

The USAID logo consists of the word "USAID" in a bold, sans-serif font, centered within a black rectangular box.

WHY FOREIGN AID?



January, 1995

"What then should we say to those who claim that foreign aid is nothing more than international welfare, that aid creates dependency, that markets alone will do the job, or that events in places like Haiti or Rwanda do not affect us? What should we say to those who claim that we are throwing money away?"

We say: look at the facts. They say otherwise."

J. Brian Atwood, Administrator, U.S. Agency for International Development

Why Foreign Assistance?

- Foreign assistance programs work in America's best interests, and the less than one half of one percent of the federal budget that goes toward economic and humanitarian assistance abroad is a sound investment in economic growth and crisis prevention.
- American leadership through foreign assistance programs is creating the markets of the future for the United States and helping advance peace and prosperity around the globe.
- Foreign assistance is an investment in building democracies, free markets and strong allies. Foreign assistance programs work, and they have achieved a long list of accomplishments.

A Record of Accomplishment

- Some have said that foreign assistance doesn't make a difference. Most of those people haven't taken the time to look at the record.

- **In the past 50 years, infant and child death rates in the developing world have been reduced by 50 percent, and health conditions around the world have improved more during this period than in all previous human history.**
- There has been a 10 percent reduction in infant mortality rates worldwide in just the past eight years.
- Life expectancy in the developing world has increased by about 33 percent, and the percentage of rural families with access to safe water has risen from less than 10 percent to almost 60 percent.
- Smallpox has been eradicated worldwide, the guinea worm will be eradicated within three years.
- **More than 3 million lives are saved every year through USAID immunization programs.**
- Oral rehydration therapy, a low cost and easily administered solution developed through USAID programs in Bangladesh, is credited with saving tens of millions of lives.
- **In 1980, only 20 percent of the world's children were immunized, today 80 percent are.**
- In the past 20 years the number of the world's chronically undernourished has been reduced by 50 percent.
- Average real incomes since WWII have doubled in the developing world.
- The Green Revolution resulted in the most dramatic increase in agricultural yields and production in the history of mankind, allowing nations like India and Bangladesh to become nearly food self-sufficient.
- **Investments in better seeds and agricultural techniques over the past two decades have made it possible to feed an extra billion people in the world.**
- **Forty three of the top 50 consumer nations of American agricultural products were once foreign aid recipients.**
- **Between 1990 and 1993 U.S. exports to developing and transition countries increased by \$46 billion.**

- Millions of entrepreneurs around the world (many of them women) have started or improved small businesses through USAID assistance.
- Literacy rates are up 33 percent worldwide in the last 25 years, and primary school enrollment has tripled in that period.
- In the 28 countries with the largest USAID-sponsored family planning programs, the average number of children per family has dropped from 6.1 in the mid 1960s to 4.2 today.
- **More than 50 million couples worldwide use family planning as a direct result of USAID's population program.**
- In Indonesia each dollar spent for family planning will result in \$12.50 of savings in public expenditures for health and education, since as the use of family planning increases, the number of children requiring education and people needing health care increases more slowly.
- Since 1987, USAID has initiated HIV/AIDS prevention programs in 32 countries and is the recognized technical leader in the design and development of these programs in the developing world. Over 850,000 people have been reached with USAID HIV prevention education, and 40,000 people have been trained to support HIV/AIDS programs in their own countries.
- **As recently as 1981, 60% of the governments in Latin America were dictatorships or military governments. Today, 98 percent of the Americas now enjoy democratically elected governments.**
- In the last three years, over a third of the world's nations have changed the course of their political development toward democracy.
- The United States is the largest food donor in the world, providing more nutrition to needy people than all other donors combined.
- Early USAID action in southern Africa in 1991 prevented massive famine in the region, saving millions of lives.
- **Eighty thousand people and \$1 billion in U.S. and Filipino assets were saved due to early warning equipment installed by USAID that warned that the Mount Pinatubo volcano was about to erupt in 1991.**
- Renewable energy -- solar, hydroelectric, biomass, wind, and geothermal -- now provides 20% of the world's energy demand, and its share is growing.

especially in the developing world. This is good news for the global climate.

- The use of wind and geothermal power has increased by 650% in the last 25 years.
- **Over the past decade, USAID has targeted \$15 million in technical assistance on the energy sectors of developing countries. Our aid has built a \$50 billion annual market for private power. U.S. firm capture the largest share of these markets, outcompeting Japan and Germany.**
- Over the past decade, USAID has funded innovative approaches to energy conservation in Pakistan, resulting in a 4% drop in energy losses, \$37.6 million in savings and considerable environmental benefits.
- Twenty six protected areas in Latin America, totalling 14 million acres in 12 countries, have received USAID assistance to improve the management, financial sustainability, and sustainable economic development of national parks as important reservoirs of global biodiversity.
- The U.N. International Drinking Water Supply and Sanitation Decade in the 1980s resulted in 1.3 billion people receiving safe drinking water sources and 750 million people receiving sanitation for the first time.

USAID's Approach

- **USAID's approach uses foreign assistance as part of an overall package to effectively move nations toward free markets, democratic governments and greater prosperity.** Open governments and open markets go hand in hand, and USAID pays equal attention to a number of factors when considering a nation for development assistance, including: strategic importance, a willingness to foster free markets and democracy, ability to work as a good partner, and economic policy environment .
- It is **also** important to note that most highly respected economists argue that **real economic growth does not come from economic policy alone.** It comes from a proper blend of sound economic policies freeing up an educated population. It also demands the framework of a civil society. **USAID's programs help create just that kind of enabling environment for economic growth by focusing on the four areas that have the greatest impact in the developing world today: economic policy, population and health concerns, democratic governance and environmental policy.**

- Economist Robert J. Barro noted in a 12/1/94 Wall Street Journal editorial, that the growth rate of real per capita gross domestic product was dependent on more than just economic policy -- **"The favorable elements include small distortions of market prices, and inclination and an ability of the government to maintain the rule of law, high levels of health and education, low government spending on consumption and a low fertility rate."** These are just the kinds of institutional and social conditions that USAID's programs support.
- **USAID** always has maintained that economic growth is a key to sustainable development. There is wide agreement that a sound policy environment is a key to economic growth. Those nations which unwilling to embrace significant reforms in social and economic policy will not receive assistance, as evidenced by the announcement of the closure of 23 USAID missions in nations which either were not "good partners" or which no longer needed development assistance.
- **Foreign assistance makes a real difference.** Indonesia, for example, is one of the most dynamic economies in the world today, and has been for quite some time. Indonesia's economy has grown by more than 7 percent during the 1970s, and nearly 6 percent during the difficult 1980s and 1990s. **Indonesia has almost halved the number of its citizens living below the poverty line, moved from being the world's largest rice importer to achieving rice self-sufficiency, cut total fertility by over 40 percent in the last two decades, halved infant and child mortality and undertaken a major restructuring of its economy.**
- **India offers another good example.** India was counted out by some in the 1960s and 1970s, and some are still counting India out in the 1990s. **But India grew at 3.4 percent even in the 1970s, and has quietly raised its growth rate to more than 5 percent in the 1980s and 1990s. (The U.S. grew at 2.7 percent during the same period.)** Lack of agricultural growth held back the Indian economy in the 1970s, but agricultural growth has exceeded population growth since then, and industry has grown annually by more than 6 percent in the 1980s and 1990s. In 1991, a new government started to liberalize India's economy in line with accelerating trends elsewhere in Asia and the rest of the world. Reforms are under way in the investment climate, trade policies, the financial sector, taxation and public enterprises.
- Bangladesh is a classic example of a country where people said that assistance would not make a difference. But it has. **Bangladesh, somewhat like India, has raised its economic growth rate from 2.3 percent in the 1970s, to a respectable 4.2 percent in the 1980s and 1990s.** The World Bank notes in a

recent report on Bangladesh that "population growth is lower, rice output has increased dramatically, a structural reform program has been underway for four years, the macroeconomy is stable, the balance of payments is sound, investments in education and health are proceeding and democratic institutions are stronger than ever before."

Development and Export Markets

- Foreign aid directed at development serves a variety of national interests, and is not just a matter of humanitarian concern. It serves national security interests and U.S. economic interests. Developing countries as a group have been the United States' fastest growing market. **Within the developing world, the more successful regions and countries have offered the most rapidly expanding export opportunities -- and U.S. exporters have taken advantage. Not only are U.S. exports to these expanding markets growing rapidly in absolute terms, in a setting of increasingly open markets and diminishing protectionism, U.S. exports have grown more rapidly than those of our main competitors and America is gaining market share.**
- **Exports play an increasing role in the U.S. economy. The share of exports in GNP was 5 percent in 1960. As late as 1985, it was 7.5 percent. In 1993, it was 10 percent. Developing countries have been our fastest growing markets.** Exports to Asia, Latin America, the Near East and Sub-Saharan Africa have expanded by 12.4 percent annually between 1985 and 1993. Exports to the rest of the world, mainly the OECD countries and also Eastern Europe and the Newly Independent States, expanded by 8.9 percent annually.

U.S. Export Growth in the Developing World

| Region/ Country | 1985 U.S. Exports (\$ millions) | 1993 U.S. Exports (\$ millions) | Average Annual Growth Rate (%) |
|---|------------------------------------|------------------------------------|-----------------------------------|
| Sub-Saharan Africa | 3,316 | 4,782 | 3.2 |
| Ghana | | | 19.0 |
| Uganda | | | 20.2 |
| Malawi | | | 17.2 |
| Asia | 27,483 | 82,075 | 14.7 |
| Indonesia | | | 17.1 |
| Thailand | | | 22.6 |
| Malaysia | | | 19.5 |
| Korea, Taiwan, Hong Kong, Singapore (average) | | | 15.7 |

| | | | |
|---------------|--------|--------|------|
| Near East | 11,371 | 21,473 | 13.0 |
| Latin America | 30,662 | 78,476 | 12.5 |
| Chile | | | 18.2 |
| Mexico | | | 15.0 |
| Costa Rica | | | 17.7 |
| Guatemala | | | 15.8 |
| Nicaragua | | | 17.2 |
| Dominican Rep | | | 15.5 |
| Argentina | | | 23.1 |

Commerce Department data provided by CDIE/DI; United States Merchandise and Trade with Developing Countries.

- **It is clear that exports have grown rapidly in absolute terms. What is less well appreciated is that U.S. exports to the developing world and the nations of the former Soviet Union have grown much more rapidly since the mid-1980s than those of America's major competitors. (The growth rates in the following table are for exports measured in constant prices, so they are not as high as some of the growth rates cited above.)**

Growth of Exports in Real Terms (Percent)

| Country | 1986 | 1988 | 1990 | 1992 | 1986-93 |
|---------|------|------|------|------|---------|
| U.S. | 6.0 | 20.7 | 7.6 | 7.8 | 9.2 |
| Japan | -0.6 | 4.4 | 5.8 | 1.6 | 1.4 |
| Germany | 1.3 | 6.8 | 4.5 | 1.4 | 3.0 |
| UK | 4.2 | 2.1 | 6.2 | 2.5 | 3.8 |

(Source: IMF World Economic Outlook, Table A22. October, 1994)

- **The United States has successfully competed with Japan and the European Community in the most important developing country markets. Between 1986 and 1993, U.S. exports to developing Asia increased by 180 percent, compared with 160 percent for Japan and 150 percent for the European Community. In Latin America and the Caribbean, the increase was 153 percent for the United States, compared with 90 percent for the Japanese and 102**

percent for the EC. For the Near East, the comparable figures were 88 percent for the U.S.; 35 percent for Japan; and 44 percent for the EC.

- Developing countries and transition economies accounted for 41 percent of U.S. merchandise exports in 1993, compared to only 35 percent in 1990. **Between 1990 and 1993, exports to developing and transition countries increased by \$46 billion.** This growth supported roughly 920,000 jobs in the United States.
- **U.S. exports to Latin America rose from \$44 billion to \$71 billion between 1989 and 1993, a gain of 61 percent.** For other nations whose efforts at reform were especially broad and sustained, U.S. exports rose: 98 percent to Guatemala; 76 percent to Honduras; 72 percent to Ecuador; 67 percent to El Salvador; and 63 percent to Panama.
- **The same pattern was seen among Asian policy reformers.** Throughout the region, exports jumped 45 percent between 1989 and 1993. Exports to Indonesia surged from \$1.3 billion to \$2.8 billion; for Thailand, exports jumped from \$2.3 billion to \$3.8 billion; and for the Philippines, they rose from \$2.2 billion to \$3.5 billion.
- **The global market for environmental goods and services is expected to reach \$500 billion by the end of the decade. Much of this 8 percent annual growth will be in the developing countries.** USAID's environmental programs create markets for American technology. The growing U.S. industry in solar photovoltaic, for example; exports more than half of its product to developing nations. USAID's renewable energy programs were instrumental in "growing" this domestic, high-tech, high-wage industry.

A Historical Perspective: The 1940s and 1950s

- Foreign assistance began in the late 1940s to meet American security and humanitarian interests in the post war reconstruction period. It was an American plan; it was a geopolitical gamble; and it was hugely successful. **Many have called the Marshall Plan one of the most successful foreign policy endeavors ever undertaken, but at the time it was announced, only 18 percent of the American public supported the plan.**
- **An independent measure of U.S. success is that American assistance was widely imitated by the recipient nations themselves as soon as they were able. There are now more than 20 major bilateral donors to share the task of development assistance.** (See attached chart.) Nearly all of these bilateral donors benefitted from American assistance in the relief, reconstruction and early Cold War periods.

- **Korea illustrates a major success story.** But the United States and the United Nations had to make the decision to aid Korea in the early 1950s when the situation was not so bright.
- The 1954 report of the U.N. Korean Reconstruction Agency was pessimistic about Korea's ability to become self-supporting. The list of problems was daunting: scarcity of basic resources; partition of the country; lack of exports; a large and fast growing population; inexperienced management; the disorganized state of the economy; and poor economic policies including disastrous inflation, detailed regulation and price control and government domination of the economy.
- **If the United States had looked only at Korea's past performance, and ignored its potential, we would never have provided the substantial sums that enabled Korea to invest so heavily in infrastructure, education and agriculture.** So when policy reform began, an educated labor force, electric power, communications and transportation were available to contribute to export-oriented production and accelerated growth.

Leadership and Cooperation in Foreign Aid

- The table on page 11 documents trends in U.S. foreign aid, and foreign aid provided to other donors, both in absolute terms and relative to GNPs, for the period from 1950 onward. Prior to considering these data, it should be noted that the United States provided \$12.5 billion of post-war economic relief aid during 1946-48, and \$18.6 billion dollars of economic aid during the Marshall Plan period of 1949-52.
- The \$12.5 billion was 1.75 percent of 1946-48 GNP, and 12.1 percent of 1946-48 federal government outlays. The \$18.6 billion expended during the Marshall Plan period was 1.5 percent of 1949-52 GNP, and 9.5 percent of 1949-52 federal government outlays.
- **To put these numbers in perspective:**
 - **The \$12.5 billion in 1947 dollars is equivalent in real terms to \$70 billion today -- 1.75 percent of 1993 GNP would be about \$112 billion, and 12.1 percent of 1993 federal government outlays would be \$170 billion.**
 - Similarly, \$18.6 billion in 1951 dollars is equivalent in real terms to \$94 billion today. 1.5 percent of 1993 GNP would be about \$97 billion. And, 9.5 percent of federal outlays in 1993 equals approximately \$133.5 billion.

[Note: Sources are AID's Green Book for aid levels, and the Economic Report of the President 1988 and 1994 for deflators, GNP, and budget data.]

- **These are incredible numbers that represent an amazing combination of generosity and farsightedness, particularly for a country just emerging from a costly war, (preceded by a profound depression), and one far less affluent and far less exposed to international influences than the United States today.**

Official Development Assistance (ODA)

- The DAC has compiled data on official development assistance since the early 1950's. **The story is one of a gradual shifting of the burden of foreign aid from the United States to other donors, in the context of expanding overall levels of foreign aid, up until 1993. In that year aid levels declined for most OECD donors, including the United States.**
- More specifically, ODA (in 1993 dollars) expanded from \$11.2 billion in the first part of the 1950s to nearly \$25 billion in 1960/61, and to over \$62 billion in 1992. U.S. annual ODA was at about the same level in 1990-92 as in 1960-61 -- about \$12 billion. **In other words, the nearly \$40 billion increase in ODA from 1960 to 1992 came entirely from other donors.**
- **This suggests that U.S. aid leadership and efforts to strengthen OECD economies after World War II bore huge dividends in terms of the global foreign aid effort.** In response to U.S. leadership, particularly in the early 1960s, other donors stepped in and have steadily increased their aid levels in real terms, while U.S. funding has remained roughly level until recently.
- This is reflected in the sharply declining U.S. share of the total ODA provided by OECD countries. Throughout the 1950s and into the 1960s we provided over half of ODA. This share dropped sharply, to under 40 percent in 1970, and 22 percent in 1980. It has since fallen more gradually, to 21 percent in 1990, and 17 percent in 1993.
- **Underlying these trends has been a sharp decline in U.S. aid effort, measured as ODA/GNP, both absolutely and compared to other donors as a group.**
- In 1993, for the first time in many years overall ODA in absolute terms declined significantly from the previous year's levels, by over 10 percent. Of 18 OECD donors, aid levels fell in 15. Japan, New Zealand and Ireland were the exceptions.

- There is some danger that the recent declines in U.S. aid levels and the long-term decline in U.S. aid influences other donors (apart from Japan). **In the 15 years after WWII, the United States launched a remarkable collective effort at foreign aid, one which commanded the support of other donors at levels far beyond this country's initial contributions. The United States may now be about to lead other countries in the opposite direction, to the detriment of global cooperation, stability and well-being.**

Official Development Assistance
(\$ Million, Annual Levels, 1993 prices)

| | 1950-55 | 1960-61 | 1970-71 | 1980-81 | 1990-91 | 1993 |
|----------------------|---------|---------|---------|---------|---------|--------|
| US ODA | 5,641 | 12,375 | 10,034 | 10,423 | 12,197 | 9,721 |
| Other ODA | 5,607 | 11,063 | 15,668 | 36,048 | 46,828 | 46,220 |
| Total ODA | 11,248 | 23,438 | 25,702 | 46,471 | 59,025 | 55,941 |
| US ODA/GNP | .32% | .56% | .31% | .23% | .20% | .15% |
| Other DAC ODA/GNP | .36% | .48% | .29% | .41% | .42% | .38% |

(Source: Various Issues of Development Cooperation, published by the DAC; Note: # families as estimated by Statistical Abstract of the U.S. (millions) -- 1955-55, 40.6; 1960-61, 45.1; 1970-71, 51.6; 1980-81, 59.6; 1990-91, 66.0; 1993, n/a.)

USAID Research Helps U.S. Farmers

- **USAID-financed agricultural research in developing countries also helps the U.S. and the environment. This research has brought new technologies to United States farmers. For example:**
- Wheat and rice varieties with dwarfing genes found in Asia are now grown on almost two-thirds of the area under wheat cultivation and one-quarter of the rice area in the United States. A new potato, now grown in the United States, was found in Peru and is resistant to the destructive golden nematode.
- Rust-resistant wheat available in the United States was found by USAID-financed

researchers in Kenya. USAID funded peanut research developed integrated pest management technology expected to save North Carolina and Virginia producers an estimated \$1.5 million annually.

- USAID research identified parasite-resistance in sheep that increases Colorado, Texas, Oregon, Wyoming, Kansas, and California sheep producers' net returns from \$3 million to \$6 million per year. Two-thirds of the cattle in the Southwest United States and one-third of the cattle in the Midwest on feed are fed sorghum. Pest-resistant sorghum developed with USAID assistance saved the U.S. \$389 million.
- Sudanese sorghum germplasm tested by Texas A&M University scientists produced 10 drought-tolerant hybrids which were released to private U.S. seed companies with expected far-reaching benefits for drought-prone areas of Texas, Kansas and Nebraska. With the assistance of USAID, Gerber Foods is working in Costa Rica to develop a bean-based weaning food. Applied in its Michigan plant, this technology could increase the crop's value to the U.S. economy by 10-20-fold.
- USAID agricultural research also has environmental benefits. The University of Wisconsin released snap bean varieties with enhanced nitrogen-fixing capacity thereby decreasing Wisconsin farmers' need for chemical fertilizer by \$15-20 per acre.

What Others Have to Say

- **The New York Times**

"But what makes prosperity in the third world good for the United States? Exports, for one thing. In part, America's export performance has lately been better than Europe's or Japan's because this country's companies have a better foothold in fast-growing markets like Brazil and Indonesia...Today, \$4 of every \$10 spent on jets, tractors, grain, movies and other American exports head for destinations outside of Canada, Japan and Europe, even though import barriers in much of Asia and Latin America are as high as they used to be in the United States 40 years ago. What's more, even conservative growth forecasts suggest that the economies of less developed countries should grow two or three times as fast, on average, during the 1990's as those of industrialized nations. 'If two billion people get richer and smarter, will they buy more or less of our stuff?' David Roliey, an economist at DRI/McGraw-Hill who analyzes trade, asked rhetorically. 'To ask the question is to answer it.'" December 19, 1993

- **The Philadelphia Inquirer**

"By promoting growth abroad, aid helps increase exports to developing

countries, which represents nearly 40 percent of total U.S. sales overseas. And much of the foreign aid budget is spent on U.S. goods and services, or goes to programs that promote investment and export opportunities for American firms. Nor, in the post-Cold War era, can America's strategic interests be defined neatly by military alliances. For example, American aid for bolstering Third World police forces may help to combat drug smuggling. Or aid to new industrial nations for pollution controls may help curb emissions that could one day poison America." Editorial, December 27, 1994

- **The Miami Herald**

"For the most part, though, foreign aid remains a smart -- and necessary -- investment to encourage nations to free their people and their economies, and to draw their authority from popular consent. Almost invariably, such nations evolve into reliable political friends for the United States, and fruitful trading partners. Editorial, December 27, 1994

- **The Washington Post**

"Since its inception, foreign aid has managed to survive despite unrelenting attacks from the isolationist wings in both parties. That is because the basic argument for bipartisan aid support is as sound today as it was when the effort was launched almost 50 years ago by President Truman. American Presidents from John Kennedy to Ronald Reagan, regardless of their views upon entering office, have ended up convinced that foreign aid, even on a limited scale, is an indispensable tool of American foreign policy." Editorial, November 28, 1994

- **President Ronald Reagan**

"The ultimate importance to the United States of our security and development assistance programs can not be exaggerated." 1981.

- **The World Bank**

"Absolute levels of mortality in developing countries remains unacceptably high: child mortality rates are about ten times higher than in the established market economies. If death rates among children in poor countries were reduced to those prevailing in the rich countries, 11 million fewer children would die each year. Almost half of these preventable deaths are a result of diarrheal and respiratory illness, exacerbated by malnutrition. In addition, every year 7 million adults die of conditions that could be inexpensively prevented or cured; tuberculosis alone causes 2 million of these deaths. About 400,000 women die from the direct complications of pregnancy and childbirth. Maternal mortality ratios, on average, thirty times higher in developing countries as in high-income countries." World Development Report 1993.

- **The Harris Poll**

"No wonder so many people want to cut U.S. spending on foreign aid - the American people have somehow come to believe that 20% of federal government spending goes on foreign aid, as much, they believe, as is spent on Social Security or Medicare, Medicaid and other health care services. The truth, of course, is very different; in 1992 approximately one-half of 1 percent of federal government spending went to economic and humanitarian aid and a similar amount was spent on strategic and military aid." From November, 1993

- **The New York Times**

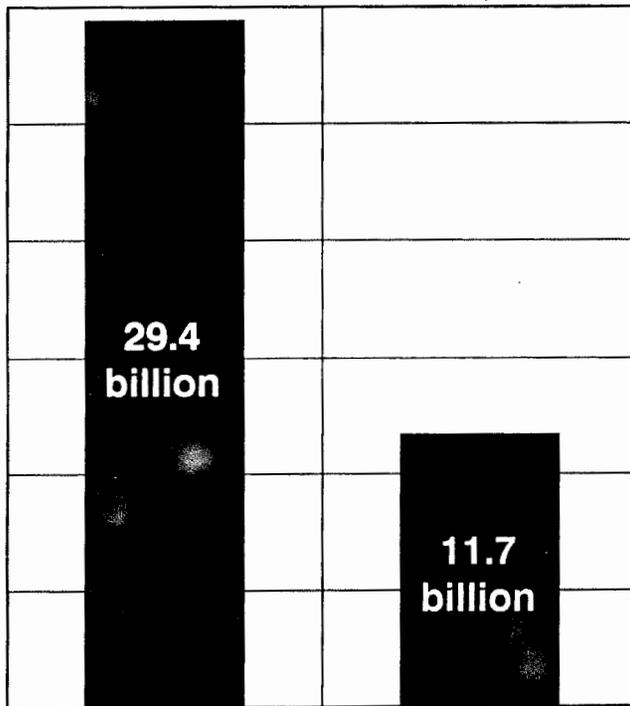
Bangladesh has one of the world's largest and most successful marketing programs for contraceptives. Working closely with the government, the U.S. provided most of the contraceptive supply and, through the Agency for International Development, the expertise to produce a delivery system that is virtually door-to-door. What has happened in Bangladesh, and could happen in all developing countries, is of advantage not only to the world's poorest people but to everyone living on a planet that may have to support at least double our current number by 2150. By that measure, what America and other industrialized countries give to family-planning programs shouldn't really be called 'foreign aid'. It is world aid." Editorial, January 11, 1994

- **The Congressional Budget Office**

"The progress of some developing countries since World War II has been impressive and provides hope for those poorer countries that have not yet enjoyed extended periods of significant economic growth. For these accomplishments, those countries can be proud, as can the West -- which helped build an open global trading and investment system, international finance institutions and an apparatus for grassroots development." Enhancing U.S. Security through Foreign Aid, April, 1994

U.S. Aid and Trade

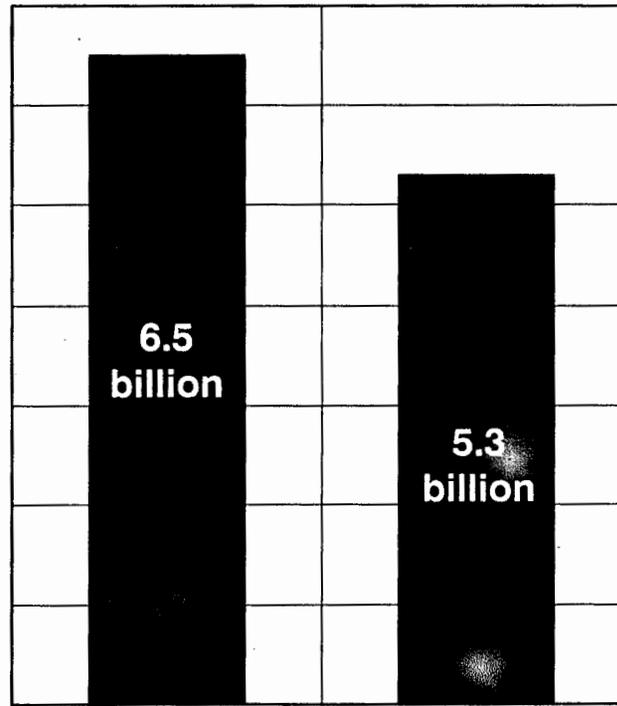
Korea



U. S.
Exports to
1992-1993

Total U. S.
Assistance
1961-86

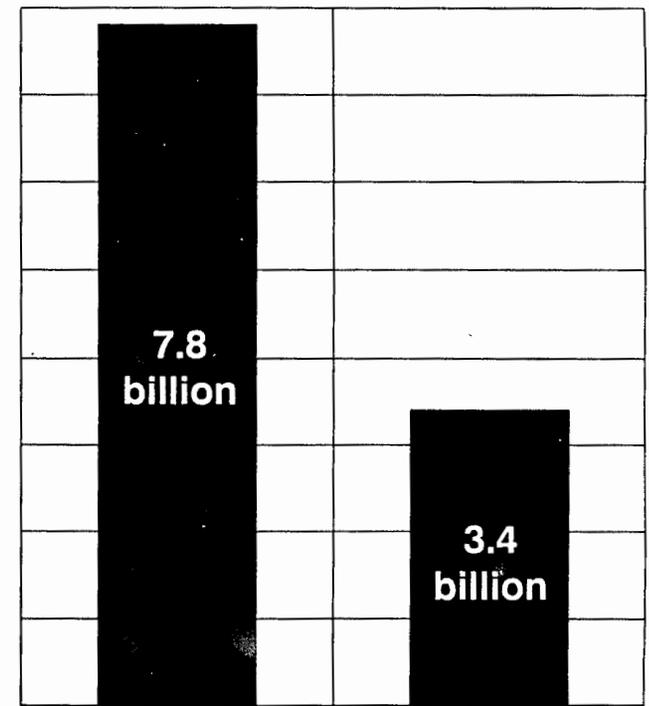
Colombia



U. S.
Exports to
1992-1993

Total U. S.
Assistance
1961-86

Thailand



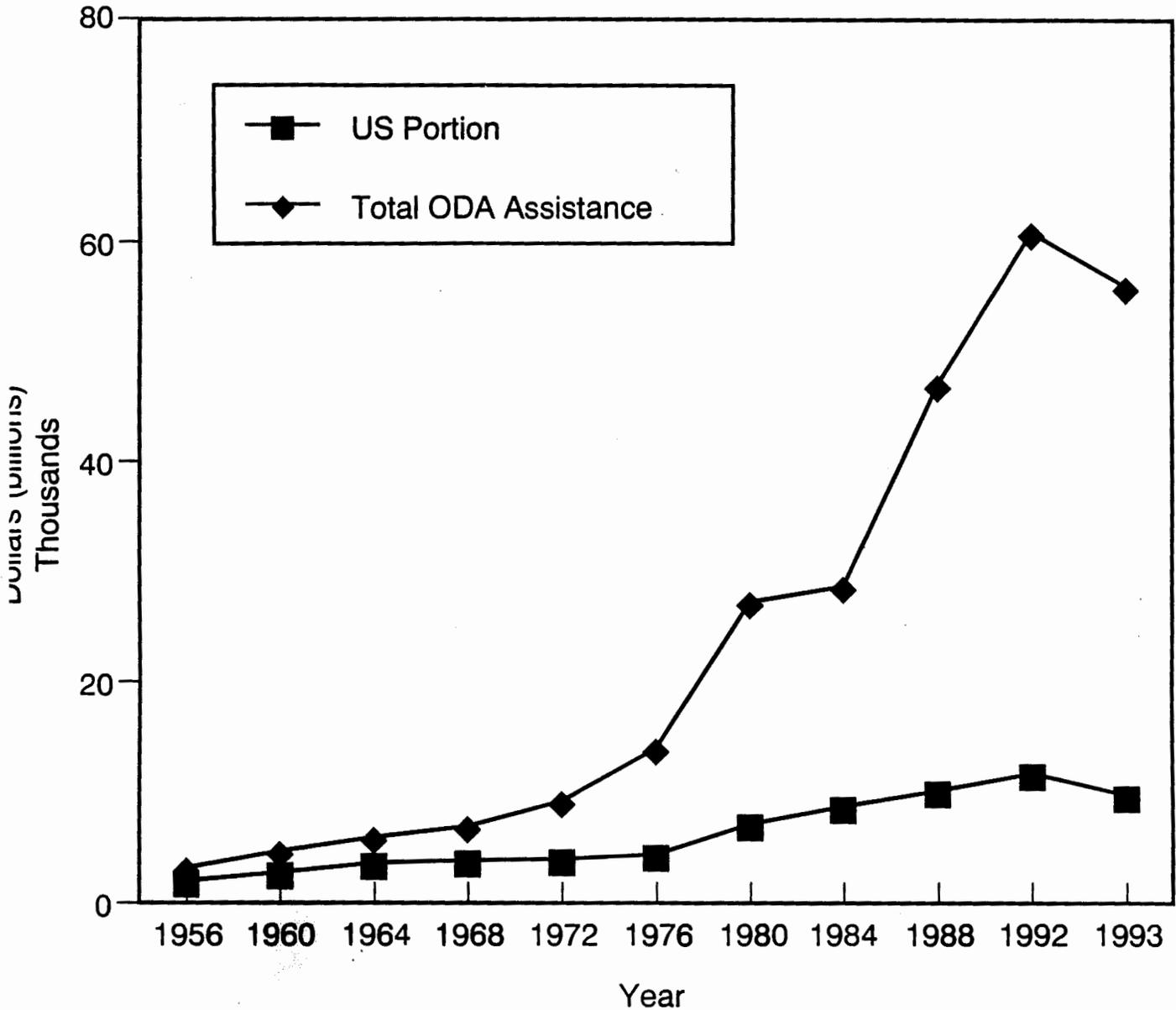
U. S.
Exports to
1992-1993

Total U. S.
Assistance
1961-86

All Assistance Figures in Constant 93 dollars

Development Assistance

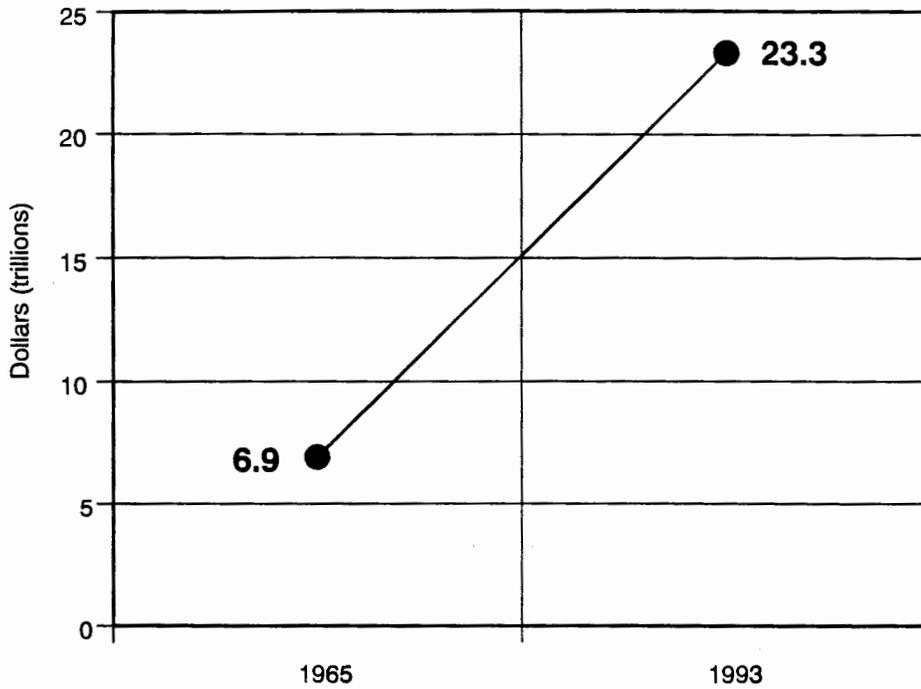
US vs. ODA



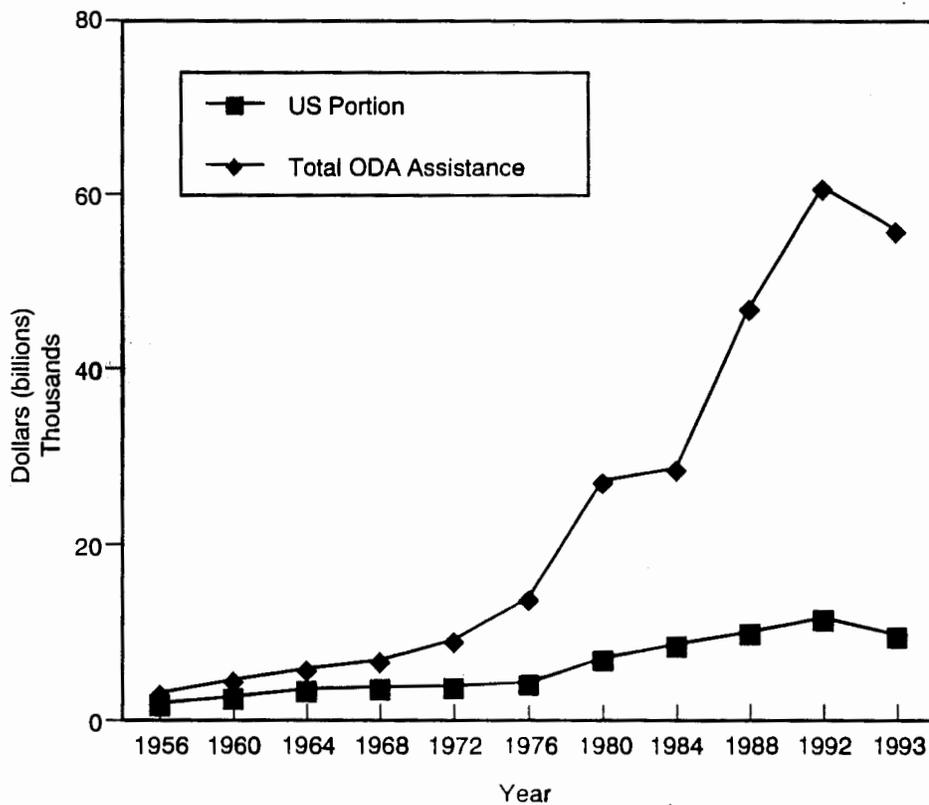
| Year | US Portion | Total ODA Assistance | % |
|------|------------|----------------------|--------|
| 1956 | \$1,996.00 | \$3,171.50 | 62.94% |
| 1993 | \$9,721.00 | \$55,941.00 | 17.00% |

A Growing World Economy

Total World GNP



Total ODA





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

Remarks of J. Brian Atwood
The Center for National Policy
"America's Commitment to Global Leadership"

WASHINGTON, D.C.
DECEMBER 14, 1994

Let me thank Mo Steinbrunner and the Center for National Policy for making it possible today to launch what I hope will be a truly national debate over the future of our foreign assistance program. Over the years, the Center has used its good offices and this public forum to illuminate the great issues of the day. The tradition continues under Mo Steinbrunner's leadership.

Last month, the American people reaffirmed the revolutionary potential of the ballot box. There was no mistaking the call for change. We know the people were unhappy with their government; we know they were dissatisfied with special interest politics; we believe they want reform and reinvention at both ends of Pennsylvania Avenue.

Some have said that the American people want to move the country to the right. I am not so sure. We do know that the people want responsible government and they want both our great political parties to share the responsibility for governing.

But let me tell you what the American people did not vote for in my opinion. They did not vote for a foreign policy of isolationism. On the heels of the most far-reaching free trade agreement our world has seen, an agreement negotiated by successive administrations of both parties — it is reasonable to conclude they did not vote to tie America's hands in the new global economy.

This week Senator Mitch McConnell announced that he is introducing legislation to reform the foreign aid program. The Senator has been a consistent supporter of foreign aid and I want to work with him to assure that the program makes sense to our taxpayers and serves our national interests. I don't agree with all of Senator McConnell's conclusions — particularly his budget estimate — ~~that he is an~~ internationalist and a constructive critic.

Other critics would throw the baby out with the bath water. These are the people who would exploit the legitimate demand for reform to advance a neo-isolationist agenda. These people, probably representing no more than 25 percent of the new Congress, would close their own minds and our borders to the new global marketplace on which our domestic economy increasingly depends. I would remind these politicians of a line that guided the Presidential election of 1992: "It's the economy, stupid." And I mean our economy.

As we analyze the international challenge we now face, some would like to view our foreign aid program through an exclusively economic growth prism.

I personally believe that economic growth cannot be sustained if we fail to consider population growth rates, the environment, human capacity and the strength of governmental institutions. Nonetheless, I have no problem focussing on economic growth as a principle objective of our foreign assistance program.

But we should ask the right questions. In this post-GATT environment, how do we advance America's economic interests? How do we create and exploit new markets? How do we help poorer nations survive and compete in an even more active world economy? How do we work with the other industrialized nations to expand the world economy?

The Heritage Foundation is addressing these questions in its own way. This week it released its annual index of Economic Freedom, which rates countries by assessing the extent to which they have achieved free, market economies. Heritage would provide aid only to those countries that have made a commitment to and have already achieved the freedom of the marketplace.

There is much in this report with which I can agree. I can certainly agree that our aid dollars can be wasted by governments who refuse to deregulate their economy, or who practice protectionism, or state control over the economy. We have specifically recognized these constraints to development in our new approach to foreign assistance.

But I cannot agree with the Heritage Foundation's assertion that "not one country receiving foreign aid has succeeded in developing sustained economic growth." If this index is based on that kind of thinking, it is likely to be used as a rationale for disconnecting the United States from the growing markets of the developing world. I was assured yesterday by the authors of the Heritage report that their intention is not to encourage isolationism and I believe them. But I don't agree with their assessment of the impact of foreign assistance.

Perhaps the best way to answer their skepticism about foreign aid would be to ask an obvious question: If not one country has succeeded in achieving sustained economic growth, why have successive Presidents and Congresses from both parties supported foreign aid for the past 48 years. Why have dozens of other industrial nations contributed increasing amounts to official development assistance?

Our aid program has obviously served American national interests. And along with our military power, it has been an expression of responsible American leadership.

The growth in the world economy is not the result of serendipity. Some of us believe in the Immaculate Conception, but there's no miracle here. The growth in the global economy from 3.4 trillion in 1946, to 7.2 trillion in 1960, to 23.9 trillion in 1993 (in constant 1993 dollars) is not exclusively attributable to a group of Adam Smiths who chose voluntarily to pass liberal economic laws on who went around chanting "get government off our backs." It resulted initially from reconstruction efforts during the Marshall Plan. It happened because the United States led the Western World in an effort to create and then support an international economic system that was the engine of progress and support for fragile new national economies.

Yes, you can find instances where foreign aid was wasted. It wasn't always spent on good development. Part of it was spent on the Cold War. Part of it was spent to buy influence. But the major part created new markets and educated the workforces that today drive the engines of such productive economies as South Korea, Taiwan, Mexico, Chile, India, Thailand, and Tunisia. It provided crucial breakthroughs in agricultural technology and health care. These breakthroughs provided the space for economic liberalization and growth. The world economy did not expand seven-fold on its own. Nations who had been the beneficiaries of foreign aid, became themselves foreign aid donors.

In 1946, the United States provided virtually all of the foreign aid provided in the world. That amount, by the way, was more than double what we provide today in 1994 dollars. It represented 1.75 percent of our gross national product, compared to 0.117 percent today.

By 1960, we were providing only 60 percent of all aid given. We created the Development Assistance Committee of the OECD to pressure the reconstructed economies of Europe and Japan to do more. And they gave more, because they wanted to expand their own economies through trade. And they wanted to contribute to a stable and growing world economy.

Today, we provide only 19 percent of the world's foreign aid. But that's a good deal for the American taxpaying family, a family that contributes only \$44 per year to foreign aid, a lower amount — I might add — than any other donor nation family.

But today we may be leading the world in the wrong direction. In 1993, the amount of donor assistance fell by 8 percent and it will fall by much more in 1994. This is a dangerous trend, made even more dangerous because of the exponential rise in the world's population.

Make no mistake about the danger here. We are not just talking about the loss of economic opportunity — lost markets, lost exports, lost jobs. We are talking about the failure to treat conditions that create instability. We are talking about chronic food shortages, devastating diseases and illiteracy that destroy human productive capacity, environmental damage that forces people to migrate, and population growth rates that inhibit economic growth and cause social tensions and even civil war.

Those who suggest that our nation can afford to reduce our foreign aid budget still further are playing with fire. They are yielding the ground of responsible stewardship of our national interests to the isolationists and the populists.

Thanks to the President's successful deficit reduction program and the economic growth achieved largely by his export promotion policies, we will be able to give a tax cut to the middle class. But to continue the progress we have made, his budget request for FY 1996 will responsibly preserve American international leadership. If we sacrifice that in a bidding war for short term political gain, we will have to answer to coming generations. For a very dynamic global economy may pass us by.

What I fear is that we may lose much of the international leadership shaped by a bipartisan consensus over the past 48 years in the first 100 days of the next Congress. My fear is that the Budget Resolution process will cut so deeply, through recissions and lowering the caps across the board, that we will slide almost unconsciously into isolationism. We will wake up one day next spring and ask ourselves what happened to a bipartisan foreign policy that has served us so well. And then it will be too late. Someone will then write a book, perhaps entitled "While America Slept."

That won't happen if voices of reason speak up. We cannot exercise influence over the international community in some rosier future if we abdicate responsibility now. Leadership is not a faucet we can turn off and on. It is a commitment, because it speaks to our notion of what a community of nations should be, and how that community should comport itself.

The threat is international disorder, and it is a strategic threat, because it endangers the political, economic, and security interests of the United States. How should we reply? The answer should be apparent: By mounting a response that fits the threat that is, not the threat that was. That response is a policy of crisis prevention, and foreign assistance plays a central role in it.

The end of the Cold War unleashed ethnic, environmental, and political tensions that are still emerging. The fact that we have seen only a few nations fail does not mean that the threat is not real. Events take time to gestate; this is particularly true of protracted, complex crises, in which natural disasters and political breakdowns combine with refugee movements, lack of infrastructure, and donor fatigue. At a certain point warlordism, aggression, and criminality masquerading as governance become inevitable.

A diplomacy that focuses only on the representations of sovereign governments and not on the conditions that put those governments and our interests at risk will forever be caught short. We cannot simply wall out the chaos beyond our borders. Millions of refugees, the spread of drug trafficking, pollution of our air and water and the disruption and loss of markets will inevitably undermine our security and our standard of living. Economically, politically and morally, we will pay a price if we ignore these conditions.

This is where American leadership — in the security field, in international economics, in diplomacy and in the field of development — comes so vitally into play. For just as disorder feeds on itself, so does sustainable development. So does respect for the rule of law. So does the expectation of international order. And so does democratic governance. If we want to create positive self-fulfilling prophecies in these areas, the United States has to lead.

To those who want a hard-headed cost-benefit analysis, I would say, the price of peace and stability is infinitely less than the cost of reconstructing entire nations. Ho Chi Minh once threatened "One, Two, Many Vietnams." The international community simply does not have the resources or the will to deal with "One, Two, Many Rwandas." Not consistently. Not year after year. It is far, far more economical to prevent than to reconstruct.

The development approaches we advocate for our programs and those of other donor governments — approaches that focus on decentralization, local and individual empowerment — address the alienation and powerlessness that drive the conditions that create disorder. If people can acquire the necessary tools, and the freedom to use them, they will create opportunities to solve their own problems. They will actively work for their own well-being and in doing so they will help us achieve peace and stability, two longtime objectives of our foreign policy.

Foreign aid creates jobs for American workers and advances our economic well being. But trade does not simply materialize. The ground must be prepared first. The enabling environment must be right before capital will begin to flow. That is partly a matter of policy reforms: That is why we are helping nations liberalize their markets. That is why we have launched initiatives to remove institutional and legal barriers to trade. That is why we are fostering trading cultures that are receptive to foreign investment. And that is why we are supporting programs that create broad-based economic growth in developing countries. All these endeavors help create markets that have the desire and the wherewithal to buy what we have to sell.

Contrary to the Heritage Foundation assertion, every major trading nation has used foreign aid as a primary means of building markets. And our emphasis on supporting broad institutional change is producing enormous benefits: Developing nations now represent the fastest growing markets for American goods. They are growing ten times as quickly as our traditional markets in Europe and Japan. Developing countries are particularly good customers for our

high-value exports: pollution control equipment, computers, communications equipment, and expert services. Exports to emerging economies in Latin America and Asia are one of the main reasons our unemployment is low and why the export sector is leading our economic growth.

What then should we say to those who claim that foreign aid is nothing more than international welfare, that aid creates dependency, that the market will do the job, that events in places like Rwanda or Bosnia or Haiti don't really affect us? What should we say to those who argue for trade, not aid, or for aid tied to exports, not development assistance? What should we say to those who claim that we are throwing our money down a rathole?

We say: look at the facts. They say otherwise.

The two great political parties of our nation now have an opportunity to govern together. The people expect us to be responsible. The people know that their incomes and their jobs are tied to the global economy as never before.

They know that in the post-Cold War world, the United States has a unique opportunity — to deal directly with the international factors that can advance our political and economic interests or injure them profoundly.

They know that we stand now at a turning point and that irresponsible stewardship can doom future generations.

They know that developing foreign markets, stabilizing population growth, promoting democracy and preserving the environment is the right thing to do. They know this even if they don't like the sound of the phrase "foreign aid."

They know these things, but they expect their leaders to remind them from time to time of these self-evident truths.

The American aid program has changed. I invite the new Congress to look at it closely. We have presented a new vision for a post-Cold War, post-GATT world. We have reorganized, reformed, reinvented and reengineered. It is in fact a new USAID whose mission is relevant and whose commitment is to produce results.

We haven't made these changes just to save a bureaucracy. We have fixed what is wrong because we believe that if America is to lead, it must lead with the best development agency in the world. And we do believe America must lead. I look forward to working with the Republicans and the Democrats of the new Congress as we forge a new bipartisan consensus in support of our foreign assistance programs.

— END —

U.S. Exports and Aid Levels for Selected Countries

| Country | Average Annual U.S. Exports | | Average U.S. Export Growth | U.S. ODA Levels (Total) | |
|-----------|-----------------------------|------|----------------------------|-------------------------|---------|
| | 1992 | 1993 | 1985-93 | 1953-61 | 1961-86 |
| Korea | 14.6 | 14.8 | 12.6% | 2.6 | 2.9 |
| Taiwan | 15.2 | 16.2 | 17.5% | 1.0 | 0.3 |
| Thailand | 4.0 | 3.8 | 22.6% | 0.3 | 0.8 |
| Indonesia | 2.8 | 2.8 | 17.1% | 0.2 | 3.1 |
| Spain | 5.5 | 4.2 | 11.4% | 0.9 | 0.2 |
| Portugal | 1.0 | 0.7 | 6.7% | 0.0 | 1.0 |
| Greece | 0.9 | 0.9 | 10.6% | 0.5 | 0.2 |
| Turkey | 2.7 | 3.4 | 14.7% | 1.1 | 3.0 |
| Tunisia | 0.2 | 0.2 | 15.4% | 0.2 | 0.8 |
| Chile | 2.4 | 2.6 | 18.2% | 0.2 | 1.1 |
| Colombia | 3.3 | 3.2 | 10.5% | 0.1 | 1.4 |
| Mexico | 40.6 | 41.6 | 15.0% | 0.0 | 0.3 |

(All figures in \$ billions)

The Miami Herald

JOHN S. KNIGHT (1894-1981)

JAMES L. KNIGHT (1909-1991)

DAVID LAWRENCE JR., *Publisher and Chairman*

JOE NATOLI
President

ROBERTO SUAREZ
President Emeritus

JIM HAMPTON
Editor

DOUGLAS C. CLIFTON
Executive Editor

MARTHA MUSGROVE and TONY PROSCIO
Associate Editors

SAUNDRA KEYES
Managing Editor

PETE WEITZEL
Senior Managing Editor

Democracy's buttress

Despite the occasional setback, democracy continues its millennial march across the globe. The annual report of the human-rights group Freedom House

hails seven new democracies, bringing the total worldwide to 114. It laments just one loss: Gambia's elected government fell to a military coup this year.

It is a great tribute to the growing currency of democratic values that today 60 percent of the world's nations are democracies. Yet it's a sign of the challenge facing democracy that more than half the world's population still lives under dictatorships — many in communist China.

The report also warns that in many countries freedom remains fragile, especially in Africa and the Western Hemisphere. To strengthen it, powers such as the United States need to continue supporting fledgling democracies.

No one in Washington would publicly disagree with that reasoning. Yet the Clinton administration is rightly worried that foreign aid, a key tool for promoting democracy (and thus tranquility) abroad, is reaching new levels of unpopularity in Congress.

J. Brian Atwood, administrator of the U.S. Agency for International Development, recently expressed the fear that

U.S. FOREIGN AID
Freedom is expanding
around the world. But not
without a little help.

Congress's new Republican leadership may seek to ax foreign aid without granting it a fair hearing. If that happens, here are some of the facts that might not be aired:

U.S. foreign aid represents only 0.7 percent (\$12.3 billion) of the total federal budget, down from 0.9 percent during President Bush's last year in office. That aid costs the average family just \$44 a year. And since the Soviet empire's collapse, American aid is increasingly aimed at social and economic development, not military assistance.

Foreign aid is widely misperceived as a handout to nations that often don't deserve it. That notion would be easier to dispel if the United States were not still bankrolling a few authoritarian countries such as Kenya — slated to receive \$40 million this fiscal year — and others that blatantly violate human rights, such as Mauritania.

For the most part, though, foreign aid remains a smart — and necessary — investment to encourage nations to free their people and their economies, and to draw their authority from popular consent. Almost invariably, such nations evolve into reliable political friends for the United States, and fruitful trading partners.

For more information, contact USAID press office...
202-647-4274.

The Philadelphia Inquirer

ROBERT J. HALL, *Publisher and Chairman*
MAXWELL E.F. KING, *Editor and Executive Vice President*
GENE FOREMAN, *Deputy Editor and Vice President*

JAMES M. NAUGHTON, *Executive Editor*
STEVEN M. LOVELADY, *Managing Editor*
FRAN DAUTH, *Associate Managing Editor*
RONALD PATEL, *Associate Managing Editor*
ROBERT J. ROSENTHAL, *Associate Managing Editor*
SANDRA L. WOOD, *Associate Managing Editor*

JANE R. EISNER, *Editor of the Editorial Page*
CHRIS SATULLO, *Deputy Editorial Page Editor*
ACEL MOORE, *Associate Editor*

A10

Tuesday, December 27, 1994

EDITORIALS

A banned-aid solution

Gutting foreign aid is a trendy idea that traffics in myths and ignores America's self-interest.

When the Republican-controlled Congress comes back to town after the holidays, one of the first targets for its budget ax will be foreign aid.

Republicans on Capitol Hill plan to treat foreign aid pretty much as they'll treat welfare: slash it.

They plan to roll back what they see as handouts to poor nations by 15 to 20 percent across the board, except for the Middle East and former Soviet bloc nations.

Key Republican legislators say they especially want to eliminate around \$1 billion in annual development aid to Africa, because it hasn't helped economies there, and to slash appropriations for world population control and international agencies that lend to poor nations. What aid remains, Republicans say, should be targeted at countries where America has clear national-security interests, such as Israel, Egypt and Ukraine. Anything else, they argue, is money down a hole.

In times of scarcity, when Americans are worried about their own economic security, and have elected a Congress intent on dismantling the domestic social safety net, gutting foreign aid may seem to make sense. The management of U.S. foreign aid, long in question, is already being overhauled under a Democratic administration.

But just as the gung-ho approach to gutting federal social spending reveals its flaws upon closer examination, so does the argument for slashing foreign aid. For example, the current Republican attitude is fed by a prevalent myth that a large portion of the federal budget goes to foreign aid.

In reality, the budget for foreign assistance has slipped to its lowest level since World War II and is down 20 percent from 1991. Today, the United States spends less than 1 percent of its gross domestic product on foreign aid, which ranks it last among 21 industrialized nations. Ireland, New Zealand, Spain, Portugal, Finland and Canada all rank higher on that list than does the mighty United States.

Moreover, as past Republican administrations have learned, foreign aid provides economic benefits to the United States.

By promoting growth abroad, aid helps increase exports to developing countries, which represent nearly 40 percent of total U.S. sales overseas. And much of the foreign aid budget is spent on U.S. goods and services, or goes to programs that promote investment and export opportunities for American firms.

Nor, in the post-Cold War era, can America's strategic interests be defined neatly by military alliances.

For example, American aid for bolstering Third World police forces may help to combat drug smuggling. Or aid to new industrial nations for pollution controls may help curb emissions that could one day poison America.

And aid to Russia, however frustrating the delivery process, is an investment in a nation whose future stability is crucial to America's future. In a time of global transition, applying a meat ax to foreign aid for ideological reasons is woefully shortsighted. Overhaul aid — yes — but based on facts please, not on myths.