

Dealing with Interdependence: The U.S. and the Third World



**DEALING WITH INTERDEPENDENCE:
THE U.S. AND THE THIRD WORLD**

U.S. 88: A New Road to the White House

**International Education Coalition
in association with the
Roosevelt Center for American Policy Studies**

November 1987

Members of the International Education Coalition:

Americans Against World Hunger Foundation
Bretton Woods Committee
CARE
Catholic Relief Services
Citizens Network for Foreign Affairs
Communications for Development
Consortium for International Cooperation in Higher Education
Curry Foundation
End Hunger Network
Experiment in International Living
Global Tomorrow Coalition
InterAction
International Development Conference
National Audubon Society
National Council of Returned Peace Corps Volunteers
OEF/International
Planned Parenthood Federation of America
Population Crisis Committee
Results
Save the Children
U.S. Committee for UNICEF
U.S. Overseas Cooperative Development Committee

Special thanks are due to Elise W. Storck, who researched and wrote most of the material; to John Maxwell Hamilton, who contributed Chapter 2: "Main Street America and the Third World"; and to the Carnegie Corporation of New York and the Agency for International Development for assistance in funding the preparation of both the print and audiovisual materials.

The IEC Executive Committee

Robert J. Berg
Beth Hogan
Joan H. Joshi
Richard Loudis
Deborah Ziska

Crash Course Overview

As part of the larger U.S. 88 effort to encourage thoughtful debate on a range of issues in the forthcoming presidential campaign, this crash course provides participants with an opportunity to learn more about U.S. relations with and policies toward the developing countries and to engage presidential candidates in discussion on these issues. The crash course is designed to accomplish the following goals: first, to acquaint participants with the scope of interdependence and its significance for U.S./Third World relations; second, to provide participants with an in-depth exposure to specific issues concerning U.S./Third World relations and to relevant U.S. goals and policy options; and third, to create an educational experience out of which participants will formulate probing questions for the presidential candidates.

The course architecture involves advance preparation and active participation in group discussions and includes the following elements:

1. Background material to be read in advance of the meeting on
 - a. interdependence as seen from the U.S. national perspective;
 - b. interdependence as seen from the viewpoint of "Main Street America";
 - c. the history, guiding philosophies, composition and allocation of U.S. foreign assistance; and
 - d. a set of three issue papers and related case studies on
 - environmental degradation and the case of Central America;
 - poverty and the case of the Philippines; and
 - national security and the case of Egypt.
2. Participation in a three-hour meeting coordinated by a facilitator, including
 - a. a brief introductory video;
 - b. a foreign policy exercise in which participants will be assigned to a committee to consider one of the three issues and cases listed above, to select U.S. policy goals and to develop policy recommendations. Following this and after brief video reviews of the issues and cases, all participants will gather as a large group to discuss the committees' findings. The background readings will have acquainted participants with the following types of policy options:
 - trade agreements, tariffs and quotas;
 - debt and adjustment policies;
 - foreign assistance, including both development and security assistance;

- international agreements, including treaties, military alliances and U.S. participation in international organizations; and
 - other policy tools suggested by participants during the exercise.
- c. formulation of questions for the presidential candidates.

A bibliography for those interested in additional information on these issues is included at the end of these materials.

An Introduction to Dealing with Interdependence: The U.S. and the Third World

As a world power, the United States conducts foreign relations not only with other industrialized nations and with the Socialist countries of the Eastern bloc, but also with the less developed countries, or LDCs. The latter group, often referred to as the "Third World," is linked to the U.S. in both subtle and more obvious ways. These diverse linkages have a direct impact on U.S. foreign policy -- toward the LDCs themselves, as well as toward the rest of the world.

But what is the Third World, and why should Americans be concerned about our relations with and policies toward these countries? "Third World" is a translation of the French expression, le tiers monde, which first appeared in 1952. At that time, a French intellectual, Alfred Sauvy, coined the phrase to describe nations shaking off colonial rule in the same way that commoners -- the Third Estate -- had sought equality with the nobility and clergy during the French Revolution. Encompassing most of the countries of Africa, Asia, Latin America and the Caribbean, the Third World includes nations as diverse as Senegal and Singapore or Brazil and Bangladesh.

The meaning of the phrase continued to evolve in the 1950s, when many developing countries characterized themselves as "non-aligned." Due both to increasing nationalism and the hope of avoiding what they saw as the undesirable consequences of taking sides in the cold war, many LDCs refused to align themselves with either the "First World" of the industrialized democracies or the "Second World" of the Socialist bloc.

Today, the term "Third World" has come to have primarily an economic meaning. And while it is common for us to think of Third World countries as all being very poor, such as Chad and Bangladesh, this perception is inaccurate. Instead, "middle-income" and "newly-industrialized" nations in the Third World (such as Brazil, South Korea and many countries of the Middle East) have experienced increasing modernization and an improved quality of life. This new situation presents a new set of issues and requires new kinds of policies for both groups -- those who are enjoying certain economic gains and those still struggling for economic survival.

Yet as the crash course readings suggest and as the policy exercise will demonstrate, U.S. relations with the Third World are not exclusively economic in nature. Political and strategic concerns also affect our attitudes and policies toward the LDCs. The course will indicate, moreover, that although humanitarian ideals are widely perceived as the most

important factor in our relations with the Third World. the U.S. has increasingly viewed these relations through the prism of political, strategic and economic self-interest.

Chapter One: U.S./Third World Relations from a National Perspective

Despite its size, economic wealth and international preeminence, the United States exists in a global community in which, during the postwar era, events and ideas beyond our borders have increasingly come to affect our national life and international relations. This chapter will address this phenomenon -- often referred to by the term "interdependence" -- from the perspective of the United States as a whole. It will highlight the ways in which the U.S. is affected by changes in the international economy and in the Third World itself.

The complex web of global interdependence -- in which U.S. attitudes, policies and security interests affect other countries and vice versa -- is well illustrated by our relationship with the Third World. The developing countries are populated by the majority of the world's people, possess substantial natural resources and raw materials essential to the U.S. and have considerable military and strategic importance. LDCs are also valuable customers for U.S. agricultural and manufactured products. Through their participation in the international economy, Third World nations (both as trading partners and as borrowers or lenders) directly affect the U.S. economy.

In short, both the causes and solutions of major issues facing the U.S. -- such as our trade deficit, our employment problems, the agricultural crisis, the AIDS epidemic, the influx of illegal aliens and U.S. security -- are directly related to the Third World. Interdependence has become a matter of immediate economic and political reality for U.S. leaders and people.

Although the U.S./Third World interdependence is often associated with humanitarian concerns of feeding people, learning more about our "world neighbors" and maintaining peaceful relations with our allies, the impact of global changes in the late 20th century requires attention. These changes include the accelerated growth of the world's population, and particularly LDC populations; the ease and frequency of international travel; the development of worldwide telecommunications networks resulting in faster information flows and growing foreign interest in U.S. culture; increases in the volume of world trade and new markets for U.S. products; increased educational, cultural and athletic exchanges; the rise of international terrorism; dramatically increasing scientific advances, through both national research and collaborative programs; the expanding international trade in narcotics; shared repercussions of climatic and environmental changes; and the threat of nuclear war, not necessarily as a result of the superpower conflict.

All of these changes have created new linkages between the U.S. and the LDCs. One could argue that, whether because of the clothes we wear, the food we eat or the medicines we take, American lifestyles could not be maintained at current levels in the absence of these international connections.

Examples of Economic Interdependence

Commercial relations between countries have increased as the world has grown "smaller." Americans buy foreign goods and foreigners invest in American businesses to an extent not conceived of several decades ago. The past 25 years have witnessed remarkable changes both in the shape of the international economy and in the economic forces that drive it. These changes have produced large shocks to the U.S. and Third World economies; they have altered each of our positions in the global economy; and they pose major challenges to policymakers. Some of the changes that contribute to greater interdependence are

1. An increase in world trade. Today, our economy is nearly as dependent on international trade as is Western Europe's as a whole. U.S. dependence on trade doubled from 1970 through 1979 and tripled between 1965 and 1979. U.S. trade with the LDCs alone now accounts for 40 percent of our exports and roughly 35 percent of our imports.
2. The emergence of an international capital market that connects national economies in ways even more important than international trade. In 1984, international financial flows were on the order of \$42 trillion, while international trade flows amounted to only \$2 trillion. American banks are connected to foreign economies through the flow of capital and investments throughout the international economy. The increase in oil prices in the 1970s, for example, flooded the international banking system with petrodollars and led to the need to recycle them. Third World countries such as Singapore, a banking center, and the oil-producing nations of the Middle East played a major role in this new economic situation. Banks make money by lending money, and the big business of recycling petrodollars at that time resulted in both overlending and overborrowing between the banks (including both large and small banks in the U.S.) and the LDCs. Declining commodity prices, rising interest and the recession in the West have led to the inability of many indebted countries to repay their loans. This has contributed to the current international debt crisis, which directly affects the American banking system. More recently, the U.S. budget deficit has led the United States to borrow overseas in the international capital market; as a result, the U.S. is now the world's largest debtor nation, and we depend on foreign capital -- a portion of which comes from the Third World -- to help pay for our deficit.

3. A system of flexible exchange rates. When the United States ended the convertibility of the dollar into gold at a fixed price in the early 1970s, a new system of valuing currencies was adopted. In this new system of flexible exchange rates, most major world currencies continually fluctuate in value relative to one another. Today, the value of our currency abroad (the exchange rate of the U.S. dollar for other currencies) has a vital impact on our economy because of its impact on trade: exchange rates help determine the prices at which our goods are sold overseas and the prices we pay for foreign goods. The high price of the dollar during much of the 1980s made our exports more expensive, as American farmers and industrial workers in our smokestack industries learned. More recently, the dollar has fallen in value with the expected impacts of decreased prices for our exports and higher-priced imports into the United States.

4. Growing monetary instability. The price of money (or the cost of borrowing it) is reflected in interest rates. While high interest rates discourage borrowing, they also encourage savings and investment. Borrowing and investment based on interest rates also occur across national borders. Beginning in the 1960s and continuing into the 1980s, interest rates in the U.S. fluctuated and capital flows (or investment) in and out of the country varied widely. In an attempt to control inflation in the U.S., a policy of restricting the domestic money supply during the 1980s made money more expensive and caused higher interest rates. Partly as a result, foreign investment in the U.S. increased. Higher interest rates in the U.S. also affected the Third World, for two reasons. First, developing countries are highly vulnerable to changes in U.S. interest rates since much of their debt is held in U.S. dollars. Thus higher interest rates increased the cost of borrowing and, by virtue of exchange rate changes, made repayment more expensive in terms of the borrower's currency. Second, the higher interest rates in the U.S. attracted foreign -- including Third World -- investment capital to the United States and contributed to a stagnation of direct foreign investment in the LDCs. The inability of Third World nations to arrest capital flight and to attract foreign investment capital has had a negative impact on their economic growth.

5. International shifts in "comparative advantage." The product label "Made in Japan" now has other counterparts: made in South Korea or grown in Brazil or elsewhere. Although many of the manufactured goods and agricultural commodities imported from overseas could be produced in the U.S., it is less expensive for us to acquire them elsewhere. The reason is comparative advantage: all countries can produce a range of

items, but they cannot produce all items as cheaply and efficiently as other countries. Thus, they must make a choice of what to produce. This choice will normally be based not only on the cost of production for a given commodity, but also on the cost of not producing something else, which they would not be able to sell on the international market but would instead purchase from foreign producers.

As a result of shifts in comparative advantage, whole industries moved from the U.S. some 20 years ago and went to Japan and more recently to Brazil and Mexico. This has happened first because certain technologies can be easily transferred when economic conditions are right; second, because these industries tend to be labor-intensive and thus move to countries with low labor costs; and third, because the widespread increase in education in LDCs has created the skilled work force needed to make the adoption of manufacturing industries relatively easy. Similar changes are now taking place in agriculture due to research aimed at more effective use of local climate and soils. In the decade ahead, there will be continuing shifts in comparative advantage worldwide, with the location of manufacturing and agricultural production continuing to change.

Because of these changes, the U.S. now finds itself in a new situation when making economic choices. Many producers competing with import industries want protection, a sentiment generally shared by American labor; on the other hand, producers of exports are afraid of retaliation, a sentiment shared by many consumers. Exporters, such as U.S. farmers, for example, have traditionally opposed large tariffs and want the U.S. to accept foreign imports so that other countries will have the foreign exchange necessary to buy our exports. Many consumers are similarly in favor of unrestricted trade to increase the variety and supply of goods on the market, many of which are less expensive and of higher quality when imported from abroad. At the same time, the emergence of the international capital market now means that all countries, including the U.S. and the LDCs, have access to capital beyond their own savings. Thus, economic opportunities and the potential for growth through trade and investment have expanded for all countries.

Problems arise in selecting appropriate economic policies in an interdependent world. For example, a domestic policy of restricting the money supply to combat inflation may also affect international trade. As we have seen, less money in circulation makes it more expensive and raises interest rates. The higher cost of the dollar at home also raises its value overseas. This makes U.S. exports more expensive, especially in LDC markets for U.S. goods, and our trade balance may suffer. On the other hand, policies designed to improve our trade balance by imposing tariffs or quotas on foreign goods may result in retaliation. When

such policies are applied against LDC products, it becomes more difficult for these nations to earn foreign exchange to buy U.S. products and to pay their international debt, much of which is held by American banks.

Other Examples of Growing Interdependence

U.S./Third World interdependence affects more than our economic relations. Among the other changes in the postwar era are the following:

As our ties with the Third World increase, sheer numbers compel our attention. For example, approximately 75 percent of the world's people now live in the Third World. Experts estimate that by the year 2050, this figure will increase to 86 percent. If current trends continue, we can expect that increasing numbers of people will travel abroad. In 1965, when 16.9 million Americans went overseas, 7.8 million foreigners visited the U.S. By 1986, there were 29.7 million American travelers and 22 million visitors to the U.S. Of those foreign visitors to the U.S. who came to study in our universities, the numbers increased from 34,232 in 1954/55 to more than 343,000 in 1985/86.

Beyond personal contacts, dramatic advances in telecommunications help link the world through networks that communicate personal, business, political and cultural information. Compared with the limited scope and technological capacity of international telecommunications 30 years ago, the world now has 600 million telephones, 1.5 billion radios and 700 million television sets. Approximately one-half of all rural families in the Third World now have radios, vastly increasing their exposure to national and international events. The first media attention to the Ethiopian famine illustrates international collaboration on reporting a Third World issue: an African journalist broke the story on the British Broadcasting Company (BBC), which brought it to American television.

The bonds generated through travel, exchanges and telecommunications permit greater sharing of scientific advances. For example, in 1980, the World Health Organization announced that smallpox had been eradicated worldwide, saving some 10,000 lives a year. Agriculture has also benefited. Collaborative research using genetic material available only from Third World plant species, for instance, has led to the introduction in the U.S. of vital drought and pest-resistant crop varieties.

Interdependence also has its down side, however. The majority of illegal drugs entering the U.S. come from the LDCs. Thirty years ago, few Americans had ever heard of cocaine, much

less used it; yet cocaine use in our decade is rising. In 1982, Americans consumed 31 metric tons of cocaine; by 1985, this figure had increased to 72.3 metric tons -- notwithstanding the fact that no coca (the plant from which cocaine is derived) is grown in the United States.

Both terrorism and the threat of nuclear war are often associated with U.S.-Soviet tensions although their roots are commonly found in the Third World. In the case of terrorism, regional hostilities such as the Arab-Israeli conflict have led to increasing attacks affecting international air travel. In 1985, for example, there were 21 attempted terrorist incidents against flights, compared with 7 such attempts in 1975. The so-called nuclear club, which once included only the U.S., the Soviet Union, Britain, France and China, may now include India, Israel, South Africa and Pakistan, all of which are involved in regional conflicts affecting U.S. interests and in which the United States could find itself involved.

Finally, changes in the environment thousands of miles from our shores can affect the United States. Worldwide tropical deforestation estimated at a rate of 40,000 square miles per year has direct impacts on our country: loss of plant and animal genetic material vital for the production of medicines and food; the influx of "environmental refugees" from countries such as Haiti, where in some districts 50 percent of the soil is eroded down to bare rock; loss of habitat to American migratory birds; siltation in major rivers and waterways such as the Panama Canal; and an alarming buildup of carbon dioxide from burning trees that release as much CO₂ into the world's atmosphere as the burning of coal, oil and other fossil fuels.

This chapter has looked at interdependence from a national perspective, citing linkages with the Third World that have an effect on our country as a whole. But interdependence has more immediate impacts on individual Americans, as well: in the places where we work, at the banks where we save and borrow money, and in the fields and markets where our food is grown and sold. The next chapter describes interdependence on Main Street and introduces Americans who feel its effects of every day.

Chapter Two: Main Street America and the Third World -- A Closer Look at Interdependence

Frank Skeffington, the fictionalized mayor of Boston in The Last Hurrah, held a clear-cut view of foreign policy: "When you get right down to it," he said, "there are only two points that really count...First...'All Ireland must be free'...Second, 'Trieste belongs to Italy.'"

This is a laughable view of foreign relations. But few Americans are fully aware of the implications of interdependence even when they are surrounded by them in their daily lives. Whether or not they realize it, nearly every business in this country has forged some kind of trade link with the Third World.

Take Hattiesburg, Mississippi. A custom air-conditioning company in Hattiesburg sells, in some years, 90 percent of its production to developing countries. The Hercules Chemical Co. plant, the largest industry in town, has started importing Chinese rosin. At the same time, the air-conditioning plant imports steel from countries like Brazil, and Hercules exports a large share of its processed chemicals to developing countries.

Complex factors govern these U.S./Third World ties. Leaf River Forest Products, in New Augusta, Mississippi, has targeted Indonesia as a likely customer. They heard the country passed a new literacy law, leading to more demand for books and paper. Throughout the U.S., businesses see their futures tied to Third World countries. In Batavia, Illinois, an electric switch company with only 2 percent of its business in developing countries wants to make it 10 percent. It has just hired a new man to handle international marketing.

Down the road, Aurora Pump recently opened a five-man assembly operation in Singapore. This is one of the first steps by the new international sales manager that company recently brought in. Other Aurora companies are finding out how risky Third World business can be. Barber-Greene, which manufactures heavy earth-moving equipment, did 70 percent of its business in developing countries a few years ago. Now it is doing 15 percent. The shock of this transition, which is the result of Third World debt problems, the strong dollar and increasing international competition, has turned the once family-controlled company upside down.

Farmers like those in Hunt County, Texas, are having the same problem. In the 1970s, many started to raise wheat, nearly all of which was for export. Today, those export markets have begun to shrink as Third World countries and some richer countries such as the Soviet

Union no longer import as much. Today, many farmers are going out of business. In the process, the terms of reference in farming have changed dramatically. Once a man could tell if his neighbor was a good farmer simply by looking at his fields and the crops growing there. Not today; as one Texan observed recently, "Farmers used to spend 364 days a year growing crops and one day marketing." Today, they must be shrewd businessmen, one hand on the wheel of a tractor, the other at a computer keyboard checking international quotes on prices of their crops.

Other Third World farm connections are surprising, even to farmers. In Winter Haven, Florida, a mysterious strain of citrus canker from the Third World currently threatens the state's fresh fruit industry. Citrus canker is only one of scores of pests that have come into the United States from Third World countries. Although industrialized countries can export their pests, too, Third World countries offer special risks because they are so poor. They often don't have the facilities to spot problems quickly or to cure them.

As a former Peace Corps volunteer and seed grower like David Stock in Murdock, Nebraska, knows well, Third World countries also are major contributors to American agriculture because of the origins of many "American" crops. The U.S. may have been blessed with good land, but not with an abundance of the crops that we harvest today. The sunflower is American. But potatoes come from Peru; corn from Central America; sorghum from Africa; wheat from the fertile crescent in the Mid-East; and soybeans and citrus from China. We are heavily dependent on these countries for the genetic materials used to create improved crop varieties that produce higher yields and are more disease resistant.

Brad Korell at the National Bank of Commerce (NBC) in Lincoln, Nebraska, could give another angle on interdependence. His bank has an international banking department. But unlike the executives who run Citicorp or Chase Manhattan, Mr. Korell is not worried that Third World countries will default. He worries that commercial banks responsible for the big loans of the past decade will not continue to lend. The reasons are these: first, NBC did not make any of those worrisome foreign loans; and second, the decrease of farm exports to developing countries has contributed to farm failures in Nebraska. NBC, which went for years without a farm-related default, attributed some 60 of its write-offs in the mid-1980s to farm failures. The solution, as Mr. Korell sees it, is for big commercial banks to maintain lending levels so that developing countries can make the capital investment to get back on their feet and be able to buy more.

Switch to another economic sector, the service industry. A data processing company in Comanche, Iowa, has -- like many such firms -- opened a facility in Montego Bay, Jamaica, with 250 keypunchers entering names and addresses, accounting information and data from survey forms for a number of Fortune 500 companies. Operations like these will proliferate in the future as high technology makes distance increasingly irrelevant.

The lines of inquiry into such connections are almost limitless. Consider: the importance of our foreign aid program for citizens of Duluth-Superior, Minnesota. Nearly one-half the annual longshoreman hours are consumed with loading U.S. government-sponsored food aid for developing countries. Or, consider the heavy inflow of illegal immigrants: who doubts that Mexicans leave their families for the United States because of economic needs?

How such connections will play themselves out is not clear. What is certain, however, is that Americans in cities, small towns and rural communities alike are feeling the impact of interdependence. And equally for certain, the ways in which national policymakers manage this interdependence will increasingly affect people's lives on Main Street America.

Chapter Three: Foreign Policy Options

The prior two chapters illustrate ways in which our country as a whole and Americans as individuals are affected by the Third World. Interdependence also affects the ways in which American foreign policy is carried out. In this chapter, several foreign policy options are described, namely foreign assistance, and trade and debt policies.

Origins and Changing Philosophies of U.S. Foreign Assistance

The 1940s and 1950s saw the first U.S. foreign assistance programs in Latin America designed to encourage closer cultural and economic ties within the American hemisphere. At the same time, the success of Marshall Plan aid for the reconstruction of Europe helped cement the case for foreign aid as a viable foreign policy tool. In 1949, the fourth point of President Truman's inaugural address included a formal statement of support for aid: "We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas."

Heavy emphasis on industrial development marked aid programs in the 1950s. This seemed a logical development strategy: since Western Europe, the U.S. and the Soviet Union had achieved the most visible results of their development through industry, assigning top priority to industrial development seemed to make sense for the Third World as well.

Infrastructure projects such as dams, roads, railways and ports were expanded throughout the Third World continuing into the 1960s, increasingly accompanied by investments in agriculture, education and health. The assumption was that capital investments would create both needed infrastructure and new jobs, which would generate growth to benefit everyone.

This "trickle-down" growth approach produced success stories such as Korea, Taiwan and Singapore. By the late 1960s, however, limitations in this development model were becoming clear. Poor countries' economies were growing at higher rates than those experienced by the industrialized countries at similar stages in their development, yet the economic benefits of this growth were not "trickling down" and reaching the poor. Instead, development programs often enriched primarily those who were already comparatively well-off, worsening tensions and risking political instability.

By the 1970s, dissatisfaction in the U.S. with the character and rate of development -- especially the failure of aid to reach the poorest -- led to a search for alternative

strategies. In 1973, Congress passed "new directions" legislation. This legislation was based on the view that aid should focus on meeting both immediate and longer-term needs -- often referred to as "basic human needs" -- for food, health care and shelter. (This approach was also espoused by many private voluntary organizations, or PVOs.)

In the 1980s, the emphasis on basic human needs has shifted somewhat toward a new concentration on generating income for the poor. This "free enterprise" strategy stresses the need for LDC policy reforms, economic growth and increased purchasing power among the poor. Considerable emphasis is now placed on reform of LDC domestic policies that may have hampered economic growth. These new approaches also seek to benefit from the lessons of the past several decades, including the need for more flexibility (recognizing that what has worked in one country may not be successful in another), ongoing evaluation of projects, more adaptable program plans and a more realistic time frame for the results of foreign assistance to become apparent.

Types of Foreign Assistance

U.S. foreign assistance falls into two broad categories: development assistance and security assistance. Development assistance includes both bilateral (or direct nation-to-nation) aid provided by the U.S. and multilateral aid, in which U.S. assistance is combined with that of other donor nations and is managed jointly by organizations such as the World Bank.

Development Assistance

Bilateral aid includes development assistance grants and loans to support economic progress and alleviate the causes of hunger in LDCs that qualify because of extreme poverty; food aid through Public Law 480, in which U.S. commodities are purchased by the U.S. government on the open market and are made available to support U.S. political, economic and strategic objectives and to alleviate hunger in poor nations; and other assistance efforts such as trade, international narcotics control, the Peace Corps and migration and refugee assistance.

Multilateral aid includes development programs of the United Nations and assistance channeled through multilateral development banks (such as the World Bank and regional development banks). The multilateral development banks (MDBs) make loans to the poorest countries at concessional rates aimed at alleviating poverty and stimulating economic growth.

The International Development Association (IDA) of the World Bank, for example, provides the largest source of external funding for Africa. By pooling financial resources with other donors, U.S. support of MDBs also helps to leverage additional funds from international capital markets for lending to the LDCs.

Security Assistance

Security assistance is extended in a bilateral context and includes the following: military aid such as sales credits, grants and loans to enhance the military equipment and support capability of nations friendly to the U.S., and international military education and training; the Economic Support Fund (ESF), comprised largely of grants for which nations qualify on the basis of both developmental need and their strategic or political importance to the U.S.; and peacekeeping and antiterrorism assistance.

Allocation of the Foreign Assistance Budget

The distribution of U.S. foreign assistance from 1981 to 1986 helps show the relative priorities attached to each category of assistance. Of the fiscal year 1986 U.S. budget of \$989.8 billion dollars, approximately \$14.8 billion -- or 1.5 percent of the total -- was assigned to foreign assistance by Congress. Of that amount, \$9.6 billion, or 64.8 percent, went to security assistance, of which military aid accounted for \$5.8 billion, and the ESF, \$3.8 billion. Of the remaining 35.2 percent of the total foreign assistance budget -- the \$5.2 billion that went to development aid -- multilateral support received approximately \$1.4 billion, bilateral aid programs received \$2.6 billion, and P.L. 480 food aid received \$1.2 billion.

Within the bilateral aid allocation, development assistance and P.L. 480 combined received about \$3.8 billion. These are the funds managed by the U.S. Agency for International Development (USAID). As the chart below indicates, monies for ESF have grown more rapidly than those for development assistance, reinforcing the use of foreign aid for strategic and political goals as well as humanitarian ones and continuing a trend within the foreign assistance allocation.

The Foreign Aid Balance, 1981-86
(\$ millions current and percentages)

<u>Account</u>	<u>FY1981</u>	<u>FY1982</u>	<u>FY1983</u>	<u>FY1984</u>	<u>FY1985</u>	<u>FY1986</u>
Security Assistance	5,800	7,200	8,500	9,000	12,900	9,602
Percentage of total assistance	54.7%	58.5%	62.0%	61.6%	67.2%	66.8%
Military	3,700	4,300	5,500	5,600	9,100	5,840
Economic Support Fund	2,100	2,900	3,000	3,400	3,800	3,762
Development Assistance	4,800	5,100	5,200	5,600	6,300	5,217
Percentage of total assistance	45.3%	41.5%	38.0%	38.4%	32.8%	35.2%
Multilateral	1,300	1,500	1,800	1,600	1,900	1,404
Bilateral	2,300	2,600	2,400	2,500	2,900	2,570
PL 480 (Food for Peace)	1,200	1,000	1,000	1,400	1,500	1,243
Total Foreign Aid	10,600	12,300	13,700	14,600	19,200	14,819

The distribution of the foreign assistance budget among Third World countries is also indicative of the extent to which political and strategic concerns come into play when aid is allocated. For example, from 1980 to 1983, the U.S. foreign aid budget totaled \$46.8 billion. During this period, the top four recipients of aid were Israel (\$8.6 billion), Egypt (\$7.1 billion), Turkey (\$2.2 billion) and India (\$928 million). These countries have much higher GNPs than most of the other countries that received far less aid. In fact, the poorest 30 aid recipients (such as Chad and Bangladesh) received only 8 percent of the total foreign aid budget; the middle 35 nations received 37 percent and the 32 richest recipients received 27 percent. Those in favor of this allocation say that growth in security assistance has been an "add-on" to other foreign aid and has actually helped carry the votes for foreign aid in Congress. Others say it is wrong to spend roughly \$1,000 per capita for aid to Israel, compared with approximately \$2 per capita for Subsaharan African countries.

U.S. Aid in Comparison with Other Donors

The U.S. is part of a large community of nations that provide foreign assistance. The largest group of donors are the Western industrialized countries including the U.S., about 20 European nations and other non-Socialist bloc countries. In addition, several oil-exporting nations of OPEC (such as Saudi Arabia and Kuwait) provide their own aid, as do about 10 nations from the Socialist bloc. The U.S. is the largest single aid donor, but gives less aid relative to our national wealth as expressed in gross national product (GNP) than most other donors. In 1985, the U.S. ranked 17th among other industrialized nations and tied with Ireland in giving 0.24 percent of our GNP as foreign aid. The average among Western industrialized countries is almost twice that amount.

Trade and Third World Debt

In addition to foreign assistance, other policy options such as those related to trade and debt are available to the U.S. in managing relations with the Third World. We have seen that trade and international capital flows are powerful forces in the international economy. The discussion that follows will provide a brief outline of U.S.-Third World trade and the issue of Third World debt, and will demonstrate how they are connected. It will suggest that the growing U.S. trade deficit is due to a great extent to the loss of export markets in the LDCs, whose indebtedness has decreased their ability to buy U.S. products.

Trade

International trade is based on a reciprocal demand for -- and supply of -- goods across national borders, including "primary" goods (agricultural products, raw materials), manufactured goods and services. Demand is predicated on the ability of countries to pay for the imports they want with foreign exchange.

Historically, the U.S. and other industrialized countries have imported primary goods from the LDCs, which have looked to the industrialized countries for imports of manufactured goods. Although shifts in comparative advantage and the emergence of "newly industrialized" economies in the Third World are altering this trade relationship, the Third World still relies heavily on exports of primary goods for trade, with some LDCs dependent on one or only a few commodities for all their export earnings. The developed nations, on the other hand, tend to have more diversified economies and sell to Third World markets a wider variety of products and services.

Since such a large share of their export revenues is derived from the sale of these goods, Third World countries are highly vulnerable to price fluctuations for primary commodities such as coffee, tin, copper, cotton, oil and rubber. This vulnerability and the fact that price fluctuations are due to factors out of their control (such as weather, changes in tastes and lifestyles in the industrialized countries, trade restrictions imposed by these customers or the development of synthetic products to replace their commodities) have led many LDCs to call for "fair" trade policies that set what they consider to be more equitable prices for their goods.

A number of benefits accrue to all nations through trade, including employment, economic growth, wider availability of goods or availability at lower prices and, especially in the

case of LDCs. foreign exchange earnings from exports that can be used not only to finance imports but also to spur development and, as we shall see, to pay off foreign debt. Trade also presents difficulties, however, including import competition for goods produced at home, which results in unemployment, and, particularly in the case of LDCs, diversion of scarce resources to export production that could otherwise be used either for domestic consumption or to promote development.

Many countries have responded to these difficulties by applying tariffs (import taxes that increase the price of imported goods), quotas (that limit the volume of imports) or subsidies to the producers of export goods (that artificially lowers their prices). Many Third World countries have also attempted "import substitution" (domestic production of goods that would otherwise be imported) to cut foreign exchange expenditures. Given the limited resources and productive capacity that characterize many LDCs, however, such policies usually cause a decline in both export production and foreign exchange earnings.

The Third World and the U.S. Trade Deficit

Since 1981-82, when most observers say the Third World "debt crisis" began, the U.S. has suffered an increasing trade deficit. From 1982 to 1985, this deficit increased from \$36 billion to nearly \$125 billion. The U.S. Department of Commerce estimates that from 1981 to 1986, the trade deficit has accounted for the loss of approximately 1.8 million U.S. jobs and a 1.1 percent increase in the U.S. unemployment rate.

Although a number of factors have contributed to the U.S. trade deficit -- such as an overvalued dollar (making U.S. exports more expensive overseas), the low demand in Japan for U.S. manufactured goods and the protectionist policies of Western Europe -- economic experts in and outside of government point to Third World debt and underdevelopment as at least equally responsible. In fact, they claim that Third World economic development is a prerequisite for the growth in export markets needed to overcome the negative U.S. trade balance.

Why are the LDCs so important for U.S. trade and economic growth? Again, the statistics help tell the story. As we have seen, LDCs currently purchase about 40 percent of all U.S. exports. Latin America alone consumed 15 percent of U.S. exports in 1981 and provided 25 percent of the growth in the U.S. export market between 1976 and 1981. Between 1981 and 1985, however, the International Monetary Fund (IMF) reported an overall decrease in Latin American imports from \$123 billion to \$41 billion, with U.S. exports to the region declining by 26 percent.

Experts argue that LDC demand for U.S. goods will grow, largely because 94 percent of the world's population growth by the year 2000 will occur in the Third World. They point out that Western European and Japanese markets are now "mature." Their populations have stabilized and their people are already well fed, precluding much growth in their demand for U.S. agricultural goods. Nevertheless, in the absence of economic development and haunted by debt, LDCs will never reach their full potential as U.S. markets.

The Third World Debt Crisis

The origins of the debt crisis are traced to dramatic shifts in the world economic environment at the turn of this decade. During the early 1970s, the prices of many primary goods exported by the LDCs increased, with the most notable rise in petroleum prices. In addition to the impact of petrodollars on the world economy and lending policies described earlier that aimed at absorbing this new capital, other factors also contributed to increased lending and borrowing.

Rising prices for LDC exports in the 1970s and anticipated increases in export earnings made these countries appear to be sound credit risks. (Mexico, a "new" oil exporter, is a case in point.) At the same time, many Third World countries determined that loans would help them diversify their economies away from dependence on primary goods. Many LDCs proposed -- and lenders tended to agree with -- industrialization strategies financed by these loans. Also during the 1970s, high U.S. inflation caused the dollar to depreciate in value. And because of the depreciation, real interest rates (although they tended to be variable on most LDC loans) were initially low. Both the value of the loans and interest on these loans appeared attractive to borrowers within the context of continuing inflation.

By 1981, however, this picture darkened considerably. A recession worse than any economic downturn since the Great Depression crippled the world economy. Inflation slowed, the value of the dollar increased and LDC export prices fell on world markets. Prices for LDC primary goods dropped 40 percent from 1980 to 1982, with the prices of their manufactured goods falling 8 percent in the same period. Export earnings fell and interest payments on loans actually increased in value, due both to variable interest rates that had increased and to the higher dollar. Many Third World countries thus found it increasingly difficult to meet payments on their loans. The August 1982 announcement by Mexico that it was unable to make payments on its \$75 billion foreign debt marked a new era in the world economy: the debt problem was now a crisis.

Much discussion of the debt crisis tends to focus on the vulnerability of lenders (both private U.S. and foreign banks and, to a lesser extent, multilateral lenders such as the World Bank and the IMF) to Third World default and also on the economic policies of borrowers. Observers point out that Latin America alone owes roughly \$400 billion and that a major crisis in the international financial system would follow Third World default. Some claim that, in addition to the questionable lending policies of banks, which they accuse of poor credit analysis and of "throwing good money after bad," LDC borrowers themselves have pursued harmful economic policies. These observers say that LDCs have not encouraged sufficient domestic savings, investment or export growth and that they have resisted needed economic reforms such as currency devaluation, reduction of government subsidies and wage and price controls. Some LDCs are also criticized for failing to prohibit (or at least inhibit) wealthy elites from converting their capital to foreign exchange and then investing it overseas rather than at home, a process known as "capital flight."

Another point of view about the debt crisis -- and the means of containing it -- has arisen, however. This perspective acknowledges the importance of bank liquidity to the international economy and the potentially disastrous impact of LDC default. But its adherents stress that the debt crisis has an equally significant -- and negative -- impact on world economic growth since indebtedness inhibits trade. They point out that without a substantial increase in LDC exports and resulting foreign exchange earnings, it will be extremely difficult for debtors either to make interest payments or to purchase foreign goods. They believe that this export growth is severely hampered by 1) austerity measures imposed on them by multilateral lenders as a condition for new loans; 2) the fact that interest payments to private banks (usually due every six months) limit domestic economic investment needed to increase exports; and 3) protectionist pressures in the industrialized world.

Both schools of thought on the debt crisis acknowledge its ominous consequences for the LDCs. Some experts, for example, refer to the 1980s as a "lost decade" for Latin American development because of soaring debt and question whether the continent will re-attain its 1970s standard of living by 1990. And, not surprisingly, both points of view are accompanied by suggested policies for resolving the crisis. Those who concentrate primarily on the imperiled position of lenders, the consequences of LDC default for banks (including U.S. banks that had lent more than \$100 billion to the LDCs by 1986) and the world economy at large tend to favor austerity and policy reforms by borrowers to raise capital at least for interest payments.

Those who view the crisis primarily in terms of lost trade and revenue tend to advocate growth policies and increased trade to improve both LDC foreign exchange earnings and the U.S. trade balance. They argue, for example, that the \$32 billion transferred by Latin America to the developed world in 1985 as debt repayment represents \$32 billion not spent on imports and development. In short, the argument over how best to solve the debt crisis revolves around the issue of austerity and relatively faster repayment versus growth and relatively slower repayment.

The policy of the Reagan administration as put forth by Treasury Secretary Baker in 1985 represents somewhat of a compromise between these two approaches, in that the Baker Plan increases emphasis on LDC economic growth while still requiring economic reform. This three-part plan stipulates that 1) borrowers must institute economic reforms, e.g., reduce government expenditures, raise domestic and foreign investment capital and revalue their currencies; 2) commercial banks should then respond by lending an additional \$20 billion over three years to 15 key debtor nations; and 3) the World Bank and the Inter-American Development Bank would then lend \$9 billion more at concessional rates over the same period.

Currently, the Baker Plan has stalled because neither the borrowers (who say they are already overburdened by politically risky reforms) nor the commercial lenders (who claim they are already overextended) are fulfilling the requirements of the plan. As a result, other plans for resolving the crisis have arisen, including the proposal of several Latin American governments that interest payments be directly tied to export earnings and another by Sen. Bill Bradley (D-N.J.) that a portion of the debt, both principal and interest, be forgiven the debtors.

Conclusion

In conclusion, foreign assistance, trade and debt policies are some of the tools that the United States uses in its relations with the Third World. Other policy options not discussed above but treated in the foreign policy exercise to follow are diplomatic and military in nature. They include U.S. participation in international agreements, treaties, military alliances and international organizations.

As this chapter has suggested, foreign assistance, trade and debt policies are often connected. This challenges policymakers to formulate an appropriate mix, or "package of policy options," for managing U.S.-Third World interdependence and for achieving U.S. goals -- humanitarian, economic and security -- in the LDCs. At the same time, however, these

policies must acknowledge and respond to the differing views of interest groups in the United States.

Issue Paper: Environmental Degradation

I. A Statement of the Issue

Concern for the environment is sometimes considered a luxury of the rich. But, in fact, the destruction of the environment (a process called "environmental degradation") has a far greater impact on the poor in the Third World. Compared with the developed countries, the nations of the Third World are tremendously susceptible to environmental degradation, whether it results from natural or man-made causes. Why is Third World vulnerability to the environment so acute? And why does environmental degradation there matter to the U.S.?

Food production is directly linked to environmental quality. Much of the agriculture and food production in the Third World occurs at, or even below, the "subsistence" level -- the level at which only enough food is produced to sustain life. Reasons for subsistence agriculture may include poor soils; lack of irrigation (and a dependence on rain-fed agriculture); scarcity of inputs such as land, seeds, fertilizer and farming equipment; rising populations; lack of production incentives such as fair producer prices; or a combination of these and other factors.

Some LDCs have tried to earn foreign exchange through agriculture. They have favored and invested in the production of "cash" crops and other commodities for export. Out of economic necessity, moreover, some Third World nations have enacted agricultural export policies that actually decrease the supply of food available in local markets or make it more expensive to domestic consumers. This may occur because food products are exported rather than consumed locally and have risen in price, or because land and other resources are used for export commodities such as cotton, tobacco, flowers or beef, another domestic food product.

In either case -- whether agriculture and food production are for subsistence or for foreign trade -- a vicious circle is in motion in many Third World countries. The desperate and immediate need to produce more food for growing populations at home and/or for export often outweighs the long-term need to guard the productive capacity of the land itself. A process of man-made environmental degradation ensues as short-term goals of increased production may be met, but long-term consequences of overuse of natural resources are largely ignored.

A major contributor to Third World environmental degradation is the clearing of forests, or "deforestation," to bring more land under cultivation. Deforestation can have positive short-term goals and impacts, such as producing more crops or beef and dairy products, providing firewood (the major source of fuel in LDCs) for domestic use or timber for export, and opening up settlement areas for growing populations. Because of the fragile nature of tropical forests, however, many intermediate and long-term impacts of deforestation are negative. They include soil erosion, siltation of rivers and dams with precious topsoil, lowland floods originating from deforested highlands and, ultimately, decreases in food production as deforested land loses precious nutrients.

The United States also experiences the impact of Third World environmental degradation. Among the repercussions in the U.S. of Third World deforestation are the loss of genetic material from destroyed forest plants and animals that could be used for food and medicine production in the U.S.; competition from Third World timber exports and from export commodities produced on deforested land; the influx of refugees from countries where the impact of deforestation has increased poverty and political unrest; a decrease in the global supply of oxygen produced by plants as forestlands the size of Kentucky are cleared each year; and the estimated 0.6 - 2.6 billion tons of carbon released annually as forests are burned. Some scientists have posited that these higher concentrations of carbon dioxide in the atmosphere will cause a warming of the earth's climate, creating the so-called greenhouse effect.

II. Case Study: Central America

Deforestation is a major source of environmental degradation in the Third World. In Central America, in addition to urbanization, scarcity of fuelwood, population pressures on the land and environmentally unsound agricultural practices, large-scale beef production is a major cause of deforestation. In the seven Central American nations, two-thirds of the primary forests have disappeared since 1950 while the area of pastureland and the number of beef cattle raised has more than doubled. In Costa Rica, an important American friend in the region, grazing lands have increased from about one-eighth of the country to over one-third, with almost a fourfold increase in beef production in the same period.

This beef is raised primarily for export. Although one might assume that beef consumption in Costa Rica rose with beef production, the opposite occurred between 1960 and 1980, when beef consumption in Costa Rica fell by more than 40 percent to 5.7 kilograms per

person. Although domestic beef consumption in the region as a whole is now increasing, most Central Americans still eat less meat than an American cat.

Why has Central America increased its beef production at the expense of its forests? A principal reason is that Central American nations, like most others in the Third World, are desperate to earn foreign exchange through trade to help pay off their debt and earn resources for investment. Because deforested lands are generally of low quality and cannot sustain crop production without expensive fertilizers and other agricultural techniques such as agroforestry, many large landowners and poor peasants have found it simpler to convert them to grazelands. Some governments have favored distributing forestlands to peasants rather than implementing agrarian reform policies that would redistribute the more productive lands held by the wealthy. In short, Central American countries have found cattle production in the short term an easier use of these lands and a successful means of earning foreign exchange.

Three main forces have contributed to this export policy: the failure of Central American nations to place a higher priority on protecting their forests and improving grazeland management; the readiness of sectors in the U.S. food industry to import cheap Central American beef; and the availability of credit for these activities and reduced incentives for food crops.

Even though North Americans now eat less beef, population growth has tended to keep total overall demand constant. At the same time, the cost of producing beef in the United States has risen. Thus, U.S. buyers have looked elsewhere to meet their demand for inexpensive beef and have found Central America to be a willing producer.

In recent years, Central American beef has cost about half as much as its American-produced counterpart although its quality is not as high. Central American cattle are not fed grain but graze on open (usually deforested) land, producing leaner beef. Due both to its lower quality and to American tastes, Central American beef goes to specific U.S. markets: fast-food chains, processed meat products and pet food. Demand in these markets is expected to continue to rise, and experts expect that Central American beef production will continue to meet this demand.

From 1980 to 1984, agricultural development in Central America received more than \$1 billion from multilateral development banks (MDBs) for agro-industry and producer marketing,

irrigation systems, crop improvement and livestock production and research. Critics of these programs claim that these funds were not accompanied by adequate efforts by the banks themselves or by recipient governments to safeguard the environment, and that, rather than foster self-reliance and a diversification of crops, Central American policies favored beef production and increased dependence on the U.S. market. Critics also point out that although the World Bank is the world's largest single source of financing for tropical forest conservation and development, the World Bank since 1963 has lent money for beef production in every Central American country except El Salvador and has provided more credit for beef than for any other agricultural activity. The Inter-American Development Bank has also considered beef production to be "highly suited" to the region and has favored it as a means of earning foreign exchange.

III. Case Study Exercise

In order to formulate a U.S. policy toward environmental degradation in Central America, you must first determine what the primary goal of U.S. policy should be. Then, you should select the policy options that you believe will help the United States achieve that goal. BEFORE GOING TO THE CRASH COURSE, REVIEW THE GOALS AND POLICY OPTIONS OUTLINED BELOW AND SELECT THE PRIMARY GOAL AND RELATED POLICY OPTIONS THAT YOU BELIEVE ARE MOST APPROPRIATE FOR THE UNITED STATES. SPACE IS PROVIDED AT THE END OF EACH SECTION FOR YOU TO MAKE NOTE OF YOUR RECOMMENDATIONS.

A. Goals

The following is a list of possible goals that the United States might have regarding U.S. policy toward environmental degradation in Central America. If none of these goals seems appropriate to you, please devise another primary goal that you feel is better.

1. While environmental concerns are important, concentrate on U.S. political security and economic concerns in Central America. Supporters of this goal argue that the U.S. should focus its efforts on resolving political, military and economic issues in our relations with Central America. They argue that environmental protection is a much lower priority than dealing with communism in the region and that improving U.S. policies toward Central America so that they are coherent, achieving a mutually acceptable peace plan, and encouraging economic growth and political stability should be our goal. To achieve this, supporters

believe that the U.S. should remain active in the regional peace process to ensure an outcome consistent with U.S. interests; to further democracy in the region through strengthened political, cultural and educational ties; and to build on the historical economic relationship between the U.S. and Central America.

Opposition to this goal might come from the following interest groups in the U.S.: 1) "doves," who believe U.S. involvement in Central American nations' domestic affairs is inappropriate and who believe the "historical economic relationship" was basically exploitative and primarily to U.S. advantage; 2) "hawks," who advocate more U.S. military involvement in the region to stop the spread of communism and who disdain the Central American peace process; and 3) environmentalists, plant and animal geneticists and others, who believe the U.S. has a direct stake in preventing additional deforestation in Central America.

2. Declare all Central American forests permanently "off limits" to development to protect unique tropical rainforest plants and animals. Supporters of this view believe the pool of genetic resources found only in tropical forests must be protected. They regard forest preservation as urgent and claim that long-term benefits of new crop varieties, food sources and medicines will be lost if these forestlands are destroyed. They believe that these current and potential resources will benefit not only Central America but also the United States. To achieve this goal, supporters advocate establishing a regional network of forest preserves that would be staffed by international experts in wildlife and forest management. They also advocate international collaboration on both tropical forest protection and plant and animal genetic research to develop and preserve these precious resources.

Opposition to this goal might come from the following interest groups in the U.S.: 1) "hawks," who believe that our primary concern in Central America is strategic and that in the event of widespread communism in the region, the issue of U.S. access to plant and animal genetic resources from tropical forests would be moot; 2) U.S. fast food, pet food and processed food industries, who would not be able to purchase beef produced on deforested lands; 3) American consumers, who would oppose paying higher prices for hamburgers at fast-food restaurants and for other processed meat; and 4) international bankers, who might not receive payment on Central American debt in the absence of foreign exchange earnings from beef exports.

3. Encourage Central American countries to recognize the importance of environmental protection in pursuing economic growth. Supporters of this goal believe that environmental protection is vital both to economic development and to political stability in Central America and U.S. interests. They argue that environmental protection, upon which productivity depends, will result in long-term economic growth that will provide markets for U.S. goods. They point out that high fertility rates tend to fall as living standards rise, and they claim that robust economies and improvements in the quality of life in Central America will both increase political stability and create stronger U.S. allies. To achieve this goal, they advocate sharing U.S. forestry, herd and environmental management expertise to improve land use; and encouraging Central American governments to institute agrarian reforms, diversify crops, and develop new exports that are less destructive to the environment.

Opposition to this goal might come from the following interest groups in the U.S.: 1) opponents of foreign aid, who believe these resources could be better used at home; 2) observers who doubt such a plan would be possible without successful land reform, a policy that many Central American elites would resist; 3) "hawks," who believe that military support is a more efficient way of protecting U.S. interests than promoting economic development and environmental protection; and 4) U.S. producers and labor in industries that might be in competition with new Central American exports.

4. Encourage production of exports to increase national incomes and pay off Central America's foreign debt. Supporters of this goal are deeply concerned about the vulnerability of American banks to LDC debt and believe the time has come to tackle this problem. They posit that more active trading by the Central American nations is the fastest way for them to earn foreign exchange for debt repayment; that production of export commodities such as beef is a sound economic policy for these nations to pursue; and that economic development through trade will obviate the need for U.S. foreign assistance (both development and security) in the region. To achieve this goal, they support trade and economic agreements such as the Caribbean Basin Initiative; the establishment of regional free trade zones; and increased foreign investment in Central America.

Opposition to this goal might come from the following interest groups in the U.S.: 1) environmentalists, who support protection of forests and who point out that further industrial development will have additional negative impact on the environment; 2) American beef producers and other American industries and labor that fear competition from new Central

American exports; 3) "hawks," who believe the best way to protect U.S. interests in Central America is military support; and 4) groups who favor disengaging the U.S. from all overseas involvement.

5. Another goal that you believe is appropriate for U.S. policy (including rationale, ideas on meeting the goal and anticipated opposition).

HAVING READ THE DISCUSSION ABOVE, SELECT YOUR PRIMARY GOAL BEFORE THE CRASH COURSE: _____

B. Foreign Policy Options

The United States has several foreign policy options available to help attain its national security goal of addressing environmental degradation in Central America. The background chapter on "Foreign Policy Options" describes some of the tools that the U.S. uses in managing relations with the Third World, including trade and debt policy, foreign assistance and international agreements, such as treaties, military alliances and U.S. participation in international organizations.

BASED ON THE PRIMARY GOAL THAT YOU HAVE SELECTED FOR THE UNITED STATES, DESIGN A "PACKAGE OF POLICY OPTIONS" THAT YOU BELIEVE WILL HELP ACHIEVE THIS GOAL. TRY TO SELECT THREE POLICIES THAT YOU BELIEVE ARE MOST APPROPRIATE.

I. _____



2. _____

3. _____

If you need help in formulating this package of policies, review the more detailed discussion of policy options that follows:

1. Trade Policy

- a. Prohibit all imports into the U.S. of Central American timber and beef from cattle raised on deforested lands.
- b. Apply quotas specifying limiting imports of Central American timber and beef raised on deforested lands.
- c. Encourage freer trade between Central America and the U.S.
- d. Encourage "fair" trade policies with Central America to increase their export earnings.

2. Debt and Adjustment Policies

- a. Demand repayment of Central America's foreign debt on schedule to protect U.S. banks.
- b. Tie additional loans and foreign and both development and security assistance to concerted efforts at debt repayment by Central America.
- c. Encourage American and international banks to write off Central American debt in exchange for environment protection policies.
- d. Encourage organizations to "buy up" Central American debt in exchange for the establishment of tropical forest conservation areas.

3. Foreign Assistance

- a. Withhold all development assistance to Central America and provide only security assistance.
- b. Provide only emergency food relief to the hungry in Central America.
- c. Use the prospect of development and security assistance as leverage for environmental protection.

21

d. Provide development assistance aimed at achieving sustainable development.

4. International Agreements, Including Treaties, Military Alliances and U.S. Participation in International Organizations

a. Propose a regional treaty ensuring mutual policies of environmental protection.

b. Take a leadership role in the drafting and enforcement of an International Tropical Forest Protection Agreement.

c. Focus diplomatic efforts on a Central American peace plan agreeable to the United States.

d. Increase the U.S. military presence in Honduras and other Central American nations friendly to the U.S., and build an alliance against communism.

Issue Paper: Poverty

I. A Statement of the Issue

As the crash course introduction explained, the term "Third World" describes those countries that have experienced relatively low levels of economic development. Most nations of the Third World are very poor; or if they have achieved economic gains, major segments of their populations have not benefited from this rising prosperity. In short, widespread poverty is the dominant and pervasive characteristic that defines the Third World.

Because this poverty affects most aspects of life in the LDCs, our analysis will focus on the connections between poverty and certain Third World issues associated with it: hunger, health, population and migration. The paper will also discuss the ways in which Third World poverty affects the United States.

Background Statistics

In the U.S., we have established a "poverty line" below which poverty is deemed to occur. In the world at large, there is no such determinant. Countries are considered "poor" based on a comparison of their per capita GNP (national wealth divided by size of population) with that of other countries. The World Bank provides some helpful statistics for comparing the wealth of nations: in 1985, the per capita GNP of the U.S. was \$16,400. Switzerland was close behind with \$16,380, and Japan had a per capita GNP of \$11,330. The United Arab Emirates topped the list with \$19,120, while Ethiopia ranked lowest with \$110. The rest of the Third World fell in between but very much at the lower end of the spectrum: for example, Singapore with \$7,420, Brazil with \$1,640, Somalia with \$270, and Nepal with \$160.

In the case of Third World poverty, however, the GNP numbers fail to indicate the level of suffering that daily existence brings to millions of people. Although per capita GNPs show a disparity of wealth among nations, they don't address how the wealth is distributed within a country's boundaries. For example, we saw that Brazil had a 1985 per capita GNP of \$1,640. Yet distribution of this wealth is very lopsided in Brazil; the average income of the wealthiest one-fifth of the population is 33 times higher than that of the poorest fifth. Another disadvantage of discussing poverty in terms of per capita GNP is that these numbers do not adequately cover the large portion of Third World populations involved in subsistence

agriculture (farmers who only produce enough for their own consumption needs and who therefore are only marginally involved in the cash economy). Finally, economic indicators such as per capita GNP do not address the impact of poverty on the basic quality of life. As a result, experts also include factors such as nutrition, literacy and access to education, population growth rates, infant mortality, adult life expectancy and unemployment levels in their analysis of underdevelopment. With this overview in mind, let's now consider some specific issues associated with LDC poverty.

Hunger

Hunger is a direct result of the economic condition of poverty, the inability of individuals -- and countries -- to produce enough food or to purchase it in the marketplace. Ironically, the world has ample food to feed itself, and in recent years, total food production has increased more rapidly in the LDCs as a group than it has in the developed world. However, because of rapidly increasing Third World populations (see below), per capita food production is falling in most of Africa, and in particular countries in Asia and Central and South America. Some 34 percent of the Third World population (excluding China) does not eat sufficiently well to lead an active, working life; and nearly half of that segment subsists on a minimum survival diet.

Health

Impoverished people are prey to a host of diseases, for which they often receive inadequate care. Only 10 percent of some LDC populations have access to modern health services or receive adequate health care. Poor and crowded living conditions in both rural and urban areas make people more vulnerable to airborne diseases such as tuberculosis; and the lack of sanitary conditions and clean water greatly increases the risk of such waterborne diseases as typhoid, polio and dysentery. Because the poor are also hungry, these illnesses are more debilitating and dangerous; even measles becomes a killer when it attacks children already weakened by malnutrition and intestinal parasites. Third World women are especially susceptible to the health effects of poverty because the dangers of childbirth increase with the degree of malnutrition, use of contaminated water and unhygienic environment that typify most Third World pregnancies and deliveries.

Population

Contrary to the popular belief that ignorance and cultural mores are responsible for high birth rates in the Third World, the basic cause is poverty. This is true for the following reasons: 1) low standards of living and poor health conditions affect the young most acutely; thus, ten percent of the babies born in the Third World die before their first birthday; 2) because of this high infant mortality, parents have more children, hoping the survivors will assist in productive labor to help support the family and will later help care for parents in their old age (since there are no welfare or Social Security programs in the LDCs); and 3) the poor have limited access to health education and family planning programs that provide information and instruction on such interventions as the importance of breast feeding and family planning techniques.

Migration

Poverty can lead to desperation and -- ultimately -- to migration. A common sight in most Third World cities is slum areas populated by people from the countryside who have come to the city in search of food, work and a better life. Unfortunately, they usually find urban conditions even worse than those they left behind. Other recent Third World migration patterns show populations moving across national borders to escape both poverty and hunger at home and, increasingly, war and oppression. These refugees usually exert demographic and economic pressures on the countries to which they flee, again increasing political instability and poverty. In some cases, refugees and emigrants, especially those from countries linked to the U.S. by geography (e.g., Central Americans and Caribbeans) or historic ties (e.g., Southeast Asians), come to the United States.

Impacts on the U.S.

A desire to help the less fortunate has motivated much of U.S. policy toward the Third World in the past, but there are other reasons for the U.S. to be concerned with Third World poverty: 1) widespread poverty and the low economic growth rates in these countries reduce their ability to be active markets for U.S. exports; 2) some LDCs have borrowed heavily in international capital markets and particularly from American banks; and recent announcements by certain of those nations that they will no longer service their debt has increased the exposure of some of the largest banks in the U.S.; 3) poverty increases political instability and, in some regions of the world important to the U.S., makes our allies strategically

unreliable; 4) Third World health problems can easily cross international borders and enter the U.S., as may have occurred with AIDS; and 5) population increases relative to food production and distribution, as well as general conditions of poverty, induce many of the Third World's poor to emigrate, in some cases to the U.S., which results in competition for jobs, racial tensions and a serious drain on U.S. social services.

II. Case Study: The Philippines

The Philippines is a nation of roughly 55 million people living among 7,100 islands -- one of the most strategically located archipelagoes on earth. The country is an important American ally, a relationship that originated in 1898 when the arrival of U.S. naval forces ended over 300 years of Spanish rule. The Philippines then became an American colony under a policy of "attraction" designed to develop "a great and greater measure of popular self-government."

A powerful, educated elite known as the ilustrados, whose values and political outlook were more closely linked to colonial Spain than to democratic America, assumed leadership of the new nation. The early postindependence governments began a cycle of political corruption, nepotism, economic inequality and widespread poverty that was to continue through the Marcos years. Corazon Aquino inherited this political and economic legacy when she rose to power in 1986. Today, the many reforms promised by the new Aquino government are overshadowed by a continuing Communist insurgency movement; the repeated coup attempts by members of the military whose loyalty to the new administration is tentative at best; residual support for the ousted Marcos regime; massive international debt; and most pervasive, extreme poverty and underdevelopment throughout most of the country.

Who are the Filipino people, and what are the conditions of their lives? Like many Third World peoples, Filipinos are divided by ethnicity, language, religion and class. They speak eight major languages and belong to 75 ethnolinguistic groups. 85 percent of the population is Catholic, 10 percent Moslem and the remaining 5 percent is Buddhist or practices tribal religions. Religious violence erupted in the late 1960s and early 1970s when the Moro National Liberation Front unsuccessfully launched a guerrilla war for Moslem autonomy in the south. Although religious tensions persist, they are considered less serious than either the powerful Communist insurgency fueled by widespread poverty and class inequality or the uneasiness of the Filipino military over Mrs. Aquino's response to this insurgency.

A factor both in Ferdinand Marcos' declaration of martial law in 1972 and in Mrs. Aquino's current efforts to consolidate power has been the strength of this Communist movement, the New People's Army (NPA). The NPA is estimated to have a full-time fighting force of 20,000 rebels and has established a political base in at least 20 percent of the Philippines' over 41,000 villages. Most foreign and Filipino observers regard the NPA as a substantial threat to the new government. The NPA's power to attract popular support derives from poverty, bureaucratic corruption and lingering feudalism in the countryside -- all deeply rooted problems to which Mrs. Aquino must effectively respond. At the same time, the NPA opposes the U.S. military presence in the Philippines at Clark Air Force Base and Subic Bay Naval Station, a presence the new government is unlikely to reject both because of strategic ties to the U.S. and because of the economic benefits of providing these base rights.

Mrs. Aquino faces perhaps her greatest challenge in the Philippines' distribution of wealth. For example, the Filipino ruling class of wealthy (and usually landed) families comprises only 2 percent of the population but earns about 55 percent of the nation's income. This ruling elite, to which Mrs. Aquino herself belongs, is particularly opposed to the new president's land reform policies. Although the government plans to give priority to land reform, agriculture and raising rural incomes, observers believe that bureaucratic inefficiency, the strength of the NPA in the countryside and the power of pro-Marcos landowners will make these reforms difficult to achieve.

The rest of the population is comprised of a small middle class (instrumental in the fall of Marcos) and the very poor. Almost three-quarters of all Filipinos live below the national poverty threshold of about \$1,000 per year to support a family of six; the national per capita GNP in 1985 was about \$600. Hopes of increasing the rural standard of living through agriculture have been dashed by the performance of that sector between 1976 and 1985, when the annual per capita agricultural production growth rate fell by 1 percent. In fact, overall national income has fallen by nearly 10 percent since 1983, the last year the Philippines made principal payments on a foreign debt of almost \$27 billion. At the same time, the annual population growth rate of 2.7 percent (the highest in Southeast Asia) shows no sign of abating. Infant mortality, an important indicator of national health, stood at 50 deaths per 1,000 children under the age of one in 1985. Given this range of problems, it is not surprising that many Filipinos have left their homes in search of a better life in the United States. From 1961 to 1984, an average of 26,400 Filipinos emigrated to America each year. In 1985, this figure was 48,000.

III. Case Study Exercise

In order to formulate a U.S. policy toward the Philippines, you must first determine what the primary goal of U.S. policy should be. Then, you should select the policy options that you believe will help the United States achieve that goal. **BEFORE GOING TO THE CRASH COURSE, REVIEW THE GOALS AND POLICY OPTIONS OUTLINED BELOW AND SELECT THE PRIMARY GOAL AND RELATED POLICY OPTIONS THAT YOU BELIEVE ARE MOST APPROPRIATE FOR THE UNITED STATES. SPACE IS PROVIDED AT THE END OF EACH SECTION FOR YOU TO MAKE NOTE OF YOUR RECOMMENDATIONS.**

A. Goals

The following is a list of possible goals that the United States might have with respect to poverty in the Philippines. If none of these goals seems appropriate to you, please identify another primary goal that you feel is better.

1. Protect U.S. base rights in the Philippines. Supporters of this goal believe that, because of its strategic location and political instability, the Philippines is vulnerable to Communist threats both externally and internally. They argue that, in the event of a Communist takeover, the issue of U.S. concern for poverty in the country would be moot and that the aim of all U.S. policies should be the stability of the country and the region as enhanced by a U.S. military presence. In order to achieve this goal, the U.S. and the Aquino government should negotiate U.S. payments and concessions for maintaining U.S. bases but should also reduce the degree to which the U.S. commits economic resources to the Philippines in areas unrelated to U.S. strategic interests.

Opposition to this goal might come from the following interest groups in the U.S.: 1) "doves," who oppose U.S. military expenditures; 2) groups that favor disengaging the U.S. from foreign involvement generally; 3) supporters of economic development, who view poverty alleviation as a means of decreasing the NPA's appeal to rural Filipinos and the promotion of internal political stability as a means of discouraging external threats; and 4) Filipino immigrants in the U.S., who fear such a policy would reduce funds needed to strengthen economic and cultural ties between the two countries.

2. Feed the hungry in the Philippines. Supporters of this goal believe that the most vivid impacts of poverty are hunger and malnutrition -- two problems prevalent in the Philippines. In their view, the U.S. has a humanitarian responsibility to share our stockpiled food to prevent immediate starvation and death, particularly in an important allied country such as the Philippines. They believe the U.S. has adequate surplus to provide food free or at concessional prices to the Philippines and that such a goal would not have a negative impact on either the U.S. economy or our security interests. In order to achieve this goal, the U.S. would need to address the corruption that has historically prevented some U.S. food from reaching hungry people; improve emergency food distribution systems in the Philippines; and maintain levels of surplus agricultural production in the United States.

Opposition to this goal might come from the following interest groups in the U.S.: 1) hungry Americans and their advocates, who might argue that we should concentrate on feeding the hungry in America first; 2) opponents of food aid, who believe that it builds dependency; 3) American farmers and food producers, who might prefer to cut production (and surpluses) to raise prices; and 4) supporters of long-term economic development, who believe that emergency food relief addresses only a symptom of poverty rather than the problem of poverty itself.

3. Encourage sustainable development for poverty alleviation in the Philippines. Supporters of this goal believe that the Philippines is a crucial U.S. ally and trading partner linked to the U.S. politically, economically and militarily, and that poverty alleviation in the Philippines is in the best interests of both the U.S. and the Philippines. This view holds that many of the country's problems -- the corruption and demise of Marcos, large foreign debt, success of the Communist insurgency in the countryside and military threats to the government over its handling of the insurgency -- can be traced to poverty. In order to achieve this goal and what supporters feel would be a positive impact on political stability, the U.S. would need to encourage and assist the Aquino government in improving the standard of living for all Filipinos; stimulate economic growth; and support land redistribution and other intended economic reforms.

Opposition to this goal might come from the following interest groups in the U.S.: 1) "hawks," who believe that the major problem facing the Philippines is the internal and external Communist threat; 2) groups who favor disengaging the U.S. from foreign involvement generally; 3) American exporters, who might argue that economic development in the Philippines would result in competition for U.S. goods; and 4) opponents of development assistance, who believe these resources would be better used at home.

4. Another goal that you believe is appropriate for U.S. policy (including rationale, ideas on meeting the goal and anticipated opposition).

HAVING READ THE DISCUSSION ABOVE, SELECT YOUR PRIMARY GOAL BEFORE THE CRASH COURSE: _____

B. Foreign Policy Options

The United States has several foreign policy options available to help attain its national security goal of addressing poverty in the Philippines. The background chapter on "Foreign Policy Options" describes some of the tools that the U.S. uses in managing relations with the Third World, including trade and debt policy; foreign assistance; and international agreements, such as treaties, military alliances and U.S. participation in international organizations.

BASED ON THE PRIMARY GOAL THAT YOU HAVE SELECTED FOR THE UNITED STATES, DESIGN A "PACKAGE OF POLICY OPTIONS" THAT YOU BELIEVE WILL HELP ACHIEVE THIS GOAL. TRY TO SELECT THREE POLICIES THAT YOU BELIEVE ARE MOST APPROPRIATE.

1. _____

2. _____

3. _____

If you need help in formulating this package of policies, review the more detailed discussion of policy options that follows:

1. Trade Policy

- a. Restrict Philippine imports into the U.S. and pressure the Philippines to buy more U.S. exports in order to reduce our trade deficit.
- b. Impose quotas limiting competing Philippine imports in the U.S. as a condition for continued foreign assistance and investment.
- c. Tie Philippine access to American markets to improvements in Philippine workers rights and economic reforms.
- d. Encourage freer trade between the U.S. and Philippines to benefit U.S. export markets and help the Philippines earn foreign exchange.
- e. Promote "fair" trade practices that increase prices for Philippine exports to decrease the need for both development and security assistance.

2. Debt and Adjustment Policies

- a. Demand repayment of the Philippines' foreign debt on schedule as a condition for additional loans from multilateral development banks (MDBs) and private banks.
- b. Encourage MDBs and private bankers to write down the Philippines debt to free up resources for improving economic growth.
- c. Increase the U.S. commitment to MDBs, acknowledge that they are the primary source of concessional lending for LDC poverty alleviation and encourage additional lending to the Philippines.

3. Foreign Assistance

- a. Withhold all foreign assistance to the Philippines.
- b. Withhold all development assistance to the Philippines; provide only security assistance to assure the maximum protection fro U.S. security interests.

- c. Withhold all security and long-term development assistance, but give emergency food aid to the Philippines.
- d. Provide development assistance and security assistance to the Philippines to promote both economic growth and protection for U.S. security interests.

4. International Agreements, Including Treaties, Military Alliances and U.S. Participation in International Organizations

- a. Continue the U.S.-Philippine alliance and pay negotiated fees for U.S. base rights in the Philippines.
- b. Withdraw U.S. troops from the Philippines and withdraw from the U.S.-Philippine alliance.
- c. Encourage Philippine participation and leadership in regional alliances and trade agreements for security and economic growth.

Issue Paper: National Security

I. Statement of the Issue

Successive U.S. governments since World War II have defined U.S. national security interests in a way that has required a U.S. military presence in many parts of the world, including LDCs, and has created a U.S. stake in the political stability and pro-U.S. orientation of a number of key countries in the Third World. Although some Americans debate this view of U.S. security and object to such U.S. policies, most observers agree that conducting U.S. security policy toward the Third World presents special challenges.

These challenges derive primarily from the fact that conditions in the Third World are very different from those in the West or in the Socialist bloc. The major differences stem from the nature of Third World governments, political systems and economies. As a general rule, Third World political systems are marked by high degrees of change and volatility. Although governments change frequently in some industrialized countries (such as Italy, for example, which has had dozens of governments since World War II), these changes tend to occur within constitutional limits and are usually peaceful. In the Third World, on the other hand, political change is often both more radical and more violent. This characteristic of Third World political systems has the greatest impact on U.S. security interests.

Many Americans are shocked by the numbers of antigovernment (and sometimes anti-U.S.) riots, coups, political assassinations and uprisings in the LDCs. For people in the Third World, these events are a common and dangerous fact of life. The causes of this political instability are complex and in some respects controversial, although it is generally accepted that they have roots in the recent political and economic history of the Third World, particularly the legacy of colonialism.

Throughout much of the developing world, political independence came in the 1950s and 1960s following years of near complete control by the colonial powers. During the colonial period, the participation of indigenous peoples in government was limited. They were usually poorly educated and had little access to power. In some cases, certain ethnic or tribal groups served in the civil service (which sometimes translated into political leadership after independence), increasing their prestige but also increasing or initiating communal rivalries. To a certain extent, these tensions benefited the colonialists and helped them

maintain control. The diversity of ethnic, tribal, religious and linguistic groups within a given colony made widespread rebellion difficult if not impossible. In short, there was no spirit of nationalism to unify the colonized. Nor did independence guarantee nationalism or a shared vision of political life.

Just as the colonial experience resulted in many LDCs entering nationhood at low levels of political development, it also affected newly independent economies. Many observers, particularly those in the Third World, believe that colonialism was intrinsically exploitative: minerals, raw materials and agricultural commodities were extracted or produced in the colonies and then exported to the colonial powers. Historic patterns of land tenure, agricultural production and distribution of wealth were disrupted in ways that often exceeded colonial impacts on leadership and governance systems. Once again, certain groups increased their economic power at the expense of the rest of the population, adding to tensions that persisted beyond independence.

Whatever the root causes of these problems, there is little doubt that the political instability in the Third World since independence derives from inexperienced leadership, divided populations, and tensions that have accompanied modernization and low levels of economic development. As a result, the conduct of U.S. security policy is more difficult, and U.S. security interests are more at risk where Third World governments are unstable amid widespread political and economic underdevelopment.

II. Case Study: Egypt

Perhaps no other country in the Third World is as vital to U.S. security interests as Egypt. Linchpin in our Middle East peace policy following the Camp David accords with Israel; major ally in the Arab world since the fall of the shah of Iran; bulwark against Soviet-armed radical states that threaten stability in the Middle East and Africa; important U.S. friend among moderate Arab states in the Persian Gulf war -- experts use these and similar terms to describe Egypt's importance to U.S. foreign policy. U.S. generosity has matched this view of Egypt's importance: total U.S. foreign aid to Egypt (including large amounts of security assistance) now averages about \$2 billion a year.

Egypt is about a third larger than Texas. Its population of 49 million (43 percent of whom are under 15 years old) increases annually by 2.7 percent and will double by 2011 if current growth rates continue. Infant mortality is high at 93 deaths per 1,000 children

under the age of one. Except for a small Coptic (Christian) community, the vast majority of Egyptians are Moslem. Moslem fundamentalism is rising in Egypt as it is in much of the Arab world and is most prevalent in the southern, poorest part of the country. The three major fundamentalist groups are the Muslim Brotherhood, Al-Jihad and the Wakfir Wa Hegira. The latter two groups were heavily implicated in the October 1981 assassination of President Anwar Sadat.

Egyptians are divided into two main racial groups, the more African Nubian population in the south and the Semitic (Middle Eastern) population in the north. Egypt's history and economy have all been shaped by the Nile, the world's longest river. The Nile traverses the length of Egypt on its journey north to the Mediterranean Sea and is the country's lifeblood. Most of the Egyptian land mass is desert (with some dune belts large enough to cover the distance between New York and Washington, D.C.). 97 percent of all Egyptians inhabit and make their living on only 5 percent of the country's land, generally in an area located about 20 miles on either side of the river. A chronic imbalance between rising population and resources is reflected in national poverty. Egypt's per capita GNP in 1985 was \$680; its foreign debt is currently \$40 billion, of which \$16 billion represents loans made for military purposes.

It is now six years since Hosni Mubarak succeeded Anwar Sadat as president of Egypt. Former vice president under Sadat and an air force general, President Mubarak lacks the charisma of both Sadat and Lt. Col. Gamal Abdel Nasser, who rose to power after the 1952 overthrow of King Farouk. Compared with Nasser's skill in leading the Pan-Arab movement and extracting economic and military support from the Soviets and Sadat's success in forging détente with Israel while presiding over an economy bolstered by oil revenues, Mubarak's rule has coincided with continuing domestic strife that began under Sadat, loss of prestige in the Arab world and a deterioration of the Egyptian economy. Egypt's gross domestic product (GDP) rose at an annual rate of about 8 percent between 1975 and 1982; since 1983 GDP growth has been half that amount, still respectable but showing a notable decline.

Mubarak is attempting one of the most difficult balancing acts of any Third World leader in trying to 1) implement economic reforms proposed by the U.S., the World Bank and the International Monetary Fund (IMF) that could dangerously increase discontent; 2) maintain government control against rising Islamic fundamentalism and a military that might once again try to seize control; and 3) continue to garner favor (and aid) from the U.S. through maintenance of the "cold peace" with Israel and the support of U.S. military activities in

the Middle East and the Persian Gulf without completely isolating the country from its Arab neighbors or the government from its own people. The Mubarak government sees foreign assistance as a means of helping achieving these goals. Egypt's national development plans depend greatly on American and multilateral support. But that support is heavily contingent on domestic economic reforms, and dependence on the United States tends to increase anti-American sentiment, which hinders the regime's ability to pursue its policies.

Egypt's economy has suffered in recent years from falling oil revenues; decreasing remittances sent home from fewer Egyptians working in neighboring countries; and a decline in Suez Canal fees, tourist revenues and foreign investment because of the hazardous political climate in both the country and the region. At the same time, military spending has increased; modest gains in agricultural production have been offset by a consumer demand that has risen faster than the food supply, partly as a result of government food subsidies; and demand is surpassing supply in other important sectors as well, such as electricity, where artificially low prices made possible by subsidies have encouraged overconsumption and reliance on government support. In short, Egypt is spending more than it earns and has a current balance-of-payments deficit of approximately \$4 billion.

III. Case Study Exercise

In order to formulate a U.S. policy toward Egypt, you must first determine what the primary goal of U.S. policy should be. Then, you should select the policy options that you believe will help the United States achieve that goal. **BEFORE GOING TO THE CRASH COURSE, REVIEW THE GOALS AND POLICY OPTIONS OUTLINED BELOW AND SELECT THE PRIMARY GOALS AND RELATED POLICY OPTIONS THAT YOU BELIEVE ARE MOST APPROPRIATE FOR THE UNITED STATES. SPACE IS PROVIDED AT THE END OF EACH SECTION FOR YOU TO MAKE NOTE OF YOUR RECOMMENDATIONS.**

A. Goals

The following is a list of possible goals that the United States might have regarding U.S. security interests in Egypt. If none of these goals seems appropriate to you, please identify another primary goal that you feel is better.

1. Contain Soviet influence in the region. Supporters of this goal argue that the greatest threat to U.S. security interests in the Middle East and the gulf is the Soviet Union. The Soviets support Libyan- and Syrian-backed terrorists, would like to have access to gulf oil and have never supported Israel against extreme Arab demands. In the 1960s, the Soviets had a major military presence in Egypt to the disadvantage of the U.S. and Israel. In order to achieve this goal, the U.S. needs to strengthen the Mubarak government both militarily and economically and gain the maximum access to Egyptian facilities for U.S. forces needed for operations in the gulf and, potentially, elsewhere in the region.

Opposition to this goal might come from the following interests groups: 1) supporters of Israel, who might see this goal as strengthening Egyptian military capability against Israel; 2) "doves," who are opposed to increases in U.S. military spending or who disagree that the Middle East conflict is basically a superpower conflict; 3) groups who favor disengaging the U.S. from foreign involvement generally; and 4) groups who believe that economic development, not military aid, is the surest protection for U.S. interests in Egypt.

2. Promote political stability in the region. Supporters of this goal argue that U.S. security interests in the region are threatened by two related sources of regional instability -- the continuation of the Arab-Israeli dispute and the steady growth in the appeal of radical Islam in the Arab world, spreading from Khomeini's Iran. Were the fundamentalists to take power in Egypt, they believe, the Arab-Israeli dispute would move into a new and more violent phase; terrorism could become more widespread and radical Islamic groups in the gulf and elsewhere would be strengthened. To achieve this goal, the U.S. should take a balanced view of the Arab-Israeli dispute, pressing accommodation on both sides to further the peace process, and offering discreet political and economic support to the moderate regime in Egypt while avoiding actions that might help rally support for the fundamentalists.

Opposition to this goal might come from the following interest groups in the U.S.: 1) "hawks," who believe that U.S. security interests in the region require closer military cooperation with Egypt; 2) groups who believe that the Camp David accords are no longer viable and should not serve as a basis for U.S. policy; 3) groups who favor disengaging the U.S. from foreign involvement generally; and 4) groups who believe that development assistance should be given for economic, not political or security goals.

3. Support Israel's goals in the region. Supporters of this goal argue that Israel has been the principal U.S. ally in the Middle East and that protecting its security is the best way of advancing U.S. security interests in the region. The U.S. should therefore promote a settlement of the Arab-Israeli dispute acceptable to Israel and work with Arab governments willing to recognize Israel's rights and interests. This means supporting moderates in Egypt, such as Mubarak, who favor continuing and extending the U.S.-Israeli relationship based on the Camp David agreements. The U.S. should modulate its policies toward Egypt to create the maximum incentive for Egypt to follow this course and the least chance for a return to Egyptian military confrontation with Israel.

Opposition to this goal might come from the following interest groups in the U.S.: 1) pro-Arab groups or others who believe that U.S. security interests in the Middle East would be too closely tied to Israel's interests; 2) groups who believe that the Camp David accords are no longer viable and should not serve as a basis for U.S. policy; 3) groups who favor disengaging the U.S. from foreign involvement generally; and 4) groups who believe that high priority for assistance to Egypt's economic development is essential if U.S. security interests in the region are to be protected in the longer term.

4. Promote sustained economic development. Supporters of this goal argue that the primary source of instability in the region, and therefore the threat to U.S. security interests, is underdevelopment. They believe if Egypt were on the path to more rapid and sustainable economic growth, its hostility to Israel, anti-American sentiment and opportunities for expanded Soviet influence and Islamic fundamentalism would all be diminished. To meet this goal, the U.S. should help Egypt achieve sustained economic development and should reduce military assistance to other countries in the region to avoid creating a new imbalance. This economic development strategy would depend on discussions with the Egyptian government, but the U.S. should emphasize policies that lay the foundation for long-term, environmentally sound economic development rather than maximize short-term growth.

Opposition to this goal might come from the following interest groups in the U.S.: 1) "hawks," who believe that U.S. security interests in the region require strong military cooperation with Egypt; 2) groups who are opposed to foreign assistance; 3) groups who favor disengaging the U.S. from foreign involvement generally; and 4) supporters of Israel, who might view a greater U.S. emphasis on development as shortchanging Israel's need for military support.

5. Another goal that you believe is appropriate for U.S. policy (including rationale, ideas on meeting the goal and anticipated opposition).

HAVING READ THE DISCUSSION ABOVE, SELECT YOUR PRIMARY GOAL BEFORE THE CRASH COURSE: _____

B. Foreign Policy Options

The United States has several foreign policy options available to help attain its national security goals toward Egypt. The background chapter on "Foreign Policy Options" describes some of the tools that the U.S. uses in managing relations with the Third World, including trade and debt policy, foreign assistance and international agreements, such as treaties, military alliances and U.S. participation in international organizations.

BASED ON THE PRIMARY GOAL THAT YOU HAVE SELECTED FOR THE UNITED STATES, DESIGN A "PACKAGE OF POLICY OPTIONS" THAT YOU BELIEVE WILL HELP ACHIEVE THIS GOAL. TRY TO SELECT THREE POLICIES THAT YOU BELIEVE ARE MOST APPROPRIATE.

1. _____

2. _____

49'

3. _____

If you need help in formulating this package of policies, review the more detailed discussion of policy options that follows:

1. Trade Policy

- a. Impose import quotas on Egyptian goods that compete with U.S. goods (e.g., cotton) as a condition for continued foreign aid.
- b. Encourage freer trade between Egypt and the U.S. to benefit U.S. export markets and help Egypt earn foreign exchange.
- c. Promote "fair" trade practices that increase prices for Egyptian exports to decrease the need for both development and security assistance.

2. Debt and Adjustment Policies

- a. Demand repayment of Egypt's foreign debt on schedule as a condition for additional loans from multinational development banks (MDBs) and private banks.
- b. Encourage MDBs and private banks to write down Egypt's debt to free up resources for improving economic growth and strengthening political stability.
- c. Encourage U.S. banks to write off the percentage of Egyptian debt that represents expenditures for arms and security material.
- d. Encourage U.S. and multilateral bankers to tie their loans to Egypt's implementation of domestic economic reforms.

3. Foreign Assistance

- a. Provide only security assistance to Egypt to assure the maximum protection of U.S. security interests.
- b. Provide only development assistance to Egypt to lay the strongest foundation for U.S. long-term interests in the region.
- c. Withhold all security and long-term development assistance, but give emergency food aid when Egypt requests it.
- d. Provide development and security assistance to promote U.S. security interests in a balanced fashion.

4. International Agreements, Including Treaties, Military Alliances and U.S. Participation in International Organizations

- a. Promote close military cooperation with Egypt and the continuation of the Camp David peace process with U.S. mediation.
- b. Reduce military cooperation with Egypt in light of the stalled Camp David peace process.
- c. Discontinue all military cooperation with Egypt, abandon the Camp David peace process and withdraw U.S. forces from the region.
- d. Support Israeli security interests and press Egypt and the other Arab states to respect Israel's right to exist.
- e. Press for establishment of a Palestinian state in the West Bank and the Gaza strip.

Dealing with Interdependence: The U.S. and the Third World

BIBLIOGRAPHY

Nonfiction

- Blair, Patricia W. Health Challenges in the Developing World. CARE Briefs on Development Issues, no. 4. Published by CARE in cooperation with the Overseas Development Council and cosponsored by the National Council for International Health, n.d. Available from the Office of Education, CARE World Headquarters, 660 First Avenue, New York, NY 10016, or the Overseas Development Council, 1717 Massachusetts Avenue, NW, Washington, DC 20036.
- Brandt Commission. Common Crisis North-South: Cooperation for World Recovery, 1983. Cambridge: MIT Press, 1983.
- Bretton Woods Committee, IDA and the U.S. Interest: A Report on the World Bank's International Development Association. Washington: Bretton Woods Committee. Available from the Bretton Woods Committee, 2029 K Street, NW, Washington, DC 20006.
- Brown, Lester, et al. The State of the World. Washington, DC: Worldwatch Institute, 1987.
- Camp, Sharon L., and J. Joseph Speidel. The International Human Suffering Index. Washington, DC: Population Crisis Committee, 1987. Available from the Population Crisis Committee, 1120 19th Street, NW, Washington, DC 20036.
- Carey, John. Our Threatened Heritage: A Worldwide Conservation Challenge. Washington, DC: National Wildlife Federation.
- Caufield, Catherine. "A Reporter at Large: Rain Forests." New Yorker, 14 January 1985, pp. 41-101.
- Conable, Barber B. "Sound Ecology is Good Business." Address by Barber B. Conable, president of the World Bank and International Finance Corporation, 5 May 1987. Available from the World Resources Institute, 1735 New York Avenue, NW, Washington, DC 20006.
- Contee, Christine E. What Americans Think: Views on Development and U.S.-Third World Relations, A Public Opinion Project of InterAction and the Overseas Development Council. New York and Washington, DC: InterAction and the Overseas Development Council, 1987. Available from InterAction, 200 Park Avenue South, New York, NY 10003, or the Overseas Development Council, 1717 Pennsylvania Avenue, NW, Washington, DC 20036.

- Feinberg, Richard E., and Valeriana Kallab. Adjustment Crisis in the Third World. Washington, DC: Overseas Development Council, 1984. Available from the Overseas Development Council, 1717 Massachusetts Avenue, NW, Washington, DC 20036.
- Goulet, Denis, and John Sommer. Development Cooperation -- A Global Experiment of Our Time. CARE Briefs on Development Issues, no. 2. Published by CARE in cooperation with the Overseas Development Council and cosponsored by the Office on Global Education of Church World Service, n.d. Available from the Office of Education, CARE World Headquarters, 660 First Avenue, New York, NY 10016, or the Overseas Development Council, 1717 Massachusetts Avenue, NW, Washington, DC 20036.
- Grilli, Enzo. "International Monetary Policies, Interdependence, and Debt." SAIS Review (School of Advanced International Studies of The Johns Hopkins University) 6, no. 2 (Summer-Fall 1986).
- Hamilton, John Maxwell. Main Street America and the Third World. Cabin John, MD: Seven Locks Press, 1986.
- Huddleston, Barbara. Confronting World Hunger. CARE Briefs on Development Issues, no. 3. Published by CARE in cooperation with the Overseas Development Council and the International Food Policy Research Institute, n.d. Available from CARE or the Overseas Development Council, addresses above.
- Independent Commission on International Humanitarian Issues. The Vanishing Forest: The Human Consequences of Deforestation. London and New Jersey: Zed Books, 1986.
- Jaenke, E.A., and Associates. Third World: Customers or Competitors? A Source Book on Agricultural Development and Trade. Washington, DC: E.A. Jaenke and Associates, 1987. Available from E.A. Jaenke and Associates, Suite 566, 777 14th Street, NW, Washington, DC 20003.
- Kesten, Greg. "The Philippines: Constitution Ratified." Southeast Asia Business 12 (Winter 1987). (Center for South and Southeast Asian Studies of the University of Michigan).
- Lappe, Frances Moore, and Joseph Collins. World Hunger: Twelve Myths. New York: Grove Press, Inc., 1986.
- Myers, Norman. Not Far Afield: U.S. Interests and the Global Environment. Washington, DC: World Resources Institute, 1987.
- _____. The Primary Source: Tropical Forests and Our Future. New York: W.W. Norton and Co., 1985.

- National Committee for World Food Day. Study Action Packet 1985--. Washington, DC: National Committee for World Food Day, annual. Available from the National Committee for World Food Day, 1001 22nd Street, NW, Washington, DC 20437.
- Neumann, Robert G. Egypt: Falling But Not Fallen. Washington, DC: Center For Strategic and International Studies, 1986.
- Omang, Joanne. "In the Tropics, Still Rolling Back the Rainforest Primeval." Smithsonian (March 1987).
- Population Reference Bureau, Inc. 1987 World Population Data Sheet. Washington, DC: Population Reference Bureau, Inc., 1987. Available from the Population Reference Bureau, Inc., 777 14th Street, NW, Washington, DC 20005.
- Roett, Riordan. "Beyond the Baker Initiative." SAIS Review (School of Advanced International Studies of The Johns Hopkins University) 6, no. 2 (Summer-Fall 1986).
- Rowe, James L., Jr., and Hobart Rowen. "The Latin American Debt Morass." The Washington Post Sunday Business Section, 16 August 1987.
- Schuh, Edward G. "Changes in the International Economy: Implications for the United States," Assistance to Developing Country Agriculture and U.S. Agricultural Exports: Three Perspectives on the Current Debate. Washington, DC: Consortium for International Cooperation in Higher Education, 1987. Available from CICHE Development Education, Suite 616, One Dupont Circle, NW, Washington, DC 20036.
- Sewell, John W., Richard E. Feinberg, and Valeriana Kallab, eds. U.S. Foreign Policy and the Third World: Agenda 1985-86. New York: Praeger Publishers, 1986. Available from the Overseas Development Council, 1717 Massachusetts Avenue, NW, Washington, DC 20036.
- Sivard, Ruth Leger. World Military and Social Expenditures. Washington, DC: World Priorities, Inc. 1985.
- Tinker, Jon. On the Side of the Future: Development, Environment -- and People. Washington, DC: International Institute for Environment and Development -- Earthscan, 1984.
- U.S. Agency for International Development (USAID). Congressional Presentation, Fiscal Year 1988: Annex II, Asia and Near East. Washington, DC: USAID, 1987.
- _____. Congressional Presentation Fiscal Year 1988: Egypt. Washington, DC: USAID, 1987.

_____. Country Development Strategy Statement, FY 1989: Egypt. Washington, DC: USAID, 1987.

U.S. Congress, Democratic Staff of the Joint Economic Committee. Trade Deficits, Foreign Debt and Sagging Growth: An Analysis of the Cause and Effects of America's Trade Problem. Washington, DC: Joint Economic Committee, U.S. Congress, 1986.

U.S. Congress, House. Foreign Assistance Legislation for Fiscal Years 1988-89 (Part 3): Economic and Military Aid Programs in Europe and the Middle East. Hearings and markup before the Subcommittee on Europe and the Middle East of the Committee on Foreign Affairs. 100th Cong., 1st sess., 3, 10, 23, 25 February and 3, 11, 19 March 1987.

Watkins, Alfred J. Till Debt Do Us part: Who Wins, Who Loses, And Who Pays for the International Debt Crisis. Lanham, MD: Roosevelt Center for American Policy Studies and University Press of America, 1986.

Wennergren, Boyd E., Donald L. Plucknett, Nigel J.H. Smith, William L. Furlong, and Joan H. Joshi. Solving World Hunger: The U.S. Stake. Cabin John, MD: Seven Locks Press, 1986. Produced by the Consortium for International Cooperation in Higher Education. Available from Seven Locks Press, P.O. Box 27, Cabin John, MD 20818.

World Bank. Poverty and Hunger: Issues and Options for Food Security in Developing Countries. A World Bank Policy Study. Washington, DC: World Bank, 1986. Available from the World Bank, 1818 H Street, NW, Washington, DC 20433.

_____. The World Bank Atlas 1987. Washington, DC: World Bank, 1987. Available from the World Bank, address above.

_____. The World Bank Development Report 1978--. New York: Oxford Press; Washington, DC, annual. Available from the World Bank, address above.

Zich, Arthur. "Hope and Danger in the Philippines." National Geographic, July 1986.

Dealing with Interdependence: The U.S. and the Third World

BIBLIOGRAPHY

Fiction

- Achebe, Chinua. No Longer at Ease. New York: Fawcett Premier, 1960.
- Lederer, William J. and Eugene Burdick. The Ugly American. New York: Norton and Company, Inc., 1958.
- Marquez, Gabriel Garcia. The Autumn of the Patriarch. New York: Harper and Row Publishers, 1975.
- Naipaul, V.S. A Bend in the River. New York: Vintage Paperbacks, 1980.
- Soyinka, Wole. "The Lion and the Jewel." In Wole Soyinka: Five Plays. London: Oxford University Press, 1964.
- White, Margaret B., and Robert N. Quigley, eds. How the Other Third Lives: Third World Stories, Poems, and Songs. Maryknoll, NY: Orbis Books, 1977.

Audiovisual Resources

- Communications for Development. Global Neighbors. A self-contained audiovisual development education program designed to improve understanding of our increasing connections with developing countries. It introduces economic, political, sociocultural and environmental dimensions of U.S./Third World interdependence and explores how these affect our lives. A manual accompanying the 80 slides and audiotape includes schedules, activities, handouts, directions and bibliography. Cost: \$75.00. Available from Communications for Development, P.O. Box 1134, Washington, DC 20013-1134.
- _____. What's a Developing Country? A multimedia development education program that helps U.S. citizens better understand and appreciate their stake in international development. Discusses development as a process, not an end, and emphasizes that all countries are in some sense developing and can learn from one another. A manual accompanying the 80 slides and audiotape includes directions, activities, schedules and bibliography. Cost: \$75.00. Available from Communications Development, address above.

Consortium for International Cooperation in Higher Education. Solving World Hunger: The U.S. Stake. A six-unit slide-tape presentation designed to accompany the text (see nonfiction bibliography) of Solving World Hunger: The U.S. Stake. Each segment is approximately 15 minutes long and includes 80 slides suitable for single carousel projection, a cassette tape with both audible and inaudible pulse options, a script and a discussion guide. The presentation includes suggestions for localizing the material. Cost: \$145.00, and includes one copy of the text above. Available from CICHE Development Education, Suite 616, One Dupont Circle, NW, Washington, DC 20036.

National Committee for World Food Day. World Food Day Teleconference. Videocassettes available of the 1986 and 1987 "North American Town Meetings" on international food and hunger issues. First hour presentation features international experts in a panel/debate format; second hour presentation features a North American call-in from university and community-based viewing sites. Cost: free on loan. Available from the National Committee for World Food Day, 1001 22nd Street, NW, Washington, DC 20437.

WETA-TV. Global Links. Six half-hour programs produced for PBS television by WETA-TV in Washington, DC, in part with the World Bank and with funding from a Biden-Pell Development Education Grant. The programs take an in-depth look at the major factors of development, such as tradition, women and their roles, the debt crisis, etc. Each program is also accompanied by a teacher's viewing guide. Cost: \$30.00 for each half-hour videocassette; \$2.50 for each teacher guide (discount for bulk orders). Available from Stephanie Dailey, WETA-TV, Box 2626, Washington, DC 20013.

NOTE: This bibliography is excerpted in part from Global Neighbors: The U.S. and the Third World. Washington, DC: Communications for Development, 1986. With permission.