in sub-Saharan Africa and in the Himalayan hills of Asia have exceeded the carrying capacity of the immediate area, triggering an erosion of the land's capacity to support life. The resulting poverty and ill health have further complicated efforts to slow birth rates. Unless this circle of interlinked problems is broken soon, hunger and disease will claim more babies and young children, and more of those surviving will be mentally and physically handicapped by malnutrition.

Indeed, the problems of preserving the carrying capacity of the earth and sustaining the possibility of a decent life for the human beings that inhabit it are enormous and close upon us. Yet there is reason for hope. It must be emphasized that the Global 2000 study's projections are based on the assumption that national policies regarding population stabilization, resource conservation, and environmental protection will remain essentially unchanged through the end of the century. But in fact, policies are beginning to change. In some areas, forests are being replanted after cutting. Some nations are taking steps to reduce soil losses and desertification. Interest in energy conservation is

growing, and large sums are being invested in exploring alternatives to petroleum dependence. The need for family planning is slowly becoming better understood. Water supplies are being improved and waste treatment systems built. High-yield seeds are widely available and seed banks are being expanded. Some wildlands with their genetic resources are being protected. Natural predators

and selective pesticides are being substituted for persistent and destructive pesticides.

Encouraging as these developments are, they are far from adequate to meet the global challenges projected in this study. Vigorous, determined, new initiatives are needed if worsening poverty and human suffering, environmental degradation, and international ten-



Industrial development will help lift nations out of poverty to which other problems are linked.



Policies are beginning to change. High yield seeds, for example, are widely available.

sion and conflicts are to be prevented. The only solutions to the problems of population, resources, and environment are complex and long-term. These problems are inextricably linked to some of the most perplexing and persistent problems in the world—poverty, injustice, and social conflict. New and imaginative ideas—and a willingness to act on them—are essential.

The needed changes go far beyond the capability and responsibility of the United States or any other single nation. An era of unprecedented cooperation and commitment is essential. Yet there are opportunities—and a strong rationale—for the United States to provide leadership

among nations. A thorough assessment of U.S. foreign and domestic policies relating to population, resources, and environment must be a high priority. The United States, possessing the world's largest economy, can expect its policies to have a significant influence on global trends. An equally important priority for the United States is to cooperate generously and justly with other nations—particularly in the areas of trade, investment, and assistance—in seeking solutions to the many problems that extend beyond our national boundaries. There are many opportunities to cooperate with other nations in efforts to relieve poverty and hunger,

stabilize population, and enhance economic and environmental productivity. Further cooperation among nations also is needed to strengthen international mechanisms for protecting and utilizing the "global commons"—the oceans and atmosphere.

To meet the challenges described in this study, the United States must improve its ability to identify emerging problems and assess alternative responses. In using and evaluating the government's present capability for long-term global analysis, the study found serious inconsistencies in the methods and assumptions employed by the various agencies in making their projections. The study itself made a start toward resolving these inadequacies. It represents the government's first attempt to produce an interrelated set of population, resource, and environmental projections, and it has brought forth the most consistent set of global projections yet achieved by U.S. agencies. Nevertheless, the projections still contain serious gaps and contradictions that must be corrected if the Government's analytic capability is to be improved. It must be acknowledged that at present the federal agencies are not always capable of providing projections of the quality needed for long-term policy decisions.

With its limitations and rough approximations, the Global 2000 study may be seen as no more than a reconnaissance of the future; nonetheless its conclusions are reinforced by similar findings of other recent global studies. All these studies are in general agreement on the nature of the problems and on the threats they pose to the future welfare of humankind. The evidence leaves no doubt that the world—including the United States—faces enormous, urgent, and complex problems in the decades ahead. Prompt and vigorous changes in public policy around the world are needed to avoid or minimize these problems before they become unmanageable.

CHANGING THE COURSE:

U.S. efforts can affect the course of events in the areas of concern identified by the Global 2000 study by continuing efforts in population and health—to slow the rate of unchecked population growth; agriculture—to combat world hunger; energy—to increase energy production and conservation in developing nations. These priorities for foreign assistance are reflected by:

- U.S. bilateral programs administered by the Agency for International Development (AID) for agriculture and nutrition have increased from \$474 million in 1977 to \$758 million planned for 1981.
- World Bank lending for agriculture and rural development during the 1977-79 period exceeded \$8 billion.
- U.S. bilateral assistance to increase energy production in developing nations has doubled in the past two years.
- World Bank lending for fossil fuel development in poor countries is projected to reach \$5.6 billion over the next five years.
- Our commitment to the promotion

of international respect for human rights.

- Family planning assistance has already helped Third World nations lower their rate of population growth. With U.S. resources and more efforts by other donor countries and developing nations, we can bring the rate down further.

Since 1965, donor nations have provided about \$2.5 billion in population assistance, more than half of that—\$1.4 billion—came from the United States. Largely as a result of these efforts, more than 25% of the couples of reproductive age in developing countries now practice some form of contraception. Birth rates have declined substantially—so much so that despite a decline in death rates, population growth rates have fallen too. These birth rate declines can accelerate if we expand family planning service, support research and foster the economic development that makes smaller families more attractive to parents.

- With U.S. support, the United Nations Fund for Population Activities has conducted censuses in 28 African countries, and supported some

1,300 projects in over 100 countries.

- With a \$17 million loan from the Inter-American Development Bank, the swampy slums of Guayaquil, Ecuador, were drained and sewage and storm drainage facilities were built for 250,000 inhabitants.

- The commitment of the Indonesian government and AID resources (funds, people, supplies) are the two major factors in Indonesia's dramatic decline in population growth from 2.4% five years ago to 1.9% today. Over 5.5 million Indonesian women—30% of the married women of reproductive age—are using contraceptives.

- The population of low income settlements surrounding Jakarta, Indonesia, has grown from about 500,000 in 1945, to almost 5 million people today, 90% of whom lived without sanitary water or waste systems, until a 1974 World Bank project. With U.S. support, the World Bank provided loans to construct over 20,000 communal toilets and to provide safe drinking water.

- The World Health Assembly has formally celebrated the eradication of smallpox. Over a 13-year period—through AID and the U.S. Public Health Service—the U.S. contributed \$27 million to smallpox eradication. We save the amount every three months by not having to inoculate against smallpox.

- World food production can be dramatically increased: by the mid-80s we could help Thailand export an additional 5 million tons of grain, bring 4 million acres under irrigation in Bangladesh, double cereal production in Peru, and bring a number of African countries to food self-sufficiency. By 2000, we reverse deforestation trends. Development of new and renewable energy sources can cut back the use of wood for fuel and aid conservation efforts in many countries to bring more land into agricultural production.

Progress to Date:

- India, through the "green revolution" and the work of the Interna-



U.S. efforts—in population, health, agriculture and energy conservation and production—can affect the course of events.

tional Rice Research Institute—funded partly by the United States—has built up its agriculture so that the country can now feed its huge population. In fact, India's food production and reserves saw the country through a severe drought last year.

- More than 14,000 kilometers (8,680 miles) of all-weather rural roads will connect farmers in 23 areas in Kenya to potential markets as a result of a U.N. Development Program project. It also will generate 90,000 person-years of employment, since nearly all of the equipment being used is locally-produced and labor-intensive.

- Over the last 30 years, AID has helped Bolivia create a farm credit system. One \$9.2 million loan to provide credit to 200,000 small farmers showed a 40% increase of land planted by participating farmers. Yields of corn, wheat and barley have increased by 30%, 87% and 179%, respectively.

- After Jordan's civil war in the early 1970s, the Jordan valley was desolate. Today 85,000 people live there and with 10% of the country's agricultural land, they produce 65%

of its agricultural output. AID was the major contributor to constructing the main canal that irrigates 85% of Jordan's irrigated land. AID also trained farmers, helped them develop modern credit and marketing systems; helped expand marketing roads and public utilities; and helped build schools.

- Through a 1974 loan provided by the International Development Association, 4,800 dairy cooperatives are being assisted, organized and supported in three states in India. The project, which provides cross-breeding, extension programs, and cooperative dairy plants, will result in an increase of 1.7 million tons of milk, employ some 16,000 farmers, and benefit milk consumers—mostly children—in India.

- Exploration for oil in developing countries could yield 25-75 billion barrels found over the next 10 years, about 4-12% of world proven reserves. Further development of hydroelectric power, coal and renewable sources of energy will also help meet developing countries' needs.

- Like most other developing nations, Nicaragua has suffered from

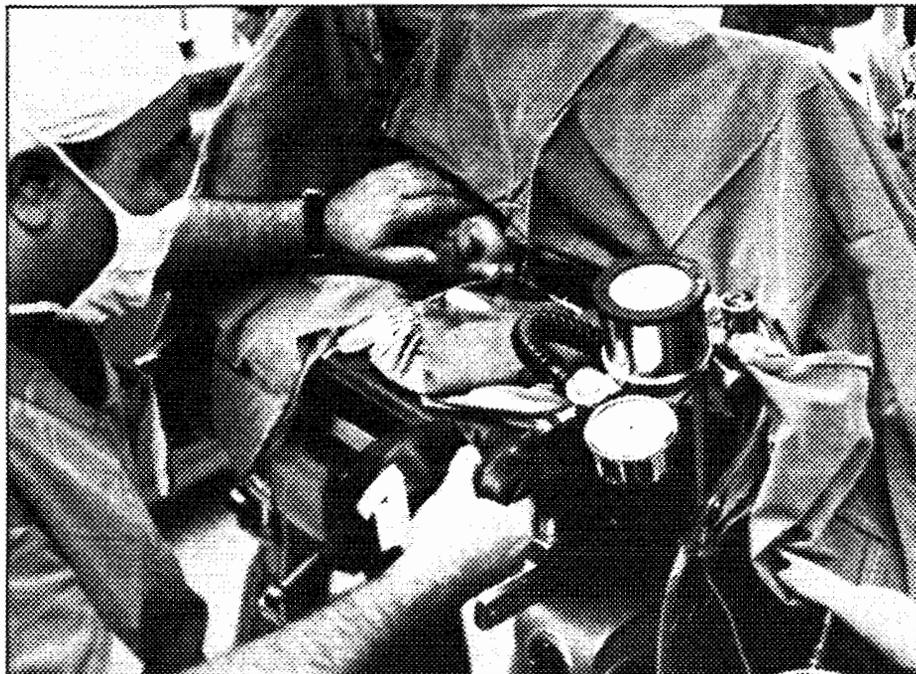
the worldwide increase in the cost of energy. A United Nations Development Program study in Nicaragua's Monotombo fields is leading to the construction of two geothermal energy plants, which together will produce enough electricity to meet almost 20% of Nicaragua's electrical needs, thereby reducing anticipated oil consumption by one million barrels per year.

- Under the Landsat program, AID helps developing countries to procure satellite pictures for national planning of economic development programs, to monitor deforestation, and to locate natural resources.

- Costa Rica's anticipated oil imports will be reduced by an Inter-American Development Bank financed hydroelectric plant on the Lake Arenal watershed. The plant will increase Costa Rica's electricity to thousands of Costa Ricans without an increase in petroleum imports.

- The U.N. Development Program helped drought-prone Mali find drinkable groundwater for 4.5 million villagers. The project provided drilling rigs, trained people, identified water points and sank 2,000 boreholes, equipping them with pumps, some of them solar-powered.

- AID funded an environmental assessment that resulted in secondary wastewater treatment for the Aqaba sewerage program in Jordan, thus protecting tourist beaches and fragile coral reefs in the Gulf of Aqaba. □



Medical staff trained through programs the United States has helped support are now saving lives in developing countries.

Copies of the Global 2000 report are available from the U.S. Government Printing Office, Washington, DC 20402. Stock numbers and prices are:

Vol. 1, The Summary Report (S/N 041-011-00037-8), \$3.50

Vol. 2, The Technical Report (S/N 041-011-00038-6), \$13.

Vol. 3, The Government's Global Model (S/N 041-011-00051-3), \$8.

The report is also available from Pergamon Press, Maxwell House, Fairview Park, Elmsford, NY 10523.

Tropical forests—42% or 1.9 billion hectares of all tropical lands—make up the world's richest ecosystem and are the source of sustenance for millions of people.

Every year, as much as 20 million hectares of this life-supporting system "disappears."

The statistics and their implications for humankind led President Carter two years ago to establish a U.S. Interagency Task Force on Tropical Forests. The result is a 53-page comprehensive report that recommends a U.S. policy, strategy and program. The task force, which included AID members, maintains that U.S. efforts, coordinated with those made by other countries as well as international organizations, could make a difference in what the Earth's surface looks like in 20 years.

The subject of the report on "The World's Tropical Forests" was singled out of the "Global 2000" study as a matter requiring immediate attention. The President has asked federal agencies to detail, by the end of September, their plans to carry out recommendations made by the tropical forests task force.

The urgency surrounding tropical forests is not new to AID. The Agency has long been concerned with forestry management, having incorporated it into such activities as agriculture and watershed projects. As of fiscal 1980, AID has \$17 million worth of forestry and related projects in the works with budget requests from the field reflecting increasing interest. A discussion paper on the subject is ready for distribution to the missions. AID headquarters will consider responses before issuing a formal policy statement, which is expected to form part of the Agency's response to the White House.

In the meantime, to underscore

the importance AID attaches to the issue, an Office for Environment and Natural Resources under the Development Support Bureau has been established.

The direct causes of tropical forest losses are their conversion and use for agriculture, fuelwood gathering and poorly managed commercial logging. Behind these pressures, however, are fundamental problems of increasing

Fading Forests Threaten Life

population, inequalities in land tenure, lack of advancement in agricultural technology and lack of employment opportunities.

The consequences of uncontrolled tropical forest losses include rising prices and wood shortages in tropical countries and a variety of ecological problems. Floods of unprecedented severity, with large life and property losses, are being attributed to the loss of vegetation on upland watersheds. Lakes, reservoirs and irrigation systems are adversely affected by siltation. In the semiarid regions of Africa and Asia, where up to 90% of the population depends on woody vegetation for fuel, fuelwood supplies are receding far from human settlements. Fuelwood prices, time spent collecting wood and the suffering from doing with less are on the rise. With no other substitutes, people are burning dung and crop residues which previously were used to maintain soil fertility. "Desertification," triggered by vegetative cover removal and overgrazing in semiarid

regions, now threatens the productive capacity of the resource base over large areas of the tropics.

Finally, extinction of indigenous plant and animal species is occurring at a rate never before experienced. According to the National Academy of Sciences, one-third of all tropical organisms—nearly a million species—may become extinct by the end of the century as a result of deforestation. A potential problem is climate. If tropical forest losses continue at the current rate, the carbon cycle will be affected in such a way that the Earth's climate may experience extreme changes in the 21st century.

The future of the world's tropical forests will be determined largely by decisions outside the scope of forestry per se, says the task force report. The decisions concern population growth and migration, rural development, food production and national land-use policy. They will need to be made by all nations—developed and developing.

The United States, with less than 1% of the world's total forestry resource, recognizes the role it must play to protect its various interests—humanitarian, political, developmental, environmental, educational, scientific and above all, economic. U.S. economic interests are related to the exports of U.S. products and investments abroad and to the import of tropical wood, food, medicinal plants and related products. The developing countries represent the fastest growing export market for the United States. U.S. earnings from direct investment in the third world in 1978, for example, totaled more than \$16 billion. While the U.S. share of the world's tropical forests is small, the overall U.S. stake in their sustained production is high.

One issue, in my judgment, cuts across all aspects of our foreign policy.

It will decide whether the United States can have an effective, affirmative foreign policy in the years ahead—or be left simply to wring our hands and react to crises.

The issue is this: Are we willing to commit sufficient resources to the defense of our interests and the promotion of our ideals abroad?

The issue was raised by the decision (recently) on Capitol Hill to lop off still more of the funds we budget to help other countries bolster their security, develop their economies, and help their people to survive.

In less than (30) days, Fiscal Year 1980 will be over. We've gone all this time with no aid appropriation for 1980. We've limped along at last year's spending levels. The practical effect has been deep cuts in critical programs and projects.

Now we have a supplemental appropriation bypassing a full appropriations act altogether. It belatedly funds a few of the most urgent activities—but then excludes all the others. This is not a solution. It has simply prolonged much of the problem.

Consider just a few examples of what we are forced to neglect, because of the delay and the deletions I have mentioned:

- There is currently a serious shortage in Export-Import Bank lending authority, a vehicle to promote American trade. That means fewer American jobs and reduced American profits.
- Foreign military credit sales are curtailed, credits that could have been used in areas of the world important to our security. Can anyone look at Soviet activism in the world today and conclude that this is the time to neglect the security needs of our friends?
- The International Military Education and Training Program—a program that increases the professionalism of military officers in developing countries—has been cut

The Price of World Leadership

Foreign assistance is vital to an effective, affirmative foreign policy.

by Secretary of State Edmund S. Muskie

by 25%.

- We are funding international narcotics control efforts at 20% below the amount approved earlier by a conference of the House and Senate. This is not a large program—but it serves our interests by attacking the drug problem that costs the American people billions each year in crime, in lost health, and in ravaged lives.
- We have to absorb serious cuts in AID's programs to promote food production, rural development and nutrition. Projects in the Caribbean, in Kenya, and in Yemen are among those in jeopardy.
- The multilateral programs are especially hard hit. Only 16% of what we owe the World Bank has been approved. Funding for the African Development Bank would drop 40% from the budgeted amount—inviting interpretations that America's concern for this important African institution is waning, and reversing the steady im-

provement in our relations with Africa under President Carter. There is also a serious deficiency in funds for the Asian Development Bank.

When we fall short in our contributions to these banks, development—and people—suffer. Our influence in the banks suffers. Our ability to get others to contribute suffers. Ultimately, our diplomacy suffers.

Our contributions to the banks are not simply invented by the Administration; they are negotiated. The Carter Administration has been scrupulous about consulting the Congress at every stage of these negotiations. When the funds are then cut, developing countries lose help they desperately need—and in the process other contributors, our allies and friends, lose confidence in America's word.

I am not here simply to mourn the fate of a single aid bill, though in these times that would be cause

enough for concern. What concerns me even more is a pattern. There is no lack of rhetoric calling for more American leadership in the world—leadership we must continue to provide. But if we are to continue to lead, then we must be prepared to pay the costs that leadership requires.

If this declining trend in foreign assistance persists, we will contribute to a human tragedy of massive proportions. For we should always keep in mind that these programs work to help people. Let me cite just a few examples:

- Between 1966 and 1972, AID helped design 250 clean water systems in rural villages in Thailand. The program was successful and continued by the Thai government. Now 800 villages are served. As a result, water-borne disease—a major Third World killer—has declined. At the same time, incomes have climbed and village life is more stable.

- In another case, AID started a credit system in Colombia enabling small farmers to take advantage of land reform. In a 15 year span almost 35,000 small farms in Colombia have been financed. AID has sponsored similar programs throughout the Third World.

- An AID program in rural Guatemala has stressed improved teacher training and better school equipment. Through this program, the dropout rate in participating rural schools has been cut by over 30%.

Viewed from a distance, no single project is dramatic. But for the people helped, even small projects are transforming lives. And the cumulative global impact is profound.

Let me emphasize that these programs involve far more than our humanitarian instincts. They bear strongly on our national interests. For the fact is that we have a deep and growing stake in developing countries. We cannot get along without them as trading partners and markets, as sources of essential materials; as necessary partners in



“Viewed from a distance no single project is dramatic. But . . . the cumulative global impact is profound.”

efforts to address pollution and population, the proliferation of nuclear weapons, and countless other issues touching all of our lives.

We want them to progress because we care about people. We also want them to succeed because our own economic health is bound up with theirs.

Our economic support funds—a central element in our security assistance—have been essential to our efforts to help strengthen the economies of such friends as Israel, Egypt and Turkey. These funds also have provided major support for our effort to help bring stability and peaceful change to southern Africa.

There is nothing mysterious about the purpose of our international pro-

grams. It is an approach that makes sense in the world just as it does in our businesses, our families or in any other aspect of our lives. Anticipating a problem and dealing with it is invariably safer and cheaper than waiting for crisis to erupt.

It is in our interest to do all we can now to counter the conditions that are likely to drive people to desperation later. It costs less to invest now in clean water systems than to work later at curing the diseases caused by foul water. It is prudent to help people toward agricultural self-sufficiency, instead of offering later the emergency programs needed to sustain life against drought and famine. We would rather send technicians abroad to help grow crops than send soldiers to fight the wars that can result when people are hungry and susceptible to exploitation by others.

So let there be no mistake. By slashing these international programs, we are not saving money. We are merely postponing and dramatically raising the costs that one day will come due.

These programs are important for another reason. With them, we have an opportunity to influence events in crucial areas of the world. Without them, our power to shape events is drastically diminished.

All of us are concerned—and rightly so—that we not slip into military weakness. We are steadily modernizing our military posture. Yet cutting back our other international programs contributes to another kind of weakness, every bit as dangerous. It cuts back our arsenal of influence.

Our support for liberty in the world—our defense of American and Western interests—cannot be mounted with military weapons alone. The battle for American influence in the world requires more than rockets, certainly more than rhetoric. It requires the resources that make our diplomacy effective.

What are the likely consequences

for America if we lack those resources?

The first consequence is American isolation. We need healthy trading partners. We need access to facilities and resources. We need the support of others in helping achieve peaceful alternatives to regional conflicts. We need political support—whether it be in resisting terrorism in Iran or aggression in Afghanistan.

But we cannot expect the cooperation and support of others on issues of importance to us if we are unprepared to offer concrete support on matters of importance to them—particularly their own economic development and social progress.

Isolation would be only one consequence. Declining American aid and declining American influence would also help the Soviets exploit internal instability—in Nicaragua, in El Salvador, and in many other places where the Soviets are prepared to exploit tensions to expand their power and to limit Western influence.

Nothing that I know of the American people suggests to me that they want to give the Soviets this kind of free ride. I believe the American people want their nation to resist Soviet expansionism—not only militarily, but by helping other nations defend their freedom and feed their people. I believe the American people want their nation to be actively involved in the world.

Finally, the decline of American aid and influence would hamper our efforts to settle dangerous disputes and build peaceful, democratic solutions.

Let me give you an example.

Over the past three years, many in the Congress fought bitterly against President Carter's Rhodesian policy.

President Carter, courageously—and almost alone—insisted that the United States actively support Britain's effort to bring a democratically-elected government to Rhodesia.

Fortunately President Carter pre-



"We would rather send technicians abroad to help grow crops than send soldiers to fight . . . wars."

vailed against bitter opposition. In fact, his refusal to compromise prematurely on Rhodesia helped bring to an end a bloody civil war in that country. The result has been good for the people of Zimbabwe and bad for the Soviets, who sought to exploit turmoil there.

Consider another case. We have been trying for a year and more to strengthen the center in Nicaragua; to help moderates there resist extremist solutions.

Every time we tried to appropriate the funds necessary to support our efforts in Nicaragua, the effort was defeated. Finally, Congress has acted to make possible \$75 million needed to fulfill our commitment, after months of delay.

And in the delay, we suffered a loss of credibility that spilled over not only Nicaraguan borders, but into other countries in Central America. The willingness of the United States to work for democracy was called into question throughout the region.

The point is this: those most concerned about Soviet and Cuban activism in the world should be the strongest supporters of our efforts to support the moderate transition from repressive tyranny to democratic development. For by failing to support the alternatives to radicalism, we help radicalism to breed.

This continuing assault on foreign assistance is not only shortsighted; it is dangerous to American interests. For it threatens the capacity of the United States to play a positive role in the world, to compete effectively with the Soviets, to encourage emerging—and threatened—democracies. It threatens to strip America of all its instruments except the instruments of destruction.

I believe that the American people, if they have the facts, will understand what is at stake. I believe they will understand that a generous investment in security assistance and economic development abroad is necessary.

I am not new to this issue. Twenty-two years ago I made my support for international assistance a centerpiece of my first Senate campaign. And I am fully prepared to press the message until it gets through.

I think it is time for a healthy national debate on this subject—and I invite you, as citizens vitally concerned with America's role in the world, to contribute to that debate.

The price of silence could be growing isolation—and even irrelevance—for America. That is a price no American should want us to pay. □

This has been adapted from an address by Secretary of State Edmund S. Muskie before the Foreign Policy Association in New York City, July 7.

WILL THE DIRIGIBLE RISE AGAIN?

Some called him mad, others obsessed. But when in 1900 Germany's Count Ferdinand von Zeppelin launched a ship that was lighter than air and could sail the sky, many called him genius. The count's airship, the Zeppelin—and the dirigible like it—eventually fell victim to accidents, shortages of helium (the only safe lifting gas) and unbeatable competition from the "aero-plane." Except for an occasional appearance to promote a product or cause, the majestic airship drifted into oblivion.

Or did it?

The dirigible appears to be making a comeback. Interest, especially among developing countries, is on the rise, partly in response to soaring fuel prices.

Airships are too large and expensive to be used unless they would be superior to other forms of transportation, at least for certain purposes. The knowledge and skills needed to build and operate them still exist; but they have not been kept in practice. Even a small blimp with a two ton payload capacity would cost over a million dollars; airships with a 100-200 ton capacity might be \$25-50 million. Probable operating costs, although difficult to predict, would surely be more than that for trucks or buses, railways or ships. Hydrogen and helium still are the only efficient lifting gases. Yet helium is a limited resource, and therefore, expensive. Hydrogen is flammable; a safe system would have to be devised for its use.

Then where is the advantage? The most striking is that airships do not require roads or railroads to be built and maintained; unlike airplanes, they can land and take off from any small cleared area (with a launching tower).

Basically, an airship, also called a dirigible, blimp or Zeppelin, depending on its structure, is held in the air by a lighter-than-air gas (hydrogen or helium) and moved forward by an engine. There are two major types: rigid and non-rigid. A typical non-rigid airship (the Goodyear Blimp, for example) is made of a soft envelope, usually fabric.

The rigid airship (the Zeppelin) usually has an aluminum rib-and-girder frame. The rigid airship was developed primarily by the Zeppelin Co. of Germany. The culmination of

the Zeppelin development was the Graf Zeppelin and the Hindenburg.

Both types evolved into a common shape—the familiar "cigar" with circular cross sections and nearly elliptical profile.

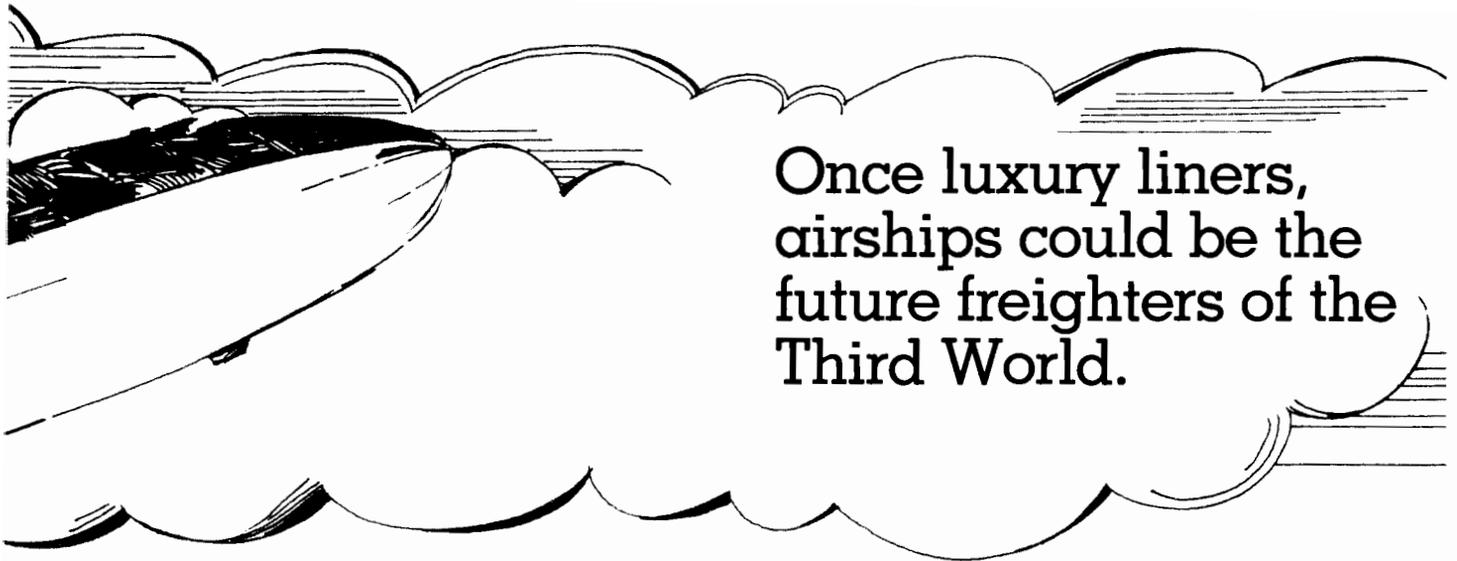
Technological advances since the 30s have made the airship both safer and more viable economically.

While the airship today still may not be cost-competitive with jet aircraft, particularly for passenger transportation, it might do very well where surface routes would be unusually expensive or circuitous or where the market is too small to spread costs of conventional transport.

What, for example, would be the comparative cost for using an airship to move copper from the Katanga in Zaire to an Angolan Atlantic port, Lobito, and the return of general cargo to Katanga—a round trip of about 2,220 miles.

Based on a 1971 study of a French consulting firm, the cost of using an airship would be \$73.60 per ton. In contrast, consider the existing transportation route. The route is made up of three parts: the Kinshasa-Dilolo-Lumembashi Railroad from the copper areas of the Katanga to Port Francqui (895 miles); a river barge portion from Port Francqui to the Port of Kinshasa (500 miles); and a further railroad, the Chemin de Fer de Matadi Kinshasa (250 miles) from Kinshasa to Matadi, the port on the Congo River with access to the Atlantic. A comparison showed that a very slight difference between the costs (less infrastructure costs) between conventional transportation (\$71.60 per ton) and the total costs (including construction costs) of the airship (\$73.60 per ton). The airship could just break even with conventional modes if it could be built for \$25.5 million instead of the \$26.6 million first calculated. But including a reasonable allowance for infrastructure investment would give the airship a striking cost advantage. The cost per ton for the trip by rail (on a full cost basis) would then be about \$20-\$25 higher.

There are other examples of sizable mineral deposits in areas far less connected to markets than Katanga. For instance, a rich deposit of nickel lies near the surface near



Once luxury liners, airships could be the future freighters of the Third World.

Rustava in central Burundi. It could produce 30-50,000 tons a year. Connecting roads may cost some \$45-50 million; a rail connection would cost perhaps \$300 million. In such situations the case for airships becomes even stronger.

Similarly, the airship could be pressed into service in Latin America, where climate and terrain make land travel difficult. Peru, for instance, is now a large importer of food, over \$230 million a year, in spite of having large, unused arable land. In Peru, east of the Andes, a region stretches from the mountainside to the Amazon Valley. A zone with similar geographic characteristic reaches into Ecuador and Colombia to the north and into Bolivia to the south. The altitude varies from 5,000 feet in the mountains to 2,300 feet in the east and goes on into uncharted territory, forests, and eventually tropical jungles and the head waters of the Amazon. The valleys are sparsely populated. These areas could support many more people if better transportation and communications were provided and if agricultural production improved.

In these regions, roads are costly to build and hard to maintain—and may be impassable many times of the year. Vehicles deteriorate quickly and need constant maintenance. The high freight rates reflect the condition and type of road, the topography, and the irregularity of loads. Transportation presents a particular problem for agricultural products because the arable land lies primarily in small valleys separated by rough gorges and ravines. A valley can therefore remain isolated economically, even when it is quite near a road “as the crow flies.” Building access roads is prohibitive in cost—over \$400,000 a mile. Although distances are relatively short, linking all the main valleys cannot be justified until and unless the country reaches a high level of development. The cost for operating regular airplane routes would also be too high.

The situation is this: The produce of the regions stays where it grows—it has no way to get to market. So production remains limited. The country is faced with questions such as (a) to develop or not to develop the zone; (b) to start the agriculture projects almost immediately or several years from

now when there is a surface communication network in place; (c) to risk heavy investment to develop surface transport before the development of the region is proved; or to postpone the projects until production is flourishing.

It seems clear that where there is no road system and where the economic risk of investing in those roads is quite high, that the investment in airships is far and away the most conservative approach to linking this isolated area to the market.

There is another point of view, however. If an undeveloped area is to be opened, a road ought to be built so that settlements can grow up along or near it. Even though airship transportation may be cheaper, faster and easier to get started, the development stimulus from a road will be greater in the long run than that from airship use.

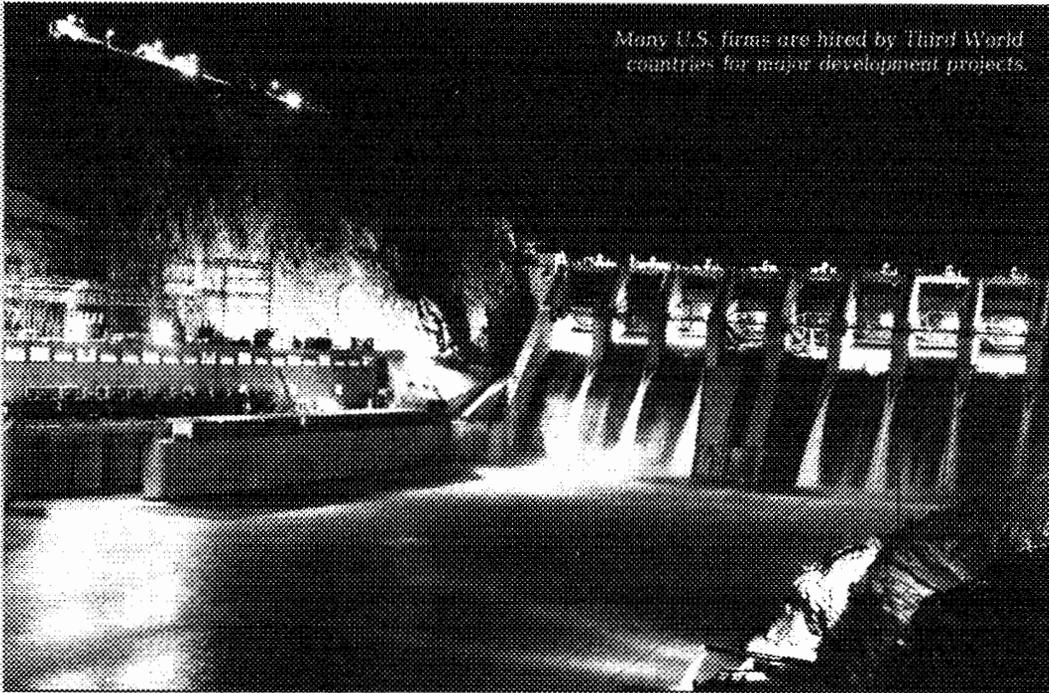
Perhaps the best reply is that both forms of transportation may be seen as complementary.

Airships can focus on exploratory stages of growth, on areas where road building is too expensive, where resources are not expected to last indefinitely (mines and oil wells, for example), where industries (such as forestry) demand shifting locations, where various uncertainties about soil or weather prevail—in short, where conditions may not justify road or rail investment. While airship service is under way, feeder roads to airship terminals would grow up with settlement; low quality connecting roads may in time appear. Eventually all-weather roads for heavy trucks may become justified. But by the time this occurs, if it does, the airship could have made its contribution. A way-out idea? Maybe not.

This has been adapted from articles by Gordon Donald, Mark D. Ardema, and George J. Beier and Gerardo Cahn Hidalgo in “Development Digest.” Gordon Donald is editor of “Development Digest;” Mark D. Ardema is with the Ames Research Center, NASA; George J. Beier is an economist with the World Bank; and Gerardo Cahn Hidalgo is an engineer and economist with GEAR, S.A. of Lima, Peru and Washington, DC.

Investing in Development

by Kay Chernush



Many U.S. firms are hired by Third World countries for major development projects.

**AID's Trade
and Development
Program gives
a healthy return
on the U.S. foreign
aid dollar.**

Over the past five years, TDP has seen a modest investment of seed money increase more than 300 times. Every dollar spent has generated \$345 worth of business. At an average of \$1.16 million a year, that adds up to what might still be called "real money"—roughly \$2 billion.

A hot new company for the '80s? Not exactly. Although this is the kind of "turnover ratio" investment counselors love, none of them will tell you about TDP. Nor will you find it listed on the New York Stock Exchange or Fortune's 500. The fact is, TDP is the newest component of the International Development Cooperation Agency and adds up to a unique part of the U.S. foreign aid program.

TDP stands for Trade and Development Program, and it is helping provide technology to more than 40 Third World nations that can pay for or finance some or all of their development needs. At the same time, it is promoting the sale of U.S. goods and services overseas.

Though not widely known in the business community, TDP—which carries on the work of its predecessor, AID's Reimbursable Development Program—has the support of the U.S. Chamber of Commerce, the Associated General Contractors of America, the National Constructors Association, and the American Consulting Engineers Council, among others. All would like to see the program strengthened and funding for it increased.

"TDP is impressive as a practical initiative with measurable results in terms of overseas business already generated. It has great potential for generating future business," says John C. Richards of Pullman Inc. and a member of the Chamber's Export Policy Task Force.

Chamber of Commerce Vice President Hilton Davis believes TDP's cost-benefit ratio "is without equal and of special significance in light of the trade deficit and declining employment in manufacturing."

Operating as the Reimbursable Development Program since 1975

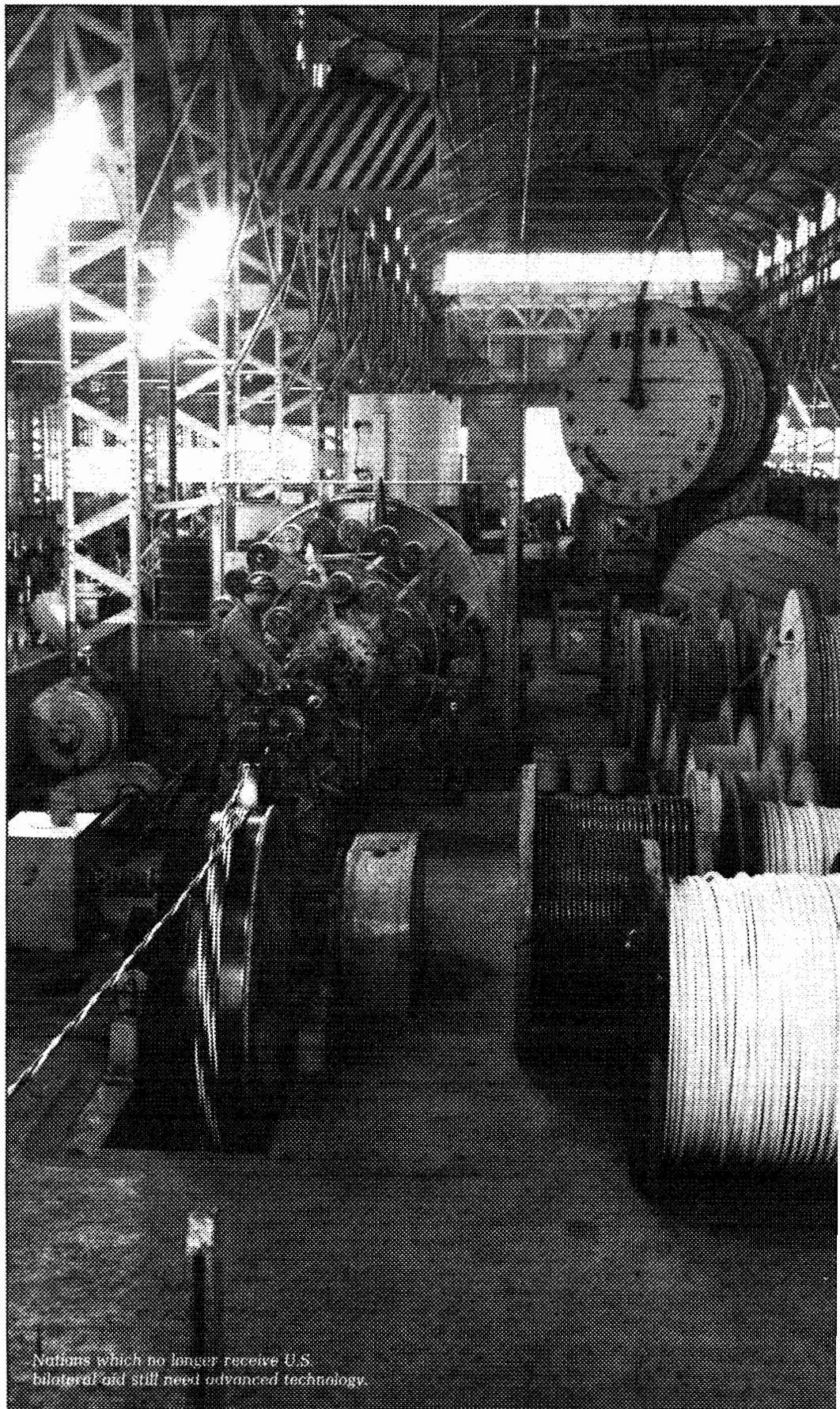
under the auspices of the Agency for International Development, TDP was established as an autonomous unit within IDCA in July 1980. According to IDCA director Thomas Erlich, the changeover "reflects the administration's conviction that trade and economic development are of mutual importance to the United States and developing countries." He reports that other industrial countries such as Japan, Germany and France are accelerating similar efforts to win major development contracts.

TDP financing of pre-project services allows American firms to compete more effectively for follow-on business—usually with Third World governments but sometimes private entities. Among them are foreign assistance "graduates" such as Korea, Nigeria and Brazil, which no longer qualify for bilateral assistance but which still need advanced technology for their own development. Others include Venezuela, Argentina, Mexico, Gabon, Qatar and Bahrain. The largest program is in Saudi Arabia.

To a limited extent, TDP also is active in some of the lower income countries where the nature of a particular project and the source of financing meet TDP's dual objectives of fostering development and promoting U.S. export potential. For example, TDP is sponsoring an assessment of U.S. agro-industry potential in Colombia as a component of a proposed \$300 million integrated rural development plan.

In Peru, TDP underwrote an engineering study for the modernization of four ports, a project which is expected to be carried out by U.S. engineering and port equipment companies and which will improve U.S. access to mineral resources.

Through TDP, technical services are provided in virtually every area of development that host governments deem important. Unlike other assistance programs, TDP activities are not limited to the "New Directions" criteria of meeting basic



Nations which no longer receive U.S. bilateral aid still need advanced technology.



"TDP is impressive as a practical initiative. . . . It has great potential for generating future business."

—John C. Richards
Pullman Inc.

Exporting manufactured goods has contributed to economic growth in developing countries. Added earnings allows countries to pay for their own development projects.



human needs. They cover a wide spectrum, including industrial, mineral and infrastructure development, agribusiness, transportation and communications, energy development, conservation, economic planning, public administration and technical training.

Of special interest in the Middle East is the use of high technology of various kinds. The United States still has a considerable competitive edge in areas such as satellite technology, computers, data processing and

transmission—all of which can be vitally important in improving management systems that are crucial to accelerated development.

Not all projects involve hardware, however. Nigeria's interest was in developing its human resources and through TDP, it is sending 2,500 students to the United States for the technical and vocational know-how that is crucial to its transition to self-reliance and industrialization. The Nigerian government picks up the tab.

Until recently, TDP was involved almost exclusively with promoting reimbursable programs of U.S. government agencies such as the Army Corps of Engineers, the U.S. Geological Survey and the Federal Highway Administration. Now, however, it is actively promoting the involvement of the U.S. private sector as well.

TDP's most important function in this regard is funding feasibility studies carried out by both public and private sector concerns. For in complex, multi-phase development projects, it is the initial feasibility study that invariably establishes the design standards as well as the technical and material parameters for nearly everything that is to follow.

According to David A. Raymond, acting director of TDP, case after case shows that countries that participate at the earliest stages of project formulation have the inside track in securing contracts for project implementation. What is to be the scope of the project? What are the costs? Where will the financing come from? What economic and social benefits can be expected? What procedure would be most efficient in implementing it? In operating or maintaining it? What kind of equipment should be used? How much and with what specifications? How must it be maintained? These are only a few of the questions that a feasibility study must answer. For this reason, it is generally considered the key to follow-on business.

Pearce Godley of Raymond International Builders, Inc., a construction firm with projects in 25 countries, explains the process: "If standard U.S. technological applications are specified in the feasibility study," he observes, "the design and construction can be carried out more efficiently by a U.S. contractor familiar with the applications." There is a high degree of compatibility between the conceptual framework and the engineering design.

This is borne out by numerous examples. In one instance a few years ago, an American contractor carried out a \$2 million feasibility study (not under TDP) on hydrocarbon gas and liquid recovery in North Africa. The result was a substantial amount of business for U.S. engineers and suppliers. Not only were two pipeline systems valued at \$75 million and \$300 million financed by the U.S. Export-Import Bank, but a \$900 million contract for a gas-gathering system was awarded to another American contractor.

Though the "seed money" provided by TDP is on a far more modest scale—most grants have been in the tens of thousands, not millions—the principle is the same and the results equally promising. In Thailand, for example, TDP provided \$225,000 for initial studies on a proposed natural gas pipeline system. As a result, \$20 million in contracts for design and construction supervision were awarded to one U.S. firm. In addition, another U.S. firm recently won a \$77 million contract for laying the pipeline.

TDP's budget is small in comparison with that of Japan, Germany, France and others to promote exports in the development area. Experts estimate, for example, that in 1979 alone, Japan provided at least \$56 million in grants for development-related feasibility studies leading to Japanese export opportunities. TDP, from 1975 through 1979, has spent only \$5.8 million, including its operating expenses.

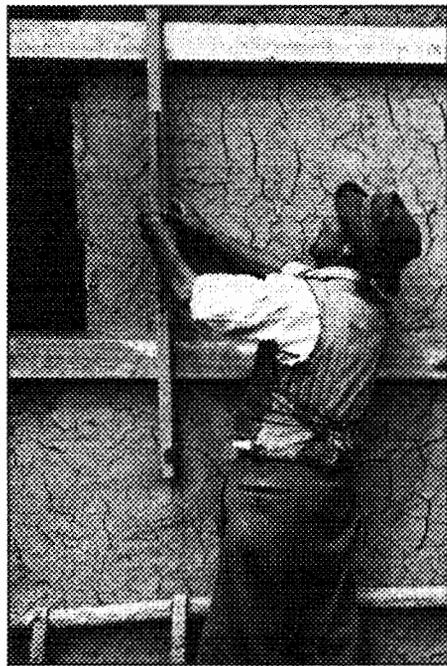
Not surprisingly, this is a point that disturbs many American business people, who contend that U.S. firms are at a considerable disadvantage against major foreign competitors who are subsidized and otherwise helped.

"In competition for major construction projects, a contractor's relative ability to perform the work is no longer the determining factor in his overall chances of success," Godley told a congressional committee earlier this year. "There is

TDP's cost-benefit ratio is "of special significance in light of the trade deficit and declining employment. . . ."

—Hilton Davis
U.S. Chamber of
Commerce

With projects in such areas as housing comes the need to buy imported materials from the United States, among others.



evidence that the competition for major projects overseas is now being carried out between governments (of industrialized countries) and the contractor as part of a government-backed package that includes project finance, political risk insurance, grant funding for feasibility studies and more."

Whatever the cause, statistics on declining U.S. exports and a persistent trade deficit tend to bear him out. In the Middle East, for example, U.S. contractors won only 1.6% of

\$21.8 billion worth of contracts let during the 13 months ending in June 1979. According to many economists and business analysts, this is not an isolated trend. Many see the need for more incentives on the export front. TDP could point the way for the '80s. □

Kay Chernush is a freelance photographer-writer in the Washington, DC area. She formerly was on the staff of AID's Office of Public Affairs.

Unemployment and inflation in the United States continue to rise. So does anxiety among U.S. workers and businesses. More and more companies show signs of crumbling, often because they can no longer compete in the world market. The textile, tire and auto industries cut back production or close down entire factories largely because their customers appear to prefer imports. Consequently, workers and industries apply pressure for tougher tariffs and trade quotas.

But what business and union leaders are only beginning to recognize is that they may have more to lose in the long run if U.S. trade barriers are strengthened. Many international economic experts believe that an open trade policy with a comprehensive trade adjustment assistance program may be the most beneficial course—for U.S. workers and businesses and for Third World economies.

In the past 10 years, Third World nations have dramatically increased their exports of manufactured

goods—and the income from those exports has helped to pay for imports they need. From 1970 to 1978, goods produced in developing countries and shipped to industrialized nations, including the United States, grew from \$6.5 billion to \$239 billion. Exports account for nearly 80% of the total foreign exchange earnings in developing countries and for about 3% of all manufactured goods actually bought by American consumers.

As developing countries' per capita income increases, their demand for manufactured imports also increases. Countries that have become "middle income," such as Taiwan, South Korea and Mexico, also have become important trade partners with the United States. In 1979, the United States exported \$63 billion worth of goods to the developing nations—35% of all U.S. exports. This exceeds exports to Europe, Japan and the Soviet Union combined.

International trade not only allows countries to acquire material they need, but also encourages

The foreign assistance program can help Americans off-the-job because of foreign imports.



greater efficiency by competition, specialization, and the economies of scale (the greater the production, the lower the unit cost).

Manufactured imports do present a threat to domestic U.S. industries. If imports greatly undersell domestic products, domestic industries may fail and jobs end. Endangered industries and workers then can only encourage the government to (1) increase tariff and trade barriers, thereby preserving the status quo by making the domestic products competitive with the imports, or (2) pursue a comprehensive trade and adjustment policy that promises balanced growth of the national and world economy.

Increased protection presents the more politically expedient course, but not necessarily the wisest. If we raise tariffs and establish import quotas, one unhappy result might be retaliation by other countries in the form of similar trade restrictions, thus shrinking U.S. export markets. Currently the sale of U.S. goods and services abroad accounts for 10% of the U.S. gross national product. The

loss of those markets undoubtedly would force domestic production levels down, creating more job losses. One out of eight manufacturing jobs depends on exports.

Moreover, the U.S. consumer, especially in the low- to middle-income brackets, benefits from imports from developing countries. According to a recent Overseas Development Council (ODC) report, imports from the Third World consist mainly of consumer goods in the lower price ranges—shoes, clothing, and small appliances. These products, generally purchased by lower income families, help lessen the impact of inflation. The ODC report cites a survey of actual U.S. retail sales showing that imports from developing countries cost 16% less than U.S. products of the same quality. How much more do U.S. goods cost? Sugar \$660 million more than for imported, television sets \$55 million more, footwear \$1,200 million more, according to the ODC.

Lower prices, greater markets, and wider job opportunities all make an open trade policy attractive. But

there is inevitable damage to the electronic, textile and leather industries, among others, and, according to the ODC reports, workers hurt by foreign imports generally are poorer, less educated, less skilled and older. Taking the adverse effects into account, the U.S. open trade policy incorporates benefits for people and businesses adversely affected by imports. Workers are provided other jobs, basic education, job training, and income maintenance during the transition period, all through the government-funded Trade Adjustment Assistance (TAA) program.

The first such program, established by the Trade Expansion Act of 1962, tried to win labor's support for the Kennedy Round of trade cuts. But strict eligibility standards and procedures limited that program's success. In fact, no benefits were awarded until 1967, when the standards were relaxed to include more industries. Further expansion took place under the Trade Act of 1974, the current authorizing legislation. Under the original program, recip-



TRADE ADJUSTMENT:

Aid to U.S. Workers

by James Bednar

ients were workers who had "pre-maturely" lost their jobs. In 1974, reforms were made to allow the program to help workers on short-term layoffs.

The benefits include 70% of a worker's previous gross weekly wage up to the national average weekly wage in manufacturing (currently \$269 a week), training and relocating funds. Benefits can be collected for up to 18 months, depending on the recipient's age and whether or not he or she needs retraining.

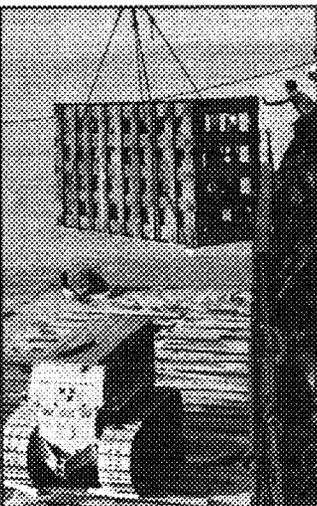
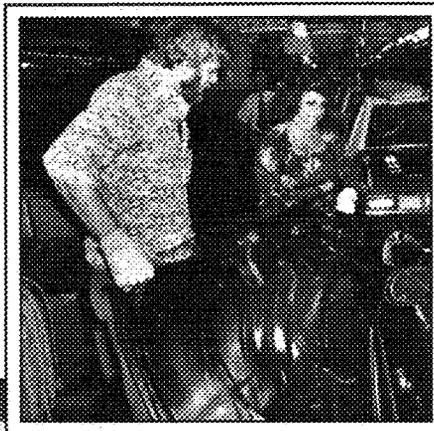
The program can work. In September 1977, the Zenith Radio Corp. moved much of its production overseas, laying off 5,600 workers across the United States. *Forbes* magazine recently surveyed some of the former Zenith workers in the Chicago area: Of the workers contacted 70% are working again, nearly twice as many in service industries as in manufacturing. *Forbes* found a significant number of cases

in which TAA retraining improved lives. One Zenith tester, for example, who had earned \$5.50 an hour in 1977, has become a Chicago bus driver earning \$11 an hour.

In the first full year of the TAA program, almost 47,000 workers—in such industries as electronics, textiles and shoemaking—received benefits totaling \$69.9 million. By fiscal year 1979 as TAA became better known and imports increased, 150,000 workers received TAA support amounting to \$265 million. With the decline in U.S. economic growth, nearly 600,000 American workers

are now eligible for TAA, according to the U.S. Labor Department. Congress recently appropriated an additional \$1.1 billion for this year and \$400 million to be added to fiscal 1981's TAA benefits.

But the program is not without problems. TAA benefits were designed to help workers adjust to foreign competition by retraining or relocating them. However, a General Accounting Office (GAO) study of the overall TAA program found that few workers receiving the monetary benefits take advantage of the government-funded training or relocating—less than 4% and 1% respectively. The *Forbes* survey at Zenith found that none of the Zenith workers thought about leaving Chicago for jobs elsewhere. According to the *Washington Post*, of the 40,000 Chrysler workers recently laid off in Michigan, Missouri and Ohio, only 960 applied for 700 positions open in Chrysler's Delaware plant, though Chrysler agreed to pay moving ex-



The Philippines imports American made minding equipment.



Chilean factories produce about 650,000 pounds of fish meal monthly, primarily for export.

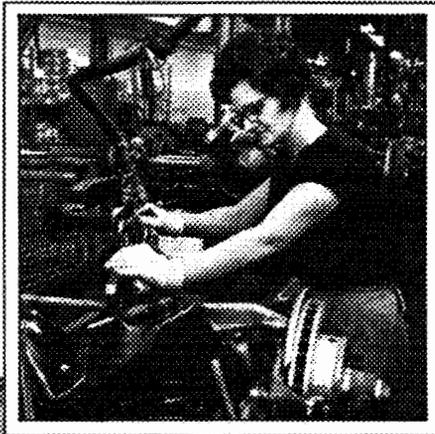
With low labor costs Third World nations can excel in such areas as textile manufacturing.

penes. The main reason seems to be that the workers hope to return to their original jobs. And at least for the present, they often can. In interviewing some who had received TAA benefits for a year, GAO found 6% retired, 18% working in new jobs, 67% back at their old jobs, 4% waiting to be called back to their old jobs, and 5% unemployed without hope of returning to their old jobs.

GAO suggests that the generous unemployment benefits make workers more interested in waiting for their old jobs than in finding new ones. TAA benefits, added to regular unemployment insurance, are generally tax-free. When supplemental unemployment benefits under union contracts are added, the total jobless pay rises to as much as 150% better than wages. However as competition increases, the same companies now re-hiring their laid-off workers may find it much more difficult to do so in the future.

Nevertheless, despite some dif-

ficulties in application, the TAA idea is catching on. In fact, some industries have started their own adjustment programs. The tire industry, for example, has recently found it financially beneficial to give job assistance. Goodyear Tire and Rubber Co. has started a \$300,000 pilot program. Of the 2,000 workers Goodyear laid off in February, about 35% now have new jobs. The savings Goodyear realized by not having to pay unemployment benefits (employees are entitled to up to \$290 a week for one year) have more than paid for the program.



There appears to be little doubt that the benefits represented in jobs and lower consumer prices outweigh the costs of a trade adjustment policy. Or that the benefits will increase if the developed countries move out of low-technology industries, in which they can't compete, into high-technology areas where they can excel.

With low-cost labor readily available, Third World countries, now setting up industrial sectors, will have little difficulty out-producing labor-intensive industries in the United States. Now, say many international economists, the United States must recognize not only that it has an important stake in trade with developing countries, but also that future economic growth here and abroad will depend on making positive adjustments to a changing world economy. □

James Bednar is on the staff of AID's Office of Public Affairs.



Baltimore longshoremen load part of a \$2.4 million shipment of port rehabilitation equipment bound for a developing country.

Taiwan, once a U.S. aid recipient, is now a major trade partner

Middle-Income Countries: Who Are They?

They are nations in transition, and they are important to the U.S.

by Keith E. Jay

The so-called "middle-income countries" have generated both interest and concern in recent years—the interest because of their economic potential and political importance, the concern because of the size of their economic problems. These countries are especially important to the United States economically and politically. They are a major market for U.S. exports, importing more than \$33 billion of U.S. products in 1978. They are a major supplier of U.S. imports—selling us \$34 billion worth of goods in 1978. Over 70% of U.S. direct foreign investment and private bank lending in the developing countries today is in the middle-income countries.

Which countries are middle-income countries?

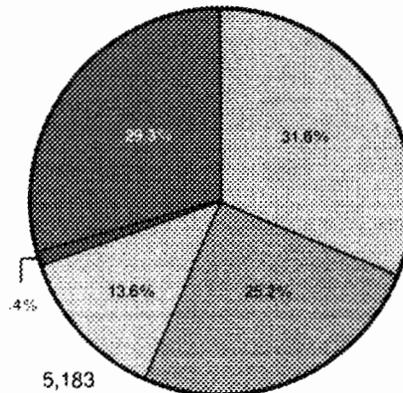
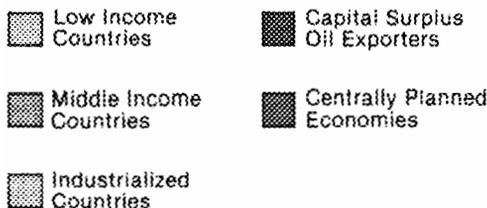
Surprisingly, despite extensive discussion in international forums and the press, there is no widely accepted definition. This stems in part from the recognition that many variables affect a country's development prospects; that what constitutes a middle-income country may vary with the specific issue being addressed; and that being cast into a middle income category could exclude some developing countries from potential assistance.

Nevertheless, there is a general perception of who typically would qualify as middle-income: Brazil, Chile, Colombia, Jamaica, Korea, Malaysia, Mexico, Panama and Turkey, for example. In recent years the United States has used the eligibility criterion for lending from the International Development Association (IDA), the World Bank's concessional lending affiliate, to distinguish between low-income and middle-income developing countries. The current IDA criterion is a per capita income of \$680 (in 1979). This has been used in at least three pieces of U.S. legislation: (a) to differentiate between softer and harder terms for AID development loans; (b) to allocate food assistance under PL 480 Title I; and (c) to define countries where the Overseas Pri-



Population 1990

(Millions)



vate Investment Corp. (OPIC) would place its emphasis.

As a general rule, the middle-income countries share a set of characteristics that separate them from the low-income developing countries. The human and physical infrastructure of middle-income countries is far more developed; this is reflected not only in their higher literacy rates and longer life expectancy but also in their much larger industrial capacity, higher energy usage and more developed transportation and communications systems. Similarly, as these countries have developed, they have become more industrial and urban than the low-income countries.

For most of the middle-income countries, international trade has become a larger component of their total economy than for the low-income countries, and it is by far the most important source of critical foreign exchange. Their exports have been expanding an average of over 6% a year in real terms during the last decade, compared with less than 3% for the low-income countries. A central element in their export expansion has been the dramatic growth in manufactured goods, which are fast approaching 40% of total merchandise exports. This growth in exports, and particularly manufactured exports, also means that the international trade policy that the developed countries follow, as well as their economic performance can have very direct and significant impact on trade and growth in developing countries.

The level of both domestic savings and domestic investment within middle-income countries is significantly higher, just as overall economic growth has been over the last decade. Real per capita income in middle-income countries has grown over 3.5% a year since 1970, compared to less than 2% for the low-income countries.

Because of their more advanced economic structure and stronger economic performance, middle-

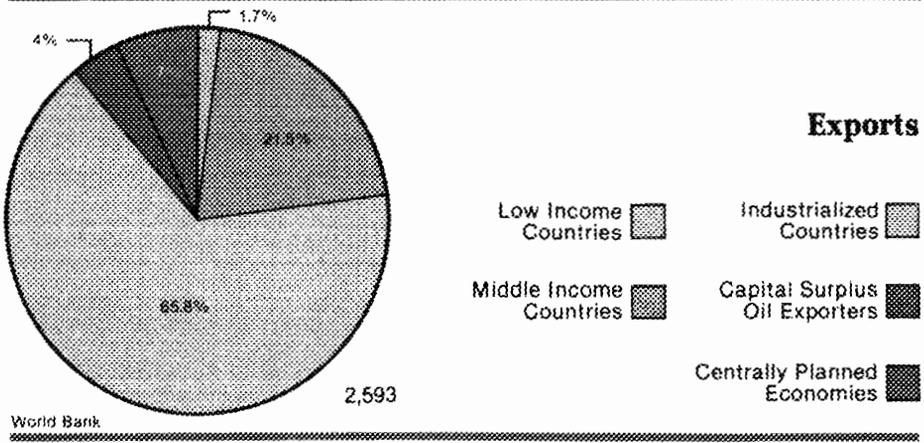
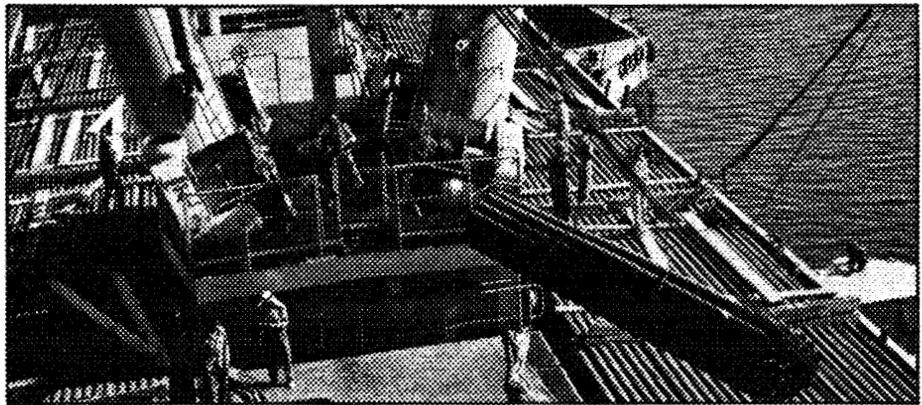
income countries are better able to obtain and service non-concessional external capital flows in support of their development. Thus they are far less dependent on concessional external flows, with concessional flows representing less than 20% of their total capital inflows in recent years. This contrasts with 70% for low-income countries.

This is the major reason that most donors, including the United States, focus concessional assistance on the low-income countries, relying on non-concessional windows of the multilateral development banks, the private international capital market and the IMF to provide the bulk of the needed external financial flows to middle-income countries.

But while middle-income countries have shown strong economic performance in recent years, their increased involvement in the international economy has also created adjustment problems as the economic environment has changed. Following the 1973-74 oil price increase and

the accompanying recession in the developed countries, the middle-income countries faced dramatically higher balance-of-payments deficits. Given their general capacity to service non-concessional flows, their relatively low levels of external debt, relatively low private bank exposure in the developing world and high levels of international bank liquidity, the middle-income countries were able to borrow heavily on the private international markets during 1974-76 to finance their deficits and avoid major disruption in their development. The result of this extensive borrowing was a dramatic rise in the external debt of these countries from \$46 billion in 1973 to \$143 billion in 1978.

In addition, the multilateral financial institutions, particularly the International Monetary Fund (IMF) and the International Bank of Reconstruction and Development (IBRD), greatly expanded the level of official capital flows available to the middle-income countries. The IMF, for ex-



ample, established the Extended Fund Facility and liberalized the Compensatory Financing Facility while yearly IBRD lending to these countries between 1973 and 1978 increased from \$1.3 billion to \$3.7 billion.

By 1978, balance of payments deficits for developing countries had declined considerably, reflecting their adjustment to new oil prices, and renewed economic growth in industrialized countries. However, the 1979-80 oil price increases again have produced a dramatic deterioration in the financial position of the middle-income countries. Current projections place the 1980 LDC balance-of-payments deficit at over \$60 billion, with the middle-income countries accounting for the bulk of it.

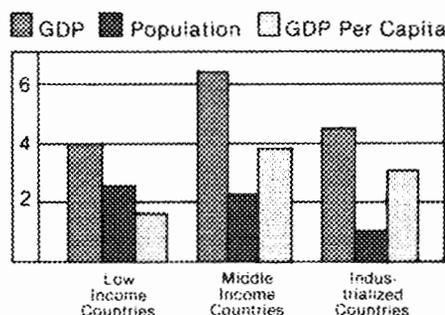
As in the post 1973-74 period, the IMF, the IBRD and the private capital markets again will be the primary sources of external financing for the middle-income countries.

Most observers believe those sources will be sufficient to address the most pressing financing problems of the developing world in the months ahead. There is, however, growing concern that appropriate financing may not be available over the next couple of years. This concern arises partly from the fact that, unlike the post 1973-74 period, oil prices may be maintained or even increased in real terms, exerting continuing pressure on their balance-of-payments. At the same time, the industrialized countries are in a period of slow growth. This will lead to a decline in the demand for middle-income country exports. Moreover, the developing countries are entering the current round of current oil price increases with much greater absolute outstanding debt and debt servicing requirements at the same time that some private banks may be reaching their limit of debt exposure. Therefore, there is a question concerning the willingness or ability of the private capital market to continue to lend heavily to the



Comparative Growth of Gross Domestic Product and Population 1960-76

(Average annual percentage growth rates)



World Bank

middle-income countries beyond 1980.

Overlaying this concern is a protectionist sentiment, growing within the developed countries in response to external competition and recession. This pressure to protect home markets centers largely on precisely the type of labor-intensive manufactures (electronics, textiles, leather) that the middle-income developing countries produce.

Half of developing country manufactures already face import controls in the industrialized countries, according to some estimates. More trade restrictions would reduce the export earning capacity of countries heavily dependent upon exports as a source of foreign exchange and growth. This would affect both their balance of payments and development prospects at a time when they already expect serious financial and adjustment problems.

To address the problems facing the middle-income countries, the international community needs to resist the current protectionist pressure and assure that middle-income countries have access to adequate levels of non-concessional resource flows to avoid major disruption in their development and to permit needed adjustment within their economies.

The international community already has taken steps to address the financing issue. For example, this year the IBRD inaugurated a structural adjustment lending program. Under this, the IBRD is making non-project loans to developing countries that face serious adjustment problems (i.e., the need to adjust production, consumption and trade patterns to reflect the drastic change in relative prices, particularly of energy), and that have agreed to undertake, often in conjunction with the IMF, needed policy reforms to facilitate the adjustment. At the same time the IMF has demonstrated increased willingness to incorporate longer range development aspects in its stabilization programs.

A number of actions have been agreed upon but have not yet been implemented. Two of these, the \$40 billion general capital increase of the World Bank and the 50% quota increase of the IMF, currently before Congress for approval, will be important to the middle-income countries over the next few years.

The uncertainty regarding the future level of activity of the private international capital markets in the middle-income countries means that this situation bears careful watching over the next few years. In the interim, consideration of measures that could be used to facilitate private flows to these countries would seem desirable. Among the suggested possibilities is the use of a bilateral or multilateral financial guarantee mechanism, and ways to increase the co-financing activity of the IBRD have been under review.

It also is important that OPEC take

a more direct role in recycling resources to the middle-income developing countries. To date, the surplus OPEC countries have taken little action to directly lend to the developing countries, preferring instead to direct their "surplus" funds to the banks in the industrialized countries relying on those banks to recycle the resources to the developing countries. Although so far, the banks have efficiently handled this recycling task, the willingness and ability of private banks to continue to perform this function in a manner that will provide a sufficient and continuing flow of additional resources to the middle-income countries remains uncertain.

As of now, the United States has few bilateral assistance tools with which it can address the financing problems of the middle-income countries. Concessional development assistance is both scarce and by

design directed primarily to the low-income countries. Some direct country-to-country aid is available to middle-income nations under the Economic Support Fund, but these resources are for use in circumstances where there are important security and/or political interests. As a result, few countries are eligible. Also, food aid, under the PL 480 program, is by legislation concentrated in the low-income countries and where provided must be justified in terms of identified food import requirements.

While higher levels of U.S. export credits through the Export-Import Bank and higher levels of investment insurance through the Overseas Private Investment Corp. may be useful to the middle-income countries, these are basically passive measures which facilitate private transactions. The AID Housing Guarantee Program (HG) is another relative-

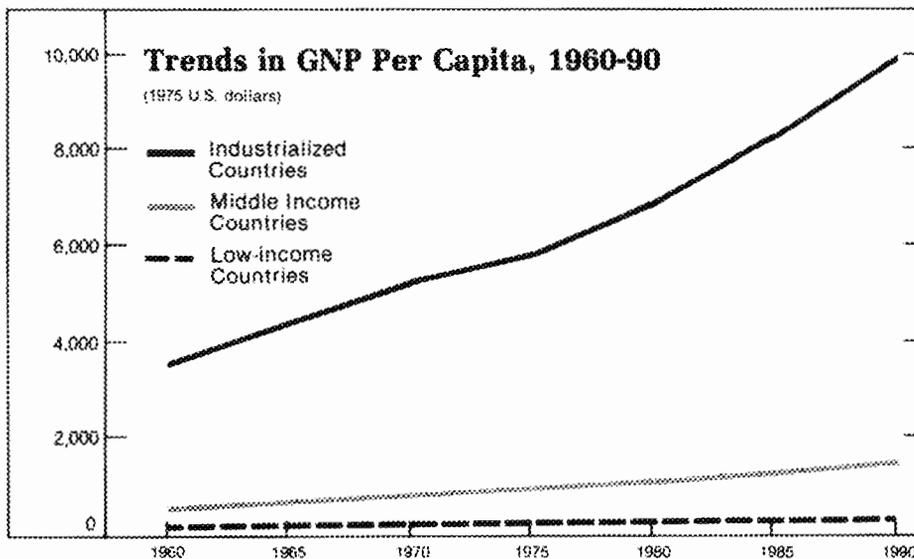
ly small program which facilitates the financing of approved housing for Third World low-income families through U.S. savings and loan institutions. The capacity to use these instruments to generate significant new resource flows to specific middle-income countries is very limited. Similarly, although the United States has recently increased use of reimbursable assistance, the levels are small, and the program by nature provides little additional assistance. Its applicability in countries facing severe financing constraints is limited.

With respect to private flows, the U.S. capital market is already relatively free of restrictions which would prevent developing countries from participating in the market. As a result, aside from the possibility of some form of guarantee mechanism and continued vigilance to assure that U.S. banking regulations do not impose discriminatory restrictions on LDCs, there appears little the United States can or should do to increase U.S. private capital flows to the middle-income countries.

The limitations on U.S. bilateral aid to middle-income countries have given rise to a number of suggestions—especially when the countries involved are experiencing economic difficulty and when bilateral aid would be important both to the United States and the recipient. Suggestions have included a bilateral, non-concessional lending program; a more flexible U.S. debt relief policy; and some form of U.S. official guarantee mechanism.

Given the likelihood that the financing situation of middle-income countries will not significantly improve over the next few years, and that their requirements will steadily increase, it would appear wise for the United States to explore again the merits of these and other possible means of helping these countries.

Keith E. Jay is senior economic advisor in AID's Office of Economic Affairs.



World Bank

Because of the council's nearly 20 years of involvement in Latin America and the Caribbean, we would like to use the Latin American experience to present our case that the United States must change its current policy of reducing aid to transitional countries.

The council's statement on this issue, therefore, is based on the following premise: that the present U.S. policy of excluding so-called "middle-income" countries from our development assistance programs severely curtails the U.S. government's role in assisting Latin America's development; that Latin America and its development are too important to ignore in this way; and that, therefore, the United States must find ways to involve itself much more actively in that process.

The reason for the inception of the current middle-income policy was, I presume, that these countries are sufficiently developed that they no longer need aid. Whatever the rationale, its effect has been to eliminate over 300 million of the 350 million people of Latin America from the U.S. assistance program. The arbitrary setting of a figure of per capita national income as the principal deciding factor in determining eligibility is fallacious. It does not take into account the unfortunate reality of poor income distribution. It is estimated that one-half of Latin America's population lives on less than \$250 per year per person. It does not take into account that some of the world's poorest people live in the slums and rural areas of Latin America. It does not take into account the phenomenon of dual economies—parallel developed and underdeveloped economies existing in most developing countries.

We wish to emphasize that foreign aid is not a giveaway program, as it has been unfortunately characterized. It is not an international "welfare" program, and, in fact,

VIEWPOINT

Latin America: Consequences of U.S. Neglect

by Otto J. Reich

In July, Otto J. Reich, Washington director of the Council of the Americas, a private association of more than 200 U.S. corporations doing business in Latin America and the Caribbean, appeared before the Subcommittee on Inter-American Affairs, House Committee on Foreign Affairs. Following are excerpts from his testimony.

with some imagination could be made even more effective and therefore less susceptible to those accusations.

During the 1970s, the U.S. business community encountered substantial competition in Latin American markets from products, services and investors from Europe, Japan and Canada. The U.S. percentage of Western Hemisphere markets and investments steadily declined. At the same time, U.S. development assistance to the region also was drastically reduced, and it has been completely terminated (for various reasons) in the most important countries such as Brazil, Colombia, Mexico and Venezuela. Technical and economic development cooperation can be an important in-

strument for promoting a country's commercial and investment interests in developing regions such as Latin America. Other countries are using their aid and quasi-aid as instruments to support their trading and investment interests, particularly in transitional countries such as Brazil, Colombia and Mexico.

In addition to the obvious economic interdependence, there are many other reasons why Latin America is important to the United States: shared political and social values, military security, and common problems whose permanent solutions can best be achieved through joint efforts, such as pollution control, illegal immigration and narcotics traffic control, peace-keeping, and elimination of poverty. It is to this last issue—poverty—that many of the other common problems are related. . . . Because the sad fact is that an intolerably high number of our fellow continental Americans still live in conditions under which no human beings should live. This is the time to redouble our efforts to assist Latin America, which is already pulling itself up by its own bootstraps out of the so-called Third World and into the First, the world of the free, industrialized democracies, so that it will not be subjected to the injustices and inequities of a Communist system.

In summary, the Council of the Americas believes that Latin America is too important to the United States to neglect; that a prosperous and stable Latin America is in the best interest of the United States because Latin America's problems impact directly on the United States; that we should help these countries or they may turn to more radical solutions to their problems; and that the trend toward reduction in development assistance to transitional countries, particularly Latin America is detrimental both to the Latin Americans and to the United States.

WHAT THE MEDIA SAY...

Energy conservation and reforestation must become top priorities in the less-developed countries where 40% of the world's hardwood forests may be denuded by 2000. The resources of the Pacific Northwest's lumber industry could aid in developing strategies to preserve the threatened forests.

A United States Agency for International Development report sent to President Carter in June urges international cooperation to promote reforestation and development of more efficient wood-burning stoves and kilns. Our region, more than any other, may be able to contribute scientific and technological knowledge to help salvage the threatened forests. Carter should tap this region's skills.

—Portland Oregonian

Steadily rising prices demanded for crude oil on world markets by the Organization of Petroleum Exporting Countries is tending to curtail needed aid to the less developed nations by the Western nations, a high-ranking official of Japan's ministry of finance emphasized. . . .

Takehiro Sagami, vice minister of finance for international affairs, told newsmen that the OPEC states, which are now accumulating so much money as a result of the price increases, "should bear the responsibility" for giving direct aid to the Third World countries. "This is only logical," he added.

—Journal of Commerce

The licenses will not be granted unless the government of the importing country, when fully informed about the product, had no objection, and unless the State Department found that the export would not hurt U.S. foreign policy interests.

—Washington Post

World milk output rose about 1% over 1979 levels in the first half of 1980, according to the latest estimates from the U.N. Food and Agriculture Organization.

Virtually all the production increases occurred in the developed market economies, FAO said. However, demand for milk and milk products showed the opposite trend, FAO said, weakening in the developed market economies—notably the United States—but increasing in the developing regions, Eastern Europe and the U.S.S.R.

—Journal of Commerce

Relief agencies coordinating emergency shipments of rice seed to Cambodia say they are "cautiously optimistic" that enough paddy land is being planted to move the country toward self-sufficiency in food next year.

However, shortages of farming tools and fertilizer and attacks by Khmer Rouge guerillas could keep the main harvest this autumn below target. Cambodia would then remain at least partially dependent on foreign aid in 1981.

—Washington Post

The World Conference of the United Nations Decade for Women, which set out three weeks ago to chart a program that would raise the hopes and better the lives of women everywhere, ended early today (July 31) in an atmosphere of bitterness and recrimination—at least for delegates from the United States and its few friends among the Western nations.

Protracted parliamentary battles over issues such as Zionism and racism obscured the true purpose of the meeting—the discussion of women's issues—in clouds of political rhetoric. The United States, which invested millions of dollars in sending its delegation, concluded by refusing to sign the plan of action that the conference finally adopted in the early hours of the morning.

—New York Times

Distribution of thousands of tons of food awaiting delivery to the famine-stricken Karamoja region of northeast Uganda has been suspended following an attack on a United Nations five-truck convoy by hundreds of armed cattle raiders.

The attack left five people badly injured.

International aid organizations and charities that have raised millions of dollars in donations to relieve one of the worst famines in Africa in the last decade are beginning to consider whether they can send staff to work in such a dangerous area.

—Baltimore Sun

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