# DEVELOPMENT, TRADE EXPANSION, AND U.S. AGRICULTURE: POLICIES FOR THE 21ST CENTURY

A Report of the

Working Group on International Trade and Development
to the
Commission on International Trade, Development and Cooperation

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National Center for Food and Agricultural Policy
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## Report of the Working Group on International Trade and Development


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# PREFACE

This is one of three reports issued by the National Center for Food and Agricultural Policy in connection with the Commission on International Trade, Development and Cooperation. Another report comes from the Working Group on International Agricultural Research and another reports the Conclusions and Recommendations of the Commission.

This Working Group on International Trade and Development was formed to assist the Commission by identifying the key policy issues and offering background information and policy options. The Commission's report draws heavily on this report and adopts its major recommendations.

The idea for this Commission grew out of the debate that led up to the 1996 Farm Bill. A number of participants lamented that the debate centered around a rather narrow set of policy issues, ignoring some that were extremely critical to the long-term economic health of the U.S. food and agricultural sector. Those neglected issues related to the stake U.S. agriculture has in this country's international affairs, and particularly our economic interests in developing countries and emerging market economies.

There was a time when the agricultural community was content to leave those lofty and far away matters to others. There were more pressing problems closer to home. But not any more. Now that we are integrated into the international economy, the connection is obvious: Economic growth, trade liberalization, and stability in the so-called Third World are just as important, if not more so, to the economic well being of U.S. agriculture as the provisions of traditional domestic farm policy.

On behalf of the National Center for Food and Agricultural Policy and the Commission, I wish to thank the members and alternates who served on this working group. Special thanks are due Dr. Robert Paarlberg, chair of the working group, for his leadership and for producing this report.

Recognition and thanks are also due those whose financial contributions made this all possible. They include: The Economic Research Service; the Foreign Agricultural Service and the Agricultural Research Service; USDA; USAID; Cargill, Inc.; DowElanco; Farmland Industries; Pioneer Hi-Bred International; and Harvest States Cooperatives. They deserve our thanks but bear no responsibility for the content of the three reports and do not necessarily agree with their conclusions and recommendations.

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# DEVELOPMENT, TRADE EXPANSION, AND U.S. AGRICULTURE: POLICIES FOR THE 21ST CENTURY

Report Of The Working Group On International Trade And Development

Robert Paarlberg, Chair

## I. Statement of Purpose: Development, Trade Expansion, and U.S. Agriculture

The purpose of this Working Group has been to envision, document, and describe new ways in which U.S. agriculture can profit from revitalized trade and development cooperation policies abroad. In world agriculture, doing good abroad and doing well at home can go hand-in-hand. Abroad, we seek agricultural and rural development, which is broadly-based and environmentally sustainable, and capable of improving food security and economic welfare in developing countries. At home, we seek a U.S. farm sector made more prosperous through continued growth in international trade. To pursue these goals side-by-side, we envision new forms of cooperative action among private-sector firms, private-voluntary organizations (PVOs) and universities, as well as government agencies. Developing new partnerships between the public and private sectors will be the key to success.

These new partnerships must:

- Recognize the important role of public sector investments at federal, state, and local levels, in building physical infrastructure; developing education, health and research institutions; and providing sound policies, regulatory, governance, and legal systems.
- Support and facilitate the involvement of the private sector in developing efficient and robust production, input/output marketing and international trade systems.
- Give farmers, farm industries, and consumers improved choices through greater access to open international trade.
- Support the involvement of PVOs, in reaching and including local people in developing innovative solutions to development and humanitarian problems.
- Support and facilitate the involvement of universities - including students, faculty, and extension services - in education, research, and public service

faculty, and extension services - in education, research, and public service activities related to agricultural development and trade.

This Working Group believes that broadly based agricultural development efforts focused on benefiting developing countries and people will also benefit the U.S., including U.S. agriculture. The partnerships we recommend here are an affordable path to a better future for farmers, farm communities, and agricultural industries in rich and poor countries alike, and represent a worthy policy agenda for the U.S. agricultural and international affairs community.

## II. The Globalization of U.S. Agriculture

American agriculture has a strong interest in the international development and trade policies of the U.S. government. This is because the American agricultural sector is already one of the most globalized sectors of the U.S. economy.

Total U.S. agricultural exports for 1995 were valued at $55.8 billion, or roughly one-tenth of total U.S. exports, one-quarter of all agricultural exports world wide, and roughly 27 percent of total U.S. gross farm income. Roughly 60 percent of new sales growth has been occurring in developing countries. These agricultural exports stimulated an additional $76.6 billion in economic activity across all sectors of the U.S. economy in 1995, for a total economic boost of $132 billion. Roughly 17,300 U.S. jobs are now being created for every $1 billion in agricultural exports, and roughly four-fifths of these export-linked jobs are created off the farm, in upstream or downstream agricultural industries.

The dependence of the American agricultural sector on exports will increase in the years ahead, because it is demand abroad that has more room to grow. Population growth rates at home will be low and consumption will have limited room to expand because income is already relatively high. In the developing world, by contrast, population is still growing rapidly and incomes are now in a position to grow rapidly as well, from low levels. This portends a further enrichment of diets, leading to added consumption of animal protein (meat, milk, eggs), boosting demand for products (including animal feed products, such as corn and soybeans) which U.S. agriculture is well equipped to produce and export. One USDA forecast projects that between 1993 and 2010 the share of U.S. grain production that goes abroad will increase from 16.4 percent to 28.6 percent. If income can be pushed to grow above trend in these developing countries, even more will be exported. In fact, USDA calculations reveal that higher income growth in developing countries will be even more important than higher income growth at home in stimulating future demand for U.S. grains (Gehlhar, Shane, and White 1996).

Without continued international trade expansion driven by rapid economic growth in non-industrial and industrializing countries, those who work in American agriculture will face a future burdened by difficult adjustments. Productivity growth in American agriculture is so high that without market expansion beyond our borders, more agricultural workers at home (on the farm and off the farm) would have to move out of the sector, a painful adjustment that would lower incomes for many, and, in some cases, threaten the survival of entire farm and agribusiness-based rural communities.

More than just the welfare of American agriculture is at stake, of course. An expansion of U.S. farm exports driven forward by broadly-based international income gains contributes directly to the nutrition of hundreds of millions of citizens in other countries. The nutritional circumstances of these consumers abroad can be improved, income can be helped to grow even more rapidly (as new efficiencies are captured through trade), and in many cases the environmental resources of these foreign countries can be better protected through trade expansion. International agricultural trade can be good for the environment in nations with dense populations, scarce water, and fragile land endowments, since these nations would damage their resource base if they tried to meet all of their growing food needs without trade, through domestic production alone.

An important vision of the future thus emerges; one which sees mutual gains from globalization, rather than only harsh competition or painful adjustment. Trade expansion driven by broadly based international economic development serves the interests of American agriculture in harmony with the interests of foreign citizens and the global environment. This is a vision worth pursuing through the wise conduct of U.S. government policy.

This vision is founded in part on past experience. Recent history provides abundant evidence that American agriculture can benefit from policies designed to promote open trade and international economic development. Yet the current policy climate brings distinct new challenges, including large federal budget constraints, a weakening of the traditional cold war security argument for investing in development cooperation abroad, and a diminished public faith in all federal government programs. In U.S. development policy, the era of big government is over. If gains for U.S. agriculture are to continue to be captured, a new model for development cooperation policy must be designed, one suited to today's small government, budget-constrained, post-Cold War era.

The new model we propose here relies more on private sector actions and resources (both U.S. private companies, and U.S. based Universities and PVOs), mobilized through *partnership* with government agencies. The requirements for moving toward this partnership model will be shown to include significant institutional changes within the U.S. Agency for International Development

(USAID), so as to make that agency a more attractive partnering agent. The current tendency of Congress to try to micro-manage U.S. trade and development policy must also change, and the frequent subordination of development cooperation policy to short-term diplomatic fluctuations must be minimized.

How can a political consensus be built to embrace this new model of international trade and development cooperation policy? We shall argue here that the U.S. agricultural sector has a strong self-interest in development and trade policy revitalization, and should be willing to take a leading role in arguing for the policy changes now required. A strong endorsement from organized agriculture could be a key first step toward making trade and development policy revitalization a political reality.

## III. U.S. Assistance Policy in the Past: A Success or a Failure?

During the Cold War era, U.S. development assistance policy generated a mixed record, with some prominent successes alongside numerous instances of failure. Humanitarian relief and human welfare assistance policies were at times spectacularly successful. USAID support for child inoculations and oral rehydration helped reduce infant mortality, as life expectancy in poorer countries increased on average by more than 20 years (from 41 years to 62 years). In the 1980s alone, a major foreign assistance effort led to a doubling of the proportion of people in developing countries with access to clean water (from 35 percent to 70 percent). Adult literacy has risen from less than half to about two-thirds. Food production and consumption in the developing countries was able to increase 20 percent faster than population growth (OECD 1996). The "green revolution" seed and farm production technologies that made this increase possible would not have become available without generous U.S. foreign assistance to international agricultural research.

Of course much money has also been wasted through foreign assistance. During the Cold War, billions of foreign aid dollars were given to corrupt or incompetent regimes abroad for the purpose of preserving base rights, buying diplomatic support, or securing votes in the UN General Assembly in the high-stakes global competition with the Soviet Union. During the Cold War, assistance seldom went for pure development purposes. It is unsurprising that much of it failed to generate patterns of overall development success.

Still, a remarkable number of nations used this Cold War development assistance money wisely, sometimes with spectacular results. The developing countries of East Asia, which were among the first to side with the U.S. during the cold war (especially South Korea and Taiwan), received generous early development assistance, and began growing quickly as a result. During the

years following 1945, Taiwan and South Korea together received roughly $18.6 billion in U.S. economic and military aid overall, plus sound technical and policy advice. The money and advice did not go to waste, as South Korea and Taiwan embraced social policy reforms (especially land reforms), made large investments in the health and education of their own people, put sound macroeconomic policies in place, and committed themselves to international trade. American agriculture was eventually the beneficiary. As these nations industrialized rapidly and as incomes grew, they increased their consumption of food and soon emerged as good customers for the U.S. farm sector. Taiwan went from being a net *exporter* of cereals in the 1950s to a $2.1 billion market for U.S. farm products today. South Korea is now a $2.3 billion market for U.S. farm exports. Japan, which also received generous assistance after 1945 (and which President Kennedy was still calling a "developing country" as late as 1962), is now a $9.3 billion market for U.S. agricultural exports.

Broad-based economic growth in the rest of the developing world beyond East Asia would be a worthy development policy goal for the U.S., since it would generate not only enormous citizen benefits within those countries, but also economic benefits for the U.S. In recent years, U.S. exporters of all products have become increasingly dependent on income growth in the developing world. Between 1988-1994. total U.S. exports to developing countries grew by 84 percent, more than twice the rate of growth of exports to developed regions such as Europe.

The problem is that some developing country regions are not yet generating the income growth that drives this sort of trade expansion. The World Bank is currently forecasting only a .9 percent annual growth rate in per capita GDP in sub-Saharan Africa between now and 2003, far below the 6.2 percent growth rate expected in East Asia (Alexandratos 1995). If Africa grows no more than this, the absolute numbers of hungry people on that continent will continue to increase, and Africans will lack the income needed to make their growing demands for food felt in the world's commercial market place.

Much has been learned over the past several decades about what kinds of development efforts work best. USAID has conducted frequent evaluations of its past programs, and has even been able to measure its past success in the agricultural sector in quantitative terms. It can demonstrate that economic rates of return to its investments in agricultural technology development and diffusion, even in difficult settings such as Africa, have averaged 30-40 percent over the years (USAID 1996). Still, a number of difficult tactical lessons have been learned which implicitly set limits on what can be done:

- Sound policies within the recipient country are especially important. USAID has concluded it should invest only reluctantly, if at all, in countries where an adverse economic policy environment prevails.

- In agriculture, technology plays a central role. The transformation of the farming sector requires technical change, and investments in adaptive technological change pay large dividends.

- Rural infrastructure and human capital have underlying importance. Without an educated and empowered population, and without roads from farm to market, rural communities cannot respond to markets even if technology is available and prices are right.

With this growth in policy knowledge has come renewed success. USAID today can point to an important new development assistance success story in its support for the production of non-traditional agricultural exports (NTAEs) from Latin America. USAID provided significant support, especially in the 1980s, to Central and South American countries seeking to diversify their farm export sectors beyond traditional crops such as coffee, bananas, cotton, beef, and sugarcane, into "non-traditional" crops such as melons, berries, citrus fruits, mangos, and flowers. This USAID support, successfully undertaken in a context of larger political and policy changes underway in the region (including democratization and structural adjustment), helped generate an increase in NTAE exports profitable for all concerned. In 1970, Latin America and the Caribbean exported $200 million in NTAEs; by 1993, the figure had jumped to over $1.65 billion.

This recent NTAE success clearly demonstrates that USAID investments can pay off in the recipient country. Per dollar of project expenditures in Central America and Ecuador, USAID money generated internal rates of return of 15 percent and 22 percent, respectively. The payoff was also strong from the vantage point of social justice, since NTAE production has boosted incomes of the rural poor, including especially women. In Central America, most NTAE production units are family farms from one to five hectares in size. Production is highly labor-intensive, employing up to eight times more person-days per hectare than traditional agriculture. Guatemalan snowpeas provide farmers with an average of ten times the gross income obtainable from corn, and an average of 13 times the gross income obtainable from coffee. In Guatemala, the poorest 25 percent of the people have captured 20 percent of the income gains from NTAE expansion, much more than the 3 percent gain they make, on average, from growth in the rest of the nation's economy.

What does the NTAE case mean for U.S. agriculture? Most of the gains for NTAE producers in Latin America pose little or no threat to farmers in the U.S. The NTAEs being exported either don't compete with significant numbers of U.S. farmers at all (mangos), or they go to market during winter months, when U.S. producers cannot provide supplies anyway. This is why the total volume of U.S. fruit and vegetable exports has continued to increase in recent years (by

about 40 percent, between 1990-1995), despite the NTAE success in Central and South America.

For U.S. producers, increased product availability from Latin America during the winter months can even be a plus, since it tends to reinforce and sustain the taste of U.S. consumers for fresh fruits and vegetables year-around. All the while, production of NTAEs in Latin America is a significant boost to U.S. agricultural machinery and input supply industries, which make larger sales as production in the hemisphere continues to grow. NTAE imports from Latin America are also, of course, a substantial gain for U.S. consumers, who are increasingly attracted to the health advantages of year-round fresh fruit and vegetable consumption.

This NTAE example from Latin America is only the most recent example of a development assistance success story. As with the earlier East Asia case, it illustrates a larger truth. Economic success abroad is good for agriculture in the U.S. Even when U.S. foreign assistance efforts are directed toward increasing *agricultural production* in poor countries, the larger results can still be complementary with the interests of the farm sector in the U.S.

## IV. Does U.S. Assistance to Foreign Agricultural Production Hurt or Help U.S. Agriculture?

It seems paradoxical at first, but assistance to farming in poor tropical countries is one of the best ways to generate the broad-based income growth that those countries need to become better customers for U.S. exports, including U.S. agricultural exports. The World Bank confirms that most of the developing countries experiencing rapid income growth in the 1980s previously experienced rapid agricultural growth (World Bank 1996). Because so many people still live in the countryside in poor countries, it is often impossible to launch a successful industrial revolution without first investing in a broadly- based agricultural revolution.

U.S. farmers and farm exporters appreciate the need for trade expansion, and they generally understand the need to stimulate broad based income growth in poor countries, but they sometimes worry about the dangers of trying to do that by providing aid to farmers abroad, whom they tend to view as potential competitors. There are circumstances in which this worry would be fully justified. If USAID were to provide assistance to corn or soybean producers in Brazil or Argentina, the impact on U.S. corn and soybean farmers would be adverse, rather than positive. This is in part because corn and soybeans are temperate zone crops, but also it is because of the unfortunate structure of farming in Brazil and Argentina, where the income gains from improved production tend to be captured mostly by a narrowly based land owning and

agribusiness elite. In such countries where the income gains from farming are not widely shared, the higher consumption and import demands that should accompany agricultural success tend not to emerge.

But USAID does not provide assistance to corn and soybean producers in countries like Brazil and Argentina. In the countries where U.S. assistance programs have been active, gains in the agricultural sector have produced enough broadly-based income growth to ensure that the net effects on U.S. agricultural exporters will be positive rather than negative. A number of studies have reached this conclusion over the past dozen years, including Lee and Shane 1985; Kellogg, Kodl, and Garcia 1986; Houck 1987; Anderson 1987; and de Janvry, Sadoulet, and White 1989. Such studies have confirmed that helping poor tropical countries to launch an agricultural revolution can make them better customers for U.S. exports, including in the end U.S. farm exports.

A more recent confirmation of this important finding is presented in a 1995 IFPRI study by Pinstrup-Andersen, Lundberg, and Garrett. This study shows that about 20 percent of agricultural exports from industrial countries now go to developing countries, and that U.S. sales to these developing countries are expected in the years ahead to grow at roughly 9 percent annually, or roughly twice the rate of growth of sales to developed countries. Paradoxically, one of the drivers behind this import growth in developing countries is growth in the agricultural output of those countries. For all developing countries together, every extra dollar of agricultural output actually *adds* to agricultural imports, because agricultural growth helps push up personal income nation-wide, triggering more broad-based demand for food. Each dollar of added agricultural output means 73 cents more in total imports, 17 cents more in agricultural imports, and 7 cents more in cereal imports specifically. This paradoxical positive link is stronger in East Asia than in some other regions such as Latin America or South Asia. As noted above, agricultural growth in Latin America does not have the same broadly-based income multiplier effects as in developing country regions where land is more equitably distributed, and South Asia has in the past not been very open to trade. But everywhere these links are nonetheless positive (Pinstrup-Andersen, Lundberg, and Garrett 1995). The correlation also holds up within regions. A recent study done by USAID's Latin American and Caribbean region concluded that those countries which showed the largest increases in annual GDP were those in which the agricultural sector performance was improving because of sub-sector diversification initiatives. These were the same countries where trade with the U.S. (including exports of U.S. farm and agribusiness products) grew most rapidly.

U.S. non-farm exporters also benefit, of course, when agricultural development takes off in poor countries. Between 1990-95, due to more rapid growth in a number of agrarian-based countries, total U.S. exports to those countries

doubled to reach a level of $243 billion, thus generating 1.9 million U.S. jobs across all sectors of the American workforce (Bathrick 1996).

Development assistance to farmers in poor countries is therefore not just compatible with the interests of those countries and with larger American values. It is also directly compatible with the long term interests of the U.S. economy, including the American farm sector itself. Helping to support an agricultural revolution in poor countries is usually the best first step toward helping to support a broadly-based industrial revolution, and it is only from the broadly-based income gains that accompany industrial development abroad that the American farm sector will be able to enjoy continuously expanding sales opportunities in the decades ahead.

## V. The New Challenge in Development Cooperation

The historical record shows that U.S. foreign assistance, even when given mostly for cold war purposes, managed often to generate considerable development success, helping to pull people out of poverty and increase food consumption, all to the benefit of the export-dependent U.S. farm sector. With the end of the Cold War, the U.S. faces an opportunity to improve on this past record, by shifting a larger share of our assistance budget away from political or military support activities, and toward the economic development activities that can be more broadly beneficial to foreign income growth and hence to U.S. exporters of farm and non-farm products.

Unfortunately, the end of the Cold War has not brought any increase in U.S. development assistance activities. When the Cold War enemy in Moscow collapsed, the political inclination at home to support any kind of foreign assistance effort also declined. In mid 1993, a National Security Council study of foreign aid policy options stated flatly that "with the disappearance of communism in the Soviet Union and Eastern Europe, the bedrock support for foreign assistance has eroded significantly. There is no clear vision guiding the shape of our foreign assistance agenda for a world without the USSR." The several comprehensive visions that have since been suggested to support assistance (including "conflict prevention," "big emerging markets," and "global stewardship") have not yet caught hold. Consequently, U.S. assistance efforts have gone into a steep fall. Last year alone, according to the OECD, total U.S. official development assistance fell 27 percent, to just $7.3 billion.

Under recent congressional projections, the U.S. international affairs budget (the so-called 150 account, of which two-thirds is foreign assistance) may be further cut by an additional one-third in real terms between now and 2002. President Clinton has now proposed a reversal of this downward trend (he is seeking a $1.3 billion increase in the 150 account for FY 1998, above the $18.2 billion that

Congress voted for FY 1997), yet Congress will have to be persuaded, and even with such an increase the 150 account would be about 25 percent less in real terms than the average during the decade of the 1980s.

These cuts have transformed the U.S. from a leader into a laggard among industrial countries engaged in development cooperation work abroad. U.S. development assistance is now only about half the amount provided by Japan, and less in absolute terms than the amount provided by either France or Germany. Relative to GNP, the U.S. development assistance budget is now the smallest in the industrial world. The U.S. ranks 21st among industrialized (OECD) countries - dead last - in providing development assistance abroad. Since 1970 the U.S. government has been pledged to provide 0.7 percent of GNP as official development assistance (a pledge reaffirmed as recently as 1992 at the UNCED conference in Rio), but the actual U.S. contribution has recently been just 0.1 percent, less than one third the ratio of most other industrial countries. Other industrial countries are impatient with U.S. excuses for this lagging performance. In Europe, where budget pressures are just as bad as in the U.S. and where domestic unemployment levels are currently much higher, governments have nonetheless been more willing to maintain their international development cooperation investments.

This lagging U.S. assistance effort is partly an outgrowth of the recent federal budget crisis. By 1993 the U.S. government's debt-to-GDP ratio had reached 56.9 percent, more than twice the level of two decades earlier, and serious efforts to attack the budget deficits generating this debt had to be undertaken. For political reasons these efforts could not focus on cutting entitlement spending (Democrats would object), or on restoring lost tax revenues (Republicans would object), so pressures grew to cut spending elsewhere, and in a post-Cold War environment foreign aid naturally became an inviting target. All the more so because the international affairs budget was placed within the "non-defense discretionary funding" category (the 17 percent of the U.S. federal budget which, under a 1996 deficit reduction agreement, had to absorb nearly one half of all spending reductions). The prejudicial quality of these budgeting procedures became apparent in 1996 when the same U.S. Congress that was cutting development assistance by $2.6 billion in a single year actually voted to *increase* defense spending. The House voted to increase the Administration's request for defense by $11 billion for FY 1997.

Public misinformation is another reason for the recent excessive cuts in foreign assistance spending. A University of Maryland poll shows that the American people erroneously believe that 15 percent of the federal budget goes to foreign aid, when the actual figure is only one percent. A *Washington Post* poll revealed that the American people thought more was spent on foreign aid than on Medicare, when in fact the foreign aid budget is less than one twentieth the Medicare budget, and shrinking rather than growing. If the American people

could appreciate how modest and affordable our foreign development cooperation efforts have actually been in budget terms, they would be less likely to support the current congressional inclination to shrink those efforts still farther.

Popular mistrust of government has become another powerful cause of diminished political support for foreign assistance. The American people are not becoming any less concerned about poverty abroad, or any less generous in their desire to do something about it, but it seems they are less ready to believe that spending money through their federal government is an effective way to attack poverty. Large numbers of Americans have come to be convinced that public sector bureaucracies are not as good as private sector institutions (including business firms, and also non-profit PVOs) in taking on practical tasks. A survey taken in 1972 showed that 53 percent of Americans still trusted the government to do what is right "most of the time," but by 1986 only 39 percent of Americans felt that way, and by 1992 only 27 percent felt that way (Shively 1995, p. 124).

One of the most puzzling and frustrating features of the recent collapse in U.S. foreign development cooperation spending has been a sharp cut in funding provided specifically for agriculture. Between 1989 and 1994, while the nominal value of total U.S. economic assistance through USAID remained roughly constant (at about $6 billion), the value of assistance to agriculture declined in nominal terms by 48 percent, from $806 million down to just $418 million (USAID 1996). USAID's agricultural work was being cut early in the 1990s partly because the agency was now targeting several other objectives - including the slowing of population growth, women's health, environment, democratization, and micro-enterprise development. These are worthy objectives, but it must be remembered that they cannot be pursued *in rural areas* without a strong program in agriculture. Rural women's health and welfare in Africa depends heavily on productive and profitable agriculture, since women make up the majority of Africa's farmers. Microenterprise development in rural areas usually means supplying inputs to farming or providing storage, transport, and processing for products from the farm. Rural environmental protection will be impossible if farming is not prudently intensified. So any future U.S. development cooperation program that downplays agriculture will be a program certain to exclude the well-being of large numbers of rural citizens in poor countries.

One unfortunate reason for diminished U.S. support for development cooperation in agriculture has been the loud voice of one school of environmental activism (Easterbrook 1997). A vocal minority of activists within the environmental community opposes further investment in rapid economic growth abroad (income growth based on industrial development is seen as "non-sustainable") and within the farm sector some of these environmental groups have embraced an extreme vision of low-input subsistence farming, one

which rules out efforts to boost farm income through yield-enhancing purchased inputs, even though such inputs were a key to the success of the green revolution in India thirty years ago. These activists also oppose any switch from subsistence to export crops, even though export crops (such as those which are key to the NTAE success in Latin America in the 1990s) often do less damage to fragile lands and give small farmers more income.

Environmental activists are correct to be concerned about excessive farm chemical use, but this is more of a problem in rich industrial countries than in poor countries. Excessive input use is a problem in industrial countries where farm production tends to be subsidized, more than in the developing world where farmers still tend to be heavily taxed by government policies. In developing country regions such as Africa, environmental damage from farming tends to grow from a pattern of purchased input use which is inadequate rather than excessive. Fertilizer use per acre in Africa is only one quarter the level of India, and only one-thirty-sixth the level of Japan. It is only by increasing yields per acre - in part through purchased inputs - that Africa's farmers will be able to avoid further deforestation and further plowing of fragile lands in the years just ahead.

India's experience (and the experience of much of the rest of Asia) during the green revolution of the 1960s and 1970s can be used to illustrate this point. If India had relied on traditional low-yielding seed varieties and farming techniques to try to increase its total production to feed its growing population in the 1960s and 1970s, it would have had no choice but to clear more land, cut more trees, destroy more wildlife habitat, ruin upper watersheds by planting crops on sloping lands, or plow up more dry lands with fragile soils. In 1964, India produced 12 million tons of wheat on 14 million hectares of land. By 1993, thanks to the green revolution, it was producing 57 million tons of wheat on 24 million hectares of land, allowing its much larger population to be somewhat better fed. To produce this much wheat using at the 1964 yield level (using pre-green revolution seed varieties and technologies), India would have had to plant roughly 60 million hectares. In other words, the green revolution allowed India to meet evolving food needs *without* plowing an additional 36 million hectares of cropland for wheat. "Thanks to plant breeding," concluded M. S. Swaminathan, at India's Centre for Research on Sustainable Agriculture and Rural Development, "a tremendous onslaught on fragile lands and forest margins has been avoided." (Swaminathan 1994).

Foreign development cooperation programs have helped protect the rural environment in other ways as well. International (including USAID) support for integrated pest management (IPM) practices has helped a number of developing countries reduce dependence on potentially dangerous pesticides. Technical assistance in "precision farming" helps to reduce excessive applications of chemical fertilizers. The trade policy reforms promoted by the U.S. government

have also helped protect the environment in some developing countries from unsound agricultural practices. By encouraging nations such as Korea and Taiwan to open foodgrain markets (especially rice) to imports, U.S. trade negotiators have helped ease the adverse environmental impact of chemical-intensive rice production in these countries. Compared to the U.S., Korea uses four times as much fertilizer per acre of cropland and Taiwan uses five times as much.

Some of the reasons that seemed persuasive in the past for cutting international cooperation programs in agriculture are now quite suspect. One of these is a supposition that arose when international commodity prices collapsed in the mid 1980s, the supposition that "we have solved the world food crisis." This collapse of international commodity prices in the mid 1980s was more the result of a world recession than it was an indication that food problems were being solved. In fact, the world recession and debt crisis of the mid 1980s led to a significant *increase* in poverty and unemployment (and hence hunger) in many developing countries, especially in Latin America and Africa. The deeply depressed international commodity prices of the mid 1980s are for the moment no longer with us in any case, and FAO projects that with or without low international prices the total number of chronically undernourished people in Africa will *increase* over the next two decades, from 175 million to 296 million by 2010.

Another suspect explanation for cutting international cooperation programs in agriculture is the frequently heard argument (it is an especially strong refrain among some inside the World Bank) that "agricultural projects tend to fail." Those that make this charge are looking at old numbers, and often at the wrong numbers. The proportion of World Bank projects in agriculture that failed in the past was indeed higher than in other sectors, but failure rates *per dollar invested* were respectably low for agricultural projects, at least everywhere except Africa. The economic rate of return on all agricultural project lending evaluated by the World Bank between 1967 and 1987 was 17.8 percent, almost identical to the Bank-wide average of 17.9 percent (Lipton and Paarlberg 1990). Many of the agricultural lending projects that failed in Africa and Latin America in the 1970s and 1980s were complex, large-area "integrated rural development" projects of the kind that are no longer being undertaken. And today the World Bank is justifiably proud of the performance of its agricultural projects. In fiscal 1996, 78 percent of completed agricultural projects at the Bank were rated satisfactory, which is 10 percentage points above the Bank average for projects in all sectors (World Bank 1996). Public policy perceptions clearly have not yet caught up with all of these realities. U.S. development cooperation policies should be building on past success, and should be helping to create the broad-based income growth in poor countries that will be essential for U.S. agricultural success in future years, but instead those policies have been threatened with dismantlement.

## VI. The New Challenge in Trade

Open trade policies will also be critical if prosperity abroad is to produce gains for U.S. agriculture at home. NAFTA in 1993 and the Uruguay Round in 1994 produced strong gains in the opening up of foreign markets to larger U.S. farm exports (for a summary of these gains, see Sek and Hanrahan 1996). But much more remains to be done in implementing these agreements, and in negotiating further market opening agreements elsewhere in the Western Hemisphere, across the Pacific, and with Europe. A NAFTA enlargement to include Chile, and a Free Trade Area of the Americas (FTAA) are waiting to be negotiated; the new dispute settlement powers of the WTO are now waiting to be used by the U.S. to maximum advantage; and in the WTO a new round of negotiations on agriculture, due to start in 1999, is already in preparation. The issues that might be addressed in this new negotiating round could include increased market access, further reductions in market-distorting domestic supports for agriculture, new disciplines on export subsidies, and better defined, scientifically justified sanitary and phytosanitary (SPS) import barriers. One issue that this next round might address, from the vantage point of U.S. agriculture, will be the issue of state trading entities (STE), such as the Canadian Wheat Board. The characteristics of these STEs give them considerable potential to distort markets through monopsony/monopoly powers, hidden subsidies, and hence export price distortions. The Uruguay Round agreement did not do enough to discipline STEs. In the next round an opportunity will exist to bring the transactions of STEs under greater discipline, or at least make them more transparent.

In the face of this full and promising agenda of new trade policy opportunities, U.S. leadership on trade has unfortunately faltered. In the aftermath of the Mexican peso crisis of 1994-95, populist sentiments against additional free trade measures temporarily became stronger within both parties. Efforts to restore the President's "fast track" negotiating authority (a necessary congressional action, if U.S. negotiators are to be credible in talks abroad) have so far been unavailing. Democrats in Congress won't renew fast track authority unless it is broad enough to make possible the negotiation of parallel guarantees on labor or the environment, while Republicans in Congress believe that further progress toward trade liberalization should not be held hostage to such guarantees.

To keep U.S. trade policy on hold because of memories of the 1994 Mexican peso crisis is illogical. That crisis (which is now largely repaired in any case) was not caused by NAFTA. It was the result of mismanagement of domestic credit by the central bank of Mexico. If NAFTA had not been in place in 1994, Mexico might have responded to this crisis in an even more damaging fashion, by raising import tariffs (just as it did in the earlier 1982 crisis). It is also illogical to allow U.S. trade negotiators to remain paralyzed by partisan differences over a

broad versus narrow reauthorization of fast track authority. Trade policy should be fertile ground for bipartisan cooperation, as it was when a Democratic Congress gave broad fast track authority to a Republican President in 1988, and when Republicans in Congress helped a pro-trade Democratic President secure implementing legislation for NAFTA and the Uruguay Round Agreements in 1993 and 1994.

In the area of trade policy, it is not only barriers abroad that need to be lowered, of course. Poor countries abroad will not be able to grow and become better customers for U.S. exports (including farm exports) if they are denied reciprocal access to U.S. markets. By some estimates, industrial country tariffs and non-tariff trade barriers now cost developing countries $40 billion a year, which is equal to two-thirds of the total dollar value of all development aid from the industrial countries. In 1994, ten thousand African workers lost their jobs when U.S. trade officials placed restrictions on imports of shirts and pillowcases from Kenya. If the U.S. had behaved this way toward the successful infant textile manufacturers and exporters of East Asia thirty or forty years ago, that region of the world would not be the development success story it is today, or the good customer that it is today for U.S. agricultural exports. Enlightened trade and development cooperation policies thus must apply to all if they are to work well together.

## VII. Responding to the Development Challenge: Improving Delivery Systems

Popular support for U.S. development cooperation policy will be hard to secure without a significant redesign of the institutional "delivery system" currently being used to promote development abroad. The system currently in use is unsatisfactory, for a number of reasons:

- *Too Much Central Regulation.* USAID headquarters hampers its own field staff with too many top-down regulations. In USAID's recent reduction in force, it is unfortunate that senior staff in Washington were cut less than junior staff in the field. Senior staff retained in Washington must make work for themselves, so they over-regulate the activities of a dwindling number of junior colleagues in the field.
- *Too Much Congressional Micro-management.* Congress hamstrings and overburdens USAID by establishing too many competing objectives. A 1989 report from the House Foreign Affairs Committee actually identified 33 different and independent *statutory* goals and objectives for USAID and (believe it or not) 75 different "priority" areas. Congressional earmarking is also a burdensome practice. As of FY 1993, approximately 57 percent of Development Assistance (DA) from USAID and 84 percent of the Economic Support Fund (ESF) and 96 percent of Foreign Military Financing (FMF) was earmarked. Sometimes it is the non-responsiveness of the USAID

bureaucracy that forces Congress and outside groups to resort to the earmarking approach, but it is an unfortunate approach all the same, since it gets in the way of flexible decision making. Earmarks take discretionary authority away from officials on the scene and generate irrationalities in the expenditure of funds. Congress decided many years ago that it should not try to micro-manage U.S. monetary policy (when it created the semi-autonomous Federal Reserve Board), and it later reached the same conclusion in the area of U.S. trade policy (when it created the semi-autonomous Office of the U.S. Trade Representative). Regrettably it has not yet overcome the temptation to mico-manage U.S. development cooperation policy abroad.

- *Difficulties Cooperating With the Private Sector.* USAID's excessive headquarters regulation, inflexibility, and congressional micro-management is especially damaging when it hampers efforts to cooperate with private U.S. companies, universities, and PVOs. In the field, PVOs lose patience and give up when they discover that the local USAID representative has no discretion to provide funding for good new proposals, or can only provide funding after a long delay, or can only provide funding with onerous strings attached, such as impossible reporting or procurement requirements. Contracting partners in the U.S. pull out their hair when USAID forces them into a wasteful and repetitive competition with each other, responding to thick, turgid, innovation-killing and overly-specified RFPs. Even if a contractor wins this competition, it will then face such delay and uncertainty in getting the money that staffing and budgeting efforts will be a shambles. Private U.S. business firms that must move fast to seize profitable investment opportunities can't accommodate USAID's sluggish response time, and are often exasperated to learn just how constrained the U.S. government has become (in contrast to governments in Europe, or Japan) in working cooperatively with U.S. business corporations.
- *Too Many Short Term Diplomatic and Security Constraints.* Yet another source of institutional trouble with the U.S. development cooperation delivery system is the persistent intrusion of short-term diplomatic and security concerns. Even in today's post-Cold War environment, State Department and Defense Department concerns have an unfortunate way of swamping the Administration by assistance professionals of long-term development cooperation efforts. A large part of the USAID budget is not allocated with economic growth purposes in mind, but rather in pursuit of military security or short term diplomatic cooperation. These are worthy purposes on their own terms, and sometimes they can provide a substantial collateral boost in the area of broad economic development (for example in Korea and Taiwan, as noted above), but they can also get in the way of a sound development strategy. Development cooperation has to work over the long term, and the long view can be disrupted if assistance funds are extended or withdrawn in response to short term diplomatic or security priorities. Development opportunities can be lost if funds that could be going to nations or regions with rapid income growth potential are hijacked instead to help finance

international security efforts or diplomatic understandings. The Vietnam War badly distorted the global distribution of U.S. assistance funds in this fashion in the 1960s and 1970s, and since the late 1970s an open ended priority given to financing peace agreements in the Middle East (at a cost of roughly $5 billion a year to support the twenty year old Camp David agreements) has left fewer funds available for priority development cooperation work elsewhere.

- *Too Little Coordination With Other Agencies.* A fourth source of institutional trouble has been poor coordination between USAID and other U.S. government agencies such as Commerce, Agriculture, and most of all the Treasury Department, which takes the lead in managing U.S. contributions toward international financial institutions such as the World Bank.

Reacting to this summary view of existing flaws, at least three large objectives should be pursued in any effort to redesign U.S. foreign development cooperation institutions: an increased capacity to build wide-ranging development cooperation partnerships, a reduction in congressional micro-management, and a reduction in subordination to short term diplomatic concerns.

*Closer Partnerships*

All core U.S. development cooperation agencies (starting with USAID) need to increase their capacity to form closer partnerships and alliances with other U.S. government agencies, with multilateral organizations, with other donor governments, with recipient governments, with private U.S. firms, and with U.S. PVOs (plus the larger networks within which those PVOs operate). We shall describe, below, what some of these improved partnerships might look like, especially with business firms and PVOs. But to form these partnerships, USAID must make itself a more inviting institutional ally. It needs to develop a stronger capacity throughout for flexible, autonomous action, and it needs to free up its field officers from excessive headquarters regulation. It needs to stop over-specifying program design, and be quicker and more flexible with its commitment and delivery of financial resources. It needs to be less squeamish about entrusting a part of the development cooperation task to profit-making U.S. companies. USAID tells recipient governments to trust the private sector, but too often it distances itself from - or seeks to over-regulate - its potential partners within the U.S. private sector. And it needs also to learn how to network more effectively, both at headquarters and in-country, with U.S. PVOs and the larger PVO community. USAID officials today spend too much time advancing and protecting their careers through network-building activities within the corridors of the agency itself, and not enough time building alliances and partnerships with PVOs, with investors in the private sector, and with officials in allied agencies or organizations.

*Reduced Micromanagement from Congress*

A second large institutional reform objective, corollary to the first, must be to reduce the degree of USAID micro-management by Congress. The encrusted language of the original Foreign Assistance Act needs to be revised to include more explicit support for trade, environment, and equity. Statutory program objectives should be described in less burdensome number and detail. Appropriations earmarks should be minimized, and reporting requirements should be made less onerous. Also, Congressional oversight of USAID should be conducted more often at a distance, and more by the substantive authorizing committees of Congress (Foreign Affairs and Foreign Relations), and less by the appropriations committees. The annual appropriations process tends to reflect short-term perspectives of non-specialist members who may have only district or partisan concerns (or at best only budget number concerns) in mind. Ideally, U.S. development cooperation policies should be funded from a longer term perspective, either through a long term institutional grant, or through self-replenishing instruments such as revolving funds.

*Reduced Dictation from the Foreign Policy Community*

A significant portion of U.S. assistance abroad during the Cold War went through the Economic Support Fund (ESF). The ESF provided U.S. diplomats with the "walking around money" they needed to round up allies in the battle to contain communism. With the end of the cold war, these funds have been cut steeply, and an opportunity has arisen to free the rest of the U.S. development cooperation budget from the often damaging effects of short term fluctuations in U.S. diplomatic relations abroad. Short-term diplomatic conflicts with foreign governments over human rights violations, drug trafficking, or nuclear weapons programs should not have to get in the way of longer term development cooperation efforts. These efforts can be designed to promote private markets and boost the health, welfare, and income of poor citizens, not the governments of those citizens. When long term development cooperation efforts are interrupted as a consequence of short term diplomatic difficulties, those diplomatic difficulties are frequently worsened in any case.

ESF activities might appropriately remain under the direction of the U.S. diplomatic community, but other development cooperation activities, if they are to be successful on their own terms (and if they are to attract a sufficient number of partners from the private sector, from PVO networks, and from the multilateral assistance community), deserve a degree of insulation from the daily business of diplomacy. The U.S. agricultural community should be especially sympathetic to this requirement, since it has been damaged in the past by excessive foreign policy dictation. The 1980-81 grain embargo, imposed on U.S. agriculture by the foreign policy community, did little to punish the Soviet Union (for its invasion Afghanistan) yet the embargo created for U.S. grain

exporters a long-term credibility problem in the minds of potentially valuable foreign customers who did not wish to make themselves vulnerable, in the event of future diplomatic difficulties, to a possible renewal of foreign policy driven embargo tactics.

Whenever it is suggested that U.S. development cooperation programs should be given greater insulation from U.S. diplomatic operations, some friends of those programs worry that the broader political coalition that has helped generate congressional support for these programs could become split or weakened. Perhaps Congress, if not given an integrated budget for all international affairs activities, might begin selectively to fund just aid for the Middle East, while imposing even deeper cuts on real development cooperation elsewhere. This is a significant concern, yet there are just as many tactical arguments on the other side.

A complete subordination of development cooperation policy to diplomatic calculations is currently the preference of some leaders in Congress. We believe this approach would bring serious costs. Development cooperation activities need greater independence from the State Department, not greater subordination.

## VIII. Institutional Change: Long Term and Short Term Goals

The long-term objective should be to redesign USAID as a more independent institution, less burdened by congressional micro-management, less hampered by short term diplomatic calculations, and better able to partner with other public and private sector institutions. A number of specific reorganization proposals are now circulating that would seem to meet these requirements. For example, the Overseas Development Council has recently proposed housing bilateral U.S. development assistance in an International Development Foundation, an operational grant-making entity that would focus on a limited set of achievable development challenges jointly agreed on by the Executive Branch and Congress. To make this foundation attractive to potential partners, and to give those partners a healthy measure of "ownership" in program activities, the grant-making process would be substantially demand driven.

Some prominent agriculturalist reform advocates are also on record supporting elements of this approach. Professor Vernon Ruttan of the University of Minnesota has proposed moving the bulk of USAID's bilateral economic development and humanitarian assistance activities into *two* new semi-autonomous entities, one designed to foster sub-contracting partnerships with universities, research institutes, and relevant departments of other U.S. government agencies (e.g. Agriculture, Commerce, EPA), with funding provided not through annual appropriations but through a long-term institutional grant,

and the other designed to build partnerships with PVOs and private firms, funding programs on a competitive bid basis. Ruttan points to the success of a number of public foundations already in existence, including the Asia Foundation, the Inter-American Development Foundation, and the African Development Foundation, as precedents that lend credibility to this approach (Ruttan 1996).

Such proposals envisioning a semi-autonomous entity for delivering development cooperation policy have periodically enjoyed a significant degree of support in Congress. In 1989, a bipartisan proposal not so different from the Ruttan proposal actually came close to being enacted into law. The International Economic Cooperation Act (H.R. 655) was passed the U.S. House of Representatives by a 314-101 margin. The House bill did not go as far as might be preferred in reducing the practice of country and program earmarking, or in transferring funds from ESF to genuine development assistance, but it did place heavy stress on partnerships with PVOs, universities, and the private sector. This measure later failed to become law when a parallel authorization bill never reached the Senate floor for a vote.

The long-term goal, over the next several years, should be to rebuild a consensus for this nearly successful move toward increased institutional flexibility and independence at USAID. In the political climate of 1997, however, it seems unlikely that such a move could gain support from the key congressional committee chairs and executive branch officials needed to ensure success. In the political climate of 1997, it might be unwise to embark upon a radical dismantling of the existing institutional structure at USAID, since there are those in today's Congress that seem to prefer a development agency that is even weaker and less independent than the one we currently have.

As a short term strategy, therefore, we prefer to press changes onto USAID administratively, or through a reprogramming of funds in the direction of the various partnering activities we are describing here, rather than legislatively through a complete rewrite of the Foreign Assistance Act. We believe there are abundant short-term opportunities to engage administratively in this sort of redirection and reprogramming.

## IX. Opportunities to Move Toward Partnership

We have stressed the importance of creating a development cooperation delivery system that enlarges the space available to form alliances or partnerships with other public sector agencies at home and abroad, and between the public and the private sector. Why are such partnerships attractive, and, in practice, what might these partnerships look like? Different partners might be attractive for different reasons and purposes.

*Multilateral Agencies*

The reasons to partner with multilateral agencies are mostly financial. Small U.S. initiatives taken through multilateral institutions, such as the Consultative Group on International Agricultural Research (CGIAR) or the International Development Association (IDA) inside the World Bank, can leverage parallel contributions that might not otherwise be made by other wealthy country governments, in Japan and Europe. This is an opportunity currently being underutilized. In 1996, only about 10 percent of U.S. aid resources went through multilateral agencies. The Overseas Development Council and others strongly support multilateralization. Other donors have been more aggressive than the U.S. in capturing multilateral funds to support their own specific interests (specifically to support employment of their own nationals as consultants), but this is a problem that might be more easily addressed if the U.S. role working with multilateral agencies were enlarged.

The imperative to leverage internationally is strong. Worldwide, the U.S. now provides only about one-sixth of the total volume of official development assistance, and can have much greater influence over the remaining five-sixths if it works through multilateral institutions. Within the World Bank, U.S. leverage is now being lost due to reduced U.S. contributions to the International Development Agency (IDA), the long- term low interest loan window at the Bank. For FY 1997, President Clinton requested $934 million for the IDA, but Congress approved only $700 million. U.S. failures to honor earlier commitments to the IDA actually resulted in the exclusion of some U.S. companies from participation in IDA projects, confirming that there can be a direct cost to U.S. interests from non-cooperation in multilateral settings.

The World Bank is also an attractive partner on financial grounds because of the vast lending resources it can mobilize at no cost to U.S. taxpayers, when it borrows funds from private international capital markets. It is these financial strengths, in part, which make multilateral financial institutions the best venue in which to pursue the most expensive "bricks and mortar" aspects of development cooperation policy abroad. Also the "policy dialogue" dimension. Borrowing countries that need to reform their policies are more likely to listen if the reform steps requested are conditions for large World Bank loans, rather than conditions for the much smaller bilateral transfers that USAID can afford. For such reasons, close partnership relations with multilateral agencies and lending institutions are a necessary foundation for U.S. development cooperation success abroad.

Building these partnerships is currently difficult in part because it is the Department of the Treasury, not USAID, that takes the lead in managing U.S. relations with multilateral development banks. Some (such as the Overseas Development Council) have advocated giving this management function to

USAID. This is desirable, but politically unlikely. A more probable remedy would be to redesign interagency (and inter-branch) procedures. One suggestion is to form a "MDB Agriculture Task Force," composed of representatives from USDA, Commerce, USTR, USAID, and staff from relevant House and Senate committees, to meet every two months so as to remain abreast of Treasury/MDB policy initiatives (Bathrick 1996). In partnering with MDBs, USAID brings an important resource to the table: a continuous in-country staff presence at many locations in the developing world. Many MDB activities are currently undertaken with little local knowledge on a thin foundation of information gained only from brief on-site consultations. While USAID is leveraging MDB financial resources, MDBs can thus be leveraging USAID field staff expertise. Particularly if the USAID field staff in question are also actively partnering with U.S. private companies, universities, and PVOs, all will gain as a result.

Some non-MDB multilateral agencies are also useful partners, even though they may not have significant financial resources. The Food and Agriculture Organization (FAO) of the UN, although at times maligned for its bureaucratic procedures and frequent lack of accountability, can help supplement U.S. development cooperation efforts to good effect in a number of specialized areas. For example, it was through the plant protection division of FAO that the U.S. government (with leadership from EPA as well as USDA) helped broker an important agreement on safe use of pesticides (the Prior Informed Consent provision of FAO's Code of Conduct on safe pesticide use), a rare instance in which common ground was established between private international agrochemical industries and the activist international environmental movement. FAO has also been instrumental in helping to promote environmentally friendly integrated pest management (IPM) techniques, especially in East and Southeast Asia, where insecticide use poses a serious environmental and human health threat.

*Other U.S. Government Agencies, including State Governments*

The reasons for USAID to partner with other agencies of the U.S. government and also with state government are self-evident. Many U.S. cabinet departments (including Agriculture) already have a significant embassy-based presence abroad and substantial program activities in numerous areas linked to development cooperation. The USAID of the future should look beyond its own corridors and imagine partnering or alliance opportunities with these other U.S. government agencies. The job of international development cooperation is a big job, and should be done abroad by a wide mix of U.S. government agencies including Commerce, Agriculture, Treasury, USTR, EX-IM, OPIC, Peace Corps, EPA, NIH, Interior, and HHS. State governments also invest heavily in promoting technical exchange and trade, and should be included in the larger set of partnerships used to promote development cooperation abroad.

One recent example of what other government agencies can do in the development cooperation area is a new food aid monetization activity in Cote d'Ivoire, in which USAID plays only a minor role alongside USDA's Food for Progress program, and a PVO, Winrock International. Winrock sells USDA donated dark northern spring wheat in Cote d'Ivoire, and uses the proceeds for both market development and economic development, including support of the bread baking industry, training of bakers, and also the education of women in agriculture and environmental sciences. Through this partnership between USDA, and a U.S.-based PVO, multiple objectives can be more effectively pursued. USAID should encourage such activities by other agencies, as a means to escape the constraints presented by its own limited budget resources.

*Reasons to Partner with Foreign Governments*

U.S. development cooperation work abroad will be most successful if it is done with foreign governments that feel themselves to be "invested" in the process. The OECD has stated the goal in plain language: "Acceptance of the partnership model... is one of the most positive changes we are proposing in the framework for development cooperation. In a partnership, development cooperation does not try to do things for developing countries and their people, but with them. It must be seen as a collaborative effort to help them increase their capacities to do things for themselves. Paternalistic approaches have no place in this framework." (OECD 1996, p. 14). This means that these foreign governments need to be brought into the formulation of policy at an early enough stage to feel a sense of ownership, and it means that USAID overseas personnel need to be freely empowered to develop this sort of relationship with foreign government counterparts. USAID personnel are already formally "accredited" to other governments, giving them vital access to key ministries, but too often they are hampered from seizing opportunities because of top heavy intrusions from Washington, and because of stifling procedural requirements, even when only small amounts of money are involved.

*Reasons to Partner with PVOs and Universities*

Reasons to partner more extensively and more effectively with U.S. PVOs and universities are abundant. As USAID sees its own resources diminishing, it should seek opportunities to make more effective use of PVO networks around the world. PVO personnel are often highly motivated and well informed about the needs and circumstances of grass roots communities in developing countries. They are often better trusted than official government personnel in rural areas, and better able to work across the political dividing lines within countries that can paralyze public sector development or relief efforts.

Partnering with PVOs and universities can best be accomplished on a case by case basis in-country, by USAID officials given enough authority to respond to good project and program ideas generated within local PVO networks. Moving USAID toward the model of a grant-making foundation, the long run goal stated above, could increase local partnering opportunities dramatically. In making funding decisions the U.S. representative would respond to locally generated proposals, assess the quality of the program (or innovation), its potential spread and sustainability, the special needs of intended beneficiaries (women, children, vulnerable groups), benign environmental effects, the commitment and caliber of the leadership of the PVO both in the U.S. and in the cooperating country, and other criteria. A "portfolio" of programs could be built with resulting impacts that Americans as a whole could be proud of.

Grants would be made on a competitive basis involving experienced and responsible country nationals. Necessary host government approvals would be sought, but the funding process should be as independent of government management as possible once agreement is reached on the merits of an initiative. Grants might be for 5-10 years, with periodic reviews during this time, reviews that could terminate the grant if funds are not being used as agreed or the innovation is not demonstrating sufficient payoff.

Such an approach to development cooperation would be facilitated by a continuing U.S. official presence in cooperating countries, but not the kind of high unit-cost presence exemplified in today's USAID missions. A selected cadre of development professionals who have language, cultural, and other skills relevant to working with counterparts in the particular country could evaluate proposals and then facilitate partnership activities at relatively low cost to U.S. taxpayers. Not all development efforts should be at the grass roots, of course. There are many investments waiting to be made in infrastructure and institutional capacity that only the public sector can finance. But if partnering opportunities with grass roots PVOs and private sector firms are missed, public sector investments alone will fall short.

*Reasons to Partner with Private Investors*

Reasons to partner with private investors are compelling. Private investments are an all-important source of development support throughout Asia, Africa, and Latin America. While official governmental aid (from all countries) has stagnated recently at $55 billion to $65 billion annually, private investment in the developing world reached $167 billion last year, up from $44 billion in 1990. Public resources have declined from providing (as late as the 1980s) three-quarters of external financing to development, to less than one quarter today. Any U.S. development cooperation effort that fails to work with and help shape these increasingly important private investment flows will steadily lose relevance.

As one example of an effective use of private sector resources, consider the U.S./Newly Independent States (NIS) Agribusiness Partnership, a joint ventures program begun in 1992, through which some 22 agribusiness partnerships have now been initiated with support from two USAID guarantees. The ratio of government to private financing is roughly 1 to 3.5, indicating a substantial leveraging of private resources. In twelve of these joint ventures so far, satisfactory to excellent results have been achieved in the development of long term business relationships designed to increase food availability and quality in the states of the former Soviet Union (five have experienced implementation problems, and the rest are too new to be evaluated). The focus of these partnerships is on technical assistance and transfer of western management skills through training on-the-job and short-term, in areas such as meat processing and marketing, potato production, and corn processing and feed mill manufacture.

By themselves, private investment flows may not have adequate reach into the poorest regions (often the countryside) of the poorest countries. Three-quarters of all private money going into the developing world goes to just a dozen or so favored countries. Official agencies such as the International Finance Corporation (IFC) of the World Bank and the U.S. Overseas Private Investment Corporation (OPIC) deserve support from Congress in their efforts to promote, through inexpensive investment guarantee programs, increased investment in less favored nations and regions. USAID (or its successor agency) should join in this effort, learning from these agencies how it also can design better partnering relationships with the private sector.

None of this stress on partnering relationships is intended to deny the irreplacability of some more traditional bilateral or multilateral "government to government" development cooperation measures. There are some necessary ingredients in the development process (e.g., rural roads, school systems, irrigation management institutions, better state policies) that PVOs are not equipped to provide and that private sector actors have little incentive to provide because these ingredients are, in their essence, "public" goods. But once these public goods are in place, development cooperation efforts should concentrate on mobilizing PVO networks and private sector investments.

The public/private sector partnering model we are describing here is not the same thing as "tied aid," of the kind widely used by Japan and long opposed by many in the U.S. assistance community. Aid given with a "buy American" tie-in is trade-distorting, and looks too much like corporate welfare. We are, however, advocating an inclusion of the private sector in U.S. development cooperation policy strategies.

## X. Parallel Trade Policy Responses

If U.S. agriculture is to benefit from future economic growth abroad, trade policy reforms will also be needed. A first step should be prompt renewal of "fast track" negotiation authority. Fast track procedures have been a key to the successful conduct of U.S. trade policy ever since 1974, when Congress first made them available to the President. They allow U.S. trade officials to negotiate with credibility abroad because they specify that any agreement reached will either be approved or rejected by Congress *without amendment* (in a single deadline-driven, limited-debate, up-or-down vote). Without fast track guarantees, foreign governments will be reluctant to offer any concessions to U.S. trade negotiators, for fear that Congress will ask for still more concessions after the "final" international bargain has been struck.

Congress has known for years (ever since the disastrous Smoot-Hawley Tariff Act of 1930) that it should not attempt to micro-manage trade policy. And it has known at least since the 1960s (when it created the semi-independent Office of the U.S. Trade Representative) that it should not try to micro-manage the conduct of trade negotiations. Unfortunately Congress seems to have forgotten, since 1994, the importance of allowing presidents to submit negotiated agreements for ratification on a clean up-or-down basis. Unless fast track authority is renewed by Congress, the next round of trade talks will have to be postponed and the significant follow-on trade expansion opportunities that are now waiting to be captured for U.S. agriculture will be lost.

The fast track renewal debate has recently been paralyzed by partisans in Congress catering to groups holding opposing positions on labor and environment issues. Democratic partisans have insisted that any renewal of fast track must come with guarantees that future trade agreements will provide extraordinary protections for labor and the environment. Republican partisans have insisted that labor and environmental protection issues should play no role in future trade negotiations. So long as this paralysis continues, both sides will lose. There will be no new international protections for labor and the environment, and no new market opening trade agreements. One attractive escape from this paralysis would be to renew in 1997 the same kind of fast track authority given to President Bush by a Democratic Congress in the 1988 Trade Act, authority which is flexible in that it neither prohibits nor requires labor and environment conditionality. This bipartisan approach brought results in both NAFTA and the Uruguay Round and should be considered as a worthy approach to ending the current trade policy blockage.

While trade negotiators should be empowered to pursue the goal of opening markets abroad for U.S. farm exports, USDA officials also have a role to play - often in partnership with the private sector - in the promotion of those exports. The resources and instruments of export promotion currently available to the

USDA are considerable. USDA is even accused, on occasion, of operating an export promotion program that is disproportionately large compared to programs in other sectors, and of operating programs that violate free market principles, or that provide undeserved "corporate welfare" benefits to U.S. companies. Our working group held a range of views on USDA's proper role in export promotion. A majority believed that most currently used export promotion instruments should be retained, but most also agreed that some discipline and rebalancing in the use of those instruments was in order. We would prefer to see budget dollars spent on real market development programs - especially for high value products - rather than on the direct subsidization of lower-value bulk commodities.

Many in our working group believed there was justification for investing public funds, in partnership with the private sector, in the development of additional markets for U.S. farm products abroad, especially high value products. Public support for dietary diversification and improvement in foreign countries is good for both foreign development and for U.S. agriculture. Several existing programs (including the Market Access Program - or MAP - and the Foreign Market Development Cooperator Program - or FMD) operate in a partnering fashion, build future markets, and deserve to continue. The objective of these programs is to acquaint potential customers, especially in high income growth regions such as East Asia, with the full mix of high value farm products that U.S. producers, processors, and exporters have to sell. Critics brand these programs as "corporate welfare" (the same criticism that has been leveled at OPIC), yet claims can also be made for their success (exports of California wine, promoted through this program, have increased dramatically over the past ten years). If disciplined and well-managed these programs they can represent a responsible partnership effort between the public and the private sector. These programs do not distort trade; the new Uruguay Round agreement on agriculture recognizes as much by placing them in the unrestricted "green box"). And the dollar cost to taxpayers is relatively small. The MAP is currently being funded at less than $100 million a year.

We are less certain that the taxpayer's marginal dollar should be spent on high volume direct export subsidy programs, such as the Export Enhancement Program (EEP). Most of the benefits of direct export subsidies are captured not by U.S. farmers, or even by foreign food consumers, but by foreign governments. Under EEP, foreign governments (for example, the government of China, or the government of Egypt) can get the U.S. commodities that they would have purchased anyway at an artificially low price. And when extra U.S. sales abroad are generated by EEP, the result is not always good for U.S. producers. In recent years the use of EEP to expand U.S. wheat sales abroad has brought a perverse result: larger sales of Canadian wheat to the U.S. We believe it is unfortunate that USDA has historically spent so much more on EEP than on more genuine market development programs such as MAP and FMD. Now that

direct export subsidy use by competitors such as the EU is limited under the Uruguay Round agreement, we see an opportunity to stop stressing direct export subsidies in U.S. farm sales promotion programs.

USDA operates a number of other programs in the export promotion area which work well, including a small Emerging Markets Program (EMP) originally authorized in the 1990 farm bill, which promotes development and exports through sharing of U.S. agricultural sector expertise, and several international cooperation and development programs, such as the highly regarded Cochran Fellowship Program (CFP). Since 1984, the CFP has provided training in the U.S. for more than 4000 agriculturalist participants from 47 different countries; this training is offered in close association with USDA agencies, and with private U.S. agricultural trade and market development associations. Funding is leveraged by utilizing, where possible, PVOs or other private groups to provide some of the hosting, technical training, and logistical support for the international trainees. USDA has been able to document a number of direct benefits to U.S. farm exports from the CFP (wheat to Slovenia, popcorn to Colombia, soybean products to Bulgaria, and high value products to Poland, China, Indonesia, and Malaysia), plus the creation of new business to business contacts and university linkages.

In the area of agricultural trade promotion, USAID as well as USDA should also seek better ways to partner with state-level government, farm, or industry group organizations in the U.S. The professionalism of state-level agencies is much higher today than it was a generation ago, and in the age of globalization the international focus of these state agencies has been dramatically enlarged. State organizations are frequently more innovative, more flexible and responsive, and sometimes even better funded than federal agencies today. U.S. private sector and PVO organizations are already deeply connected at the state level, and federal institutions should find better ways to partner with states as well.

## XI. Conclusion

Friends of U.S. agriculture should be worried about any further diminution of U.S. foreign assistance and trade expansion efforts abroad. Much of the prosperity of U.S. agriculture today is a reflection of such efforts in the past. The prosperity of U.S. agriculture in the future depends heavily upon what we do today.

Three things should be done immediately. First, we should reverse the recent drop in budget resources allocated to international development cooperation activities. A reversal of the downward trend in the 150 account and a restoration

of development cooperation resources within that account should be a bipartisan policy priority in 1997. President Clinton's call for an increase in the 150 account for FY 1998 should receive support from all friends of American agriculture.

Second is a need to reconfigure the institutions and practices we use in delivering development cooperation policies abroad. We should have less of some things (less centralized regulation, less congressional micro-management, and less subordination to short-term diplomatic concerns), alongside more frequent and more effective partnering with private companies, PVOs, and multilateral organizations. As development cooperation resources are being restored, in other words, a larger share of those resources should be redirected toward partnership activities, private sector activities (profit and non-profit), and away from ineffective Cold War era government-to-government budget support programs.

Third is a need to revitalize U.S. trade expansion activities abroad by breaking the partisan deadlock over renewal of fast track negotiating authority.

How can policy leaders, particularly in Congress, be persuaded to support such an agenda for U.S. development cooperation and trade policy reform in 1997? One key to success will lie in creating a broad coalition to promote change. This will mean engaging not just farm and agribusiness organizations; not just U.S. universities and development PVOs. It will also mean reaching beyond those with a specialized knowledge or interest in food and agriculture. Population policy, health policy, and environmental policy leaders should be engaged as well.

But a parallel requirement for success will be a sustained leadership effort from within the U.S. agricultural community itself. American agriculture is not only financially strong and globally engaged. It is also politically sophisticated and well- organized. In its own self interest it should now invest a larger portion of its own political energy in the defense of enlightened, reformed, and revitalized U.S. development cooperation and trade policies abroad.

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