Economic Perspectives

Volume 1 — An Electronic Journal of the U.S. Information Agency — Number 11

DEVELOPMENT AND FOREIGN ASSISTANCE

INTERVIEW WITH
USAID ADMINISTRATOR
J. BRIAN ATWOOD

POLICY ON
MULTILATERAL INSTITUTIONS
SUSTAINABLE DEVELOPMENT
DEBT RELIEF

AID'S IMPACT ON DEVELOPMENT

THE RISE OF PRIVATE SECTOR FLOWS

NEW APPROACHES TO AID IN AFRICA

MAKING AID MORE EFFECTIVE

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DEVELOPMENT AND FOREIGN ASSISTANCE

Why have some developing countries moved forward to become part of the international trade and financial systems while others have stagnated?

In the past 15 years, many of the developing countries in Asia, Africa, Latin America, and elsewhere have made great advances. Some have become major exporters of manufactured goods and important recipients of — even sources for — private investment capital, and significant portions of their populations are achieving ever higher standards of living.

Other developing countries have built internationally competitive sectors that are attracting private capital even though large parts of their economies and their populations have made much less progress. Yet others seem caught in underdevelopment. Saddled with debts accumulated during the 1980s, the foreign assistance they receive seems to help only at the margins. Private capital shows no interest.

Developing countries are said to be making progress — achieving "development" — when certain economic trends are established. Among these are increasing per capita incomes, rising education levels, improving health conditions, more efficient government administration, and the establishment of industries that reduce dependence on the export of basic commodities.

During the past 40 years, the United States and other industrial countries have sought to assist this development — and, since the revolutions of 1989, to aid the former Soviet bloc's transition to free markets.

The industrial countries have provided thousands of millions of dollars in foreign assistance through bilateral programs, multilateral initiatives, and the multilateral development banks; extended tariff preferences for large categories of products; and, more recently, sponsored debt-relief initiatives for the poorer countries.

How effective has this foreign assistance been in promoting development?

A significant portion of the assistance, of course, was given for political reasons. But much of it was — and continues to be — provided specifically to help countries improve the education, health, and productivity of their citizens and to develop their economies.

Which kinds of aid work and which do not? What must the developing and transitional countries themselves do to advance the development of their economies? And how should protection of the environment and natural resources figure into their development plans?

Determining what is required for successful development has become even more important with the demise of the alternative state-centered economic model, as witnessed in the near disappearance of centrally planned economies and in the efforts of governments around the world to divest themselves of state-owned enterprises.

This issue of *Economic Perspectives* examines development and foreign assistance, presenting the views of U.S. policy-makers and others on the requirements for development and the present and future of assistance to developing and transitional economies.

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// ECONOMIC PERSPECTIVES

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USIA's electronic journals, published and transmitted worldwide at two-week intervals, examine major issues facing the United States and the international community. The journals — *Economic Perspectives, Global Issues, Issues of Democracy, U.S. Foreign Policy Agenda,* and *U.S. Society and Values* — provide analysis, commentary, and background information in their thematic areas. French and Spanish language versions appear one week after the English version. The opinions expressed in the journals do not necessarily reflect the views or policies of the U.S. government. Articles may be reproduced and translated unless copyright restrictions are cited on the articles.

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Editor, Economic Perspectives
Economic Security - I/TES
U.S. Information Agency
301 4th Street, S.W.
Washington, D.C. 20547 USA

E-mail: ejecon@usia.gov

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❑ U.S. FOREIGN ASSISTANCE: GOALS AND CHALLENGES

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

Foreign assistance can still play a crucial role in helping developing countries — but only if their governments are willing to make the needed economic and political reforms, says J. Brian Atwood, administrator of the U.S. Agency for International Development (USAID). "We want these countries to get the message that their own development is not going to succeed unless they reform the way they do business," he says. But if they do not, then USAID can "no longer afford to work with them."

Atwood sees a crucial need for continued development assistance, citing the alternative as an increase in "failed states" and the accompanying problems that result from refugee flows, environmental degradation, and disruptions to the world economy.

The interview was conducted by USIA Economics Writer Warner Rose.

Question: *What does the U.S. government hope to achieve by providing foreign assistance?*

Atwood: The purpose of U.S. development cooperation at the end of the 20th century is to try to create a partnership with the foreign government that is the object of the development process. We expect that that government is committed to the political, social, and economic development of its own country, that it is interested in strengthening the institutions that will carry on the development process after the United States has left the scene. We expect that that government will be making its own investments. We expect that it will collaborate with other governments in the areas where the need is the greatest. We set forth certain strategic objectives in each country. We will discuss and even negotiate those strategic objectives with our partners in the country, primarily the government, but also nongovernmental organizations. The hope is to strengthen the country's economic system so that economic growth can be achieved and sustained and to strengthen the political system so that it is accountable to the people and is transparent.

Q: *What requirements does a country have to meet to merit U.S. development assistance?*

Atwood: We look at the question of need — does this country require grant assistance, as opposed to loans, or can it depend ultimately on private investments? Is this a poor country that really cannot develop on its own? Is this government committed to being a good development partner? Does it really want to reform its economic system, deregulate its economy, create free markets? Does it really want to reform its political system, to allow the people to participate in the development process through democratic institutions? We see these requirements as prerequisites to development.

Q: *How do you answer critics who suggest that aid encourages countries to postpone reform, to develop dependencies on foreign assistance?*

Atwood: I think that has been a problem in the past. Our aid program during the Cold War created aid dependencies. It flowed to countries that had not made the commitment to reform that we expect today because it was primarily motivated by political interest in dealing with the Communist threat. That has changed. Today we do not work with governments that are not good development partners. We want these countries to get the message that their own development is not going to succeed unless they reform the way they do business. But if they do not get that message, we can simply no longer afford to work with them.

Q: *But doesn't the United States continue to give aid for reasons other than development?*

Atwood: Less so than ever before. Clearly, Israel would be an exception. That was basically a political accord — the Camp David peace accord signed in 1979 in which the United States pledged to support the peace agreement between Israel and Egypt with aid. But our work in Egypt is development work. We would like to see the Egyptian government leaders take stronger steps, as they have indicated recently they would, to reform their economic

system and their political system. We're encouraging that process.

And there may be other transitional situations where the prospects for development are not immediate but where we hope we can move beyond the recovery period, to a point where we can work with the new, viable government, in places like Bosnia.

Q: *What has the aid given over the decades done to further U.S. trade and investment objectives?*

Atwood: In 1995, some $170,000 million in trade and investment went into the developing world. Most of it went into emerging or emerged markets of the developing world. That is the direct benefit of years of investment in development. It helps Americans, it helps the Japanese, it helps the French, it helps the Germans to invest in development over time. We are now seeing the payoff of the development program, built over the last 50 years, which has worked to decrease infant mortality by one half, to increase the average life span of people from 44 to 62, to make people healthier and therefore more productive, and to encourage free market democratic principles.

Q: *At least two-thirds of the financial flows to developing countries are private flows. Official flows are down, while private flows have increased. Is there less of a need for official bilateral aid?*

Atwood: One of the objectives of the development process is to get countries to the point where they can attract trade and investment. And that is what we've achieved in the last 50 years. Every year there is an increase in the amount of private capital that is going into the developing world. It's going to the countries that have benefited from the development process, countries that are now experiencing economic growth, and that is good.

But "developing world" is a very broad term. Private capital flows are not going to the poorer countries. If you look into the amount of capital going into Africa, for example, it is very low. Or if you look at some parts of Asia, or some Caribbean countries, like Haiti, you're not seeing capital flows going into those countries. So there is still a need for a major investment in development aid. But the most recent Organization for Economic Cooperation and Development figures show a 10-percent drop-off in official aid in 1995 and an 8-percent drop-off in 1994. That is a serious trend. The consequence of countries being left behind, of not being able to compete within a global economy, will be an increase in failed states, an increase in the flow of refugees, an increase in environmental deterioration, and a disruption of the global economy.

Q: *What will USAID look like in the future?*

Atwood: The U.S. Congress has cut back appropriations for foreign operations nearly across the board, so USAID will be smaller. We will have only 30 full-scale missions, but we will be in some 45 other countries with a limited mission, and we will be working in others from Washington and on a regional basis. When we go to a consultative meeting chaired by the World Bank, we are still the most influential donor, even if we give less money than the other donors, because of our people on the ground and because of their expertise.

Q: *What do you see as the objectives of future USAID assistance?*

Atwood: We have four development objectives — promoting democracy, promoting economic growth, stabilizing population and protecting health, and protecting the environment. In addition, we try to save lives through our humanitarian response efforts.

As you apply those development objectives to a particular country, you have to take into consideration the specific development challenge of that country. We do not want to lock ourselves into saying that we are going to pursue only a given one of these objectives. So it depends on the country situation and our analysis of how best to get the development job done. In addition, there will be significantly more and better cooperation among the industrial country donors.

Q: *Does the United States still have the capacity to respond to international humanitarian emergencies?*

Atwood: The United States has not reduced its budget for responding to humanitarian crises. However, today with food prices rising, we're able to provide less than we have in the past. The big worry is that, with the number of complex emergencies increasing, we will not be able to respond adequately. We're handling two dozen complex emergencies at once now, whereas, in the early 1980s, it was only three or four. As a world, we're spending a lot more money on refugees and emergency food than ever before.

***Q:** What is USAID doing to promote development in the Newly Independent States and Russia?*

Atwood: Institution-building will be a priority for the next five years or so. Many of these countries — not all — do not have human-capacity problems. They have well-educated people. They have professional work forces. What they need to do is reorient their political and economic institutions. We're trying to help them transform their societies, to teach them the techniques of market economics, and to teach them the techniques of democratic politics.

***Q:** Is this working in Russia?*

Atwood: Reasonably well. Russia is a very large society, and our aid program is not the reason exclusively for why it is working. We have made a very important contribution because the Russians tend to want to deal with the other superpower. We have had more influence than the resources we have invested would indicate. But there are serious problems. They had a bankrupt society caused by a system that ran contrary to human nature called communism. They need to privatize their economy, they need to learn that the market should set prices and that supply and demand should prevail. One of the legacies of the old system's corruption is that there are people with political and economic power who are exploiting the new system, running around making millions, while others suffer. That is a real challenge for the new Russia. I think it will take another 20 years, but they will eventually become an economic and political superpower.

***Q:** What are the U.S. aid priorities in Africa?*

Atwood: In South Africa, there is an intense three-year, $600 million program, and our efforts there will go on for another decade at least. South Africa is a potentially rich country, but the majority population has been undereducated and impoverished. So we're trying to help the government make a very important transformation there.

We have a Southern Africa initiative, operating from our regional mission in Botswana, that seeks to try to bring all of the countries in the region together. We have important bilateral programs in Mozambique, Namibia, and Zimbabwe. In addition, there is the Southern African Development Community (SADC), and we are trying to work with SADC and with each of the countries on a bilateral basis to see whether we can build an economic marketplace that will eventually benefit other parts of Africa. We have a Greater Horn Initiative, which is in the East Africa region, the poorest part of Africa, designed to ensure food security in this troubled region. We have other programs in West Africa as well. A lot of the strategies in Africa revolve around trying to increase agricultural production. We are trying to encourage trade of agricultural products.

In addition, we have the Leland Initiative, which is introducing the Internet to 20 African countries. We believe that is going to give us a major boost in terms of development. We will be able to share information much more cheaply.

***Q:** What are U.S. priorities in Latin America?*

Atwood: We have to deepen the roots of democracy there; they are still fragile. We have benefited greatly by the opening of Latin American countries to democratic practices. The major thrust in that area is to encourage decentralization and local autonomy and to make sure the local governments can function properly and that people can access those governments by various means. Furthermore, investments made in the administration of justice, which deals with the biggest problem that Latin America faces — corruption — are showing results. That is a key issue in Latin America.

We are also working on alternative development, so areas that have depended on growing coca, which ended up as cocaine, are now producing other crops. In some cases, these programs are succeeding extraordinarily well, such as in the Chapare of Bolivia, in which 70 percent of the land there is now planted with cash crops other than coca. That's a major improvement, and it took a 10-year investment first to determine what crops would grow and be exported, and then to create a transport system so they could be shipped out. Now it is working, and it is working extraordinarily well.

***Q:** What about Central America, the recipient of so much aid during the 1980s?*

Atwood: We are dealing with fundamental issues that have been at the core of civil unrest in several of these countries for years, issues such as land tenure. USAID has been giving people economic opportunity through micro-enterprise programs, through agricultural cooperatives that enable people to own their own land, and through a

cooperative to export their crops like coffee. That has done a lot to bring peace to Central America. There is a long way to go, but it's working.

Q: *And in Asia?*

Atwood: There are some economies that are doing extraordinarily well but that remain very fragile. Indonesia is an example. It has an 8-percent growth rate, but it is still weak structurally, and we are working very closely with the Indonesian government to make sure that its macroeconomic policy is correct and that it has a stock market that works, that is resistant to corrupt practices.

We're doing the same kind of work in the Philippines, where we have a huge pipeline of projects because of prior investments. We helped construct a major airport in Mindanao. That investment, which was financed mostly by the United States, although others — such as the Asian Development Bank and the World Bank — are now coming on board, has really stimulated trade and investment between Malaysia, Indonesia, and that part of the Philippines. Those are major accomplishments. We want to continue to consolidate that and believe that, in doing so, we are also indirectly helping American business interests. Of course, we are also sponsoring significant programs throughout the region to stabilize population growth rates and prevent HIV/AIDS transmission.

Q: *In the Middle East, if there is a Golan Heights agreement or an agreement in Lebanon, will the United States begin new aid programs in that region?*

Atwood: We have already had a major aid program. The largest one that we've had in the world is in Egypt. We have a smaller one in Jordan and a small nonpresence program in Lebanon. We had one in Syria for several years until the government crossed several lines and we had to end it, back in the 1970s.

The major thrust in the Middle East will be to try to use American leadership to encourage integration as much as possible. There are serious development challenges that all of those countries face, for example, the water issue. We need to encourage those governments to look beyond their own borders and to deal with regional issues such as the shortage of water for agricultural production. In addition, we'd like to see them integrating their economies more. There has been some minimal exchange in the case of Israeli investment in Egypt. We would like to encourage a lot more of that.

Q: *Do you foresee greater aid requirements in the Middle East?*

Atwood: We've already seen some. Since the Palestinians signed the agreement with the Israelis, we have been running about a $75 million-a-year program on the West Bank and Gaza. That's an indication of what is likely to follow if we see peace throughout the region. It is possible at some point that the Israeli government itself will look at the aid it receives from the United States and say "we'd rather see some of this invested in the region." The whole purpose of the aid is to protect Israel in what had been and what still is a hostile region. I think you would see some modification when a comprehensive peace comes to the region. But I don't think that the aid burden is going to lessen for the United States. We have really important interests in that region. And we should maintain those interests through a comprehensive aid program that encourages regional integration. ❑

❑ INTERNATIONAL FINANCIAL INSTITUTIONS AND DEVELOPMENT

By Jeffrey R. Shafer, U.S. Under Secretary of the Treasury for International Affairs

Jeffrey R. Shafer became Under Secretary in December 1995 after serving as Assistant Secretary of Treasury for International Affairs since May 1993. From 1984 to 1993, he held several high-level positions in the Organization for Economic Cooperation and Development.

The end of the Cold War and the growing integration of the global economy provide an unprecedented opportunity for the United States to help shape a world of prosperity built upon a foundation of open societies and free markets. In doing so, we are challenged to join other nations in addressing international issues that were always important but often subordinated to other concerns: endemic poverty, environmental degradation, mass movements of refugees, and unsustainable population growth. These global issues are beyond the capacity of any one country to address alone. Recognizing this, the United States is firmly committed to working closely with our international partners to promote effective, results-oriented, development cooperation.

The international financial institutions (IFIs), including the World Bank, the International Monetary Fund, and the regional development banks, are at the forefront of collaborative efforts to integrate the world's developing nations into the global economy. Today, the work of these institutions is more vital than ever: providing technical and financial support for economic growth and sustainable development; promoting market-oriented reforms that help spread prosperity and deepen democracy; contributing to greater stability in key regions; expanding global opportunities for trade, investment, and employment; and advancing important humanitarian goals.

CONTINUING U.S. COMMITMENT

The United States remains fully committed to the multilateral institutional system we were instrumental in creating and have funded generously for many years. We will continue to work within the institutions and with our shareholder partners to ensure that the multilateral banks support well-targeted and cost-effective programs.

The institutions must have adequate financial resources to fulfill their roles. The Clinton administration believes that the United States must meet its financial obligations and provide essential new support. New budget realities in all donor countries mean that financing cannot be taken for granted by the institutions, however. Their effectiveness must continuously be demonstrated and improved. The United States is committed to exercising leadership in this effort.

For their part, the institutions need to continue to improve their operational effectiveness and development impact. This means:

— increasing the focus on the poorest countries without access to alternative sources of finance and on sectors not adequately served by private sector investors.

— concentrating investments more on priority human resource needs (such as primary health and education) and priority public goods (such as a healthy environment).

— supporting market-oriented policy reforms designed to promote private sector development and investment.

— increasing the participation of affected people in project design and monitoring, and thereby promoting good governance and civil society.

— encouraging borrowers to improve the quality of their own spending and policy choices.

There is now a strong and welcomed international consensus on the importance of each of these issues to the achievement of equitable and sustainable development.

REFORM AND ECONOMIC GROWTH

The next several years will be critical for the countries of Eastern Europe, the former Soviet Union, Africa, Latin America, and Asia, which are seeking to adopt sound

economic policies that promote free markets and accountable governance, poverty reduction, and protection of the environment. The stress of reform and the resistance to change pose challenges to their acceptance of these new policies, with major implications for global stability and growth. In strengthening economic growth in Latin America, building markets in Eastern Europe and the former Soviet Union, alleviating poverty in Asia and Africa, and supporting peace in the Middle East, the IFIs directly support the shared goals of the global community in ways that cannot be replicated by bilateral assistance programs.

— In Bosnia, the World Bank and the European Bank for Reconstruction and Development have together established a $5,100 million economic reconstruction package that will help provide the economic underpinnings essential for successful completion of the multilateral peacekeeping mission and achievement of a durable peace.

— Ten years of intense World Bank and Inter-American Development Bank engagement in Latin America in support of budget and financial market reform, privatization, and liberalization have contributed immeasurably to the market-based economic foundation on which democracy has grown. Today, Latin America's growing prosperity and stability is a source of inspiration and economic opportunity for the entire world.

— In the many countries moving from communism to free-market democracy — from Albania to Vietnam — the IFIs quickly took the lead in supporting privatization and reform of the legal, regulatory, and financial systems that have stifled entrepreneurship, investment, trade, and efficiency.

— The IFI system is the world's leading provider of assistance for the human resource investments that ultimately must drive economic growth, development, and self-reliance. The concessional loan window of the World Bank — the International Development Association (IDA) — is currently preparing some $4,500 million in projects focused on health, primary education, nutrition, safe drinking water, and proper sanitation. The World Bank is also the world's largest source of funding for HIV/AIDS prevention and control in developing countries.

The United States will continue, with our shareholder partners, to look to the multilateral banks to press ahead in support of constructive change in the developing world, to integrate the lessons of the past — both successes and failures — and to focus on countries committed to sound policies. ❑

❑ SUSTAINABLE DEVELOPMENT: A U.S. FOREIGN POLICY PRIORITY

By Timothy E. Wirth, U.S. Under Secretary of State for Global Affairs

Timothy E. Wirth was a U.S. Senator from Colorado from 1987 to 1993 and a member of the U.S. House of Representatives from 1975 to 1986. Currently, as Under Secretary for Global Affairs with the Department of State, Wirth is responsible for overseeing issues related to the environment, population, human rights, refugees, narcotics, and crime.

Sustainable development fundamentally means that the economies of the world should attempt to meet the needs of today's generation without compromising or stealing from future generations. Understood and pursued, the idea of sustainable development can integrate and harmonize the enormously powerful economic and environmental forces at work in today's world. It is a concept rooted in the recognition of the mutually reinforcing nature of economic and environmental progress.

Ecological systems are the very foundation of modern society — in science, in agriculture, in social and economic planning. Over the long term, living off our ecological capital is a bankrupt economic strategy. At the same time, most peoples and nations aspire to economic growth and scientific and technological progress, which in turn are the essential building blocks of environmental protection.

Unhappily, for far too long, concern about the environment has been regarded as a peripheral, soft issue that can be treated as a luxury in the context of prosperity. Far too many will nod their heads, saying "Yes, I'm for the environment - as long as it doesn't cost jobs." And it is within this terribly mistaken analysis that we encounter the fundamental intellectual challenge to sustainable development.

ENVIRONMENT, ECONOMY INTERTWINED

The biggest obstacle to the pursuit of sustainable development — here in the United States and around the world — is the misguided belief that protecting the environment is antithetical to economic interests. The fact is that the economy is inextricably tied to the environment and totally dependent upon it.

Five biological systems — croplands, forests, grasslands, oceans, and fresh waterways — support the world economy. Except for fossil fuels and minerals, they supply all the raw materials for industry and provide all our food:

— Croplands supply food, feed, and an endless array of raw materials for industry, such as fiber and vegetable oils.

— Forests are the source of fuel, lumber, paper, and countless other products.

— Grasslands provide meat, milk, leather, and wool.

— Oceans and freshwater produce food for individuals and resources for industry.

Stated in the jargon of the business world, the economy is a wholly-owned subsidiary of the environment. All economic activity is dependent on the environment and its underlying resource base. When the environment is finally forced to file for bankruptcy because its resource base has been polluted, degraded, dissipated, or irretrievably compromised, then the economy goes down to bankruptcy with it.

Is this just a theoretical concept? Of course not. It happened in Central and Eastern Europe, whose profound environmental destruction we are only now uncovering and comprehending. It is, in fact, happening all over the world, even in many of today's headlined trouble spots.

Resource scarcities are a root cause of the violent conflicts that have convulsed civil society in Rwanda, Haiti, and Chiapas. These conflicts could intensify and widen as ever-growing populations compete for an ever-dwindling supply of land, fuel, and water. Professor Tad Homer-

Dixon, of the University of Toronto, warns that in coming decades, resource scarcities "will probably occur with a speed, complexity, and magnitude unprecedented in history."

We are learning that environmental capital cannot be measured simply by counting trees, stocks of fish, or ears of corn. It also encompasses complex ecological systems that filter wastes, regenerate soils, and replenish fresh water supplies. Those systems, which we have belatedly begun to understand, form the very basis of life on earth. Ozone depletion, species loss, and the increasing carbon content of our atmosphere are all reflections of the fact that the planet's ecological systems are under great strain.

Our deficit spending of environmental capital has a direct, measurable impact on human security. Simply put, the life support systems of the entire globe are being compromised at a rapid rate — illustrating our interdependence with nature and changing our relationship to the planet. The security of our world hinges upon whether we can strike a sustainable, equitable balance between human numbers and the planet's capacity to support life.

Why has this new aspect of security only recently been recognized? Two trends tell the tale. First is the exponential growth of the human population. World population has doubled since 1950, and now stands at 5,600 million. Every year, the world gains another 91 million inhabitants — the equivalent of another New York City every month, another Mexico every year, another China every decade. Ninety-five percent of that growth is taking place in the impoverished countries of the developing world, which are already struggling to provide jobs and sustenance for their people.

At the same time, the industrialized world has developed the capability and consumptive capacity to utilize resources and produce wastes at a rate that is unprecedented in human history. Although they comprise only one-fifth of the world's population, the industrialized countries use two-thirds of all resources consumed and generate four-fifths of all pollutants and wastes.

We are getting ourselves into a terrible fix — the globe's population is growing at a rate that is matched or exceeded only by our growing capacity to consume resources and produce wastes. This is a completely unsustainable course.

U.S. PRIORITIES FOR SUSTAINABLE DEVELOPMENT

Population must be a top priority of the U.S. agenda for sustainable development. American leadership has been restored in international population policy, and we have helped create an international plan, agreed to in Cairo in 1994, that calls for a comprehensive approach to addressing rapid demographic change. The plan would make family planning and reproductive health services universally available, sharply expand the education of girls, and focus on child survival, male responsibility, strong families, and the engagement of grassroots, nongovernmental organizations.

Part and parcel of the U.S. population strategy is the promotion of the social, political, and economic rights of women, who are extraordinarily important resources for growth and agents of change. The return on these initiatives — in terms of stability, environmental quality, and economic productivity — will outweigh the costs for generation after generation. This will be a common theme of American foreign policy, and we believe an achievable goal early in the 21st century.

A second priority, the provision of basic health services, is a wise investment for the community of nations and can be achieved at relatively little global cost. The elimination of four major, easily preventable diseases — measles, tetanus, whooping cough, and polio — eradication of iodine and vitamin A deficiencies, and the global availability of oral rehydration therapy are all achievable early in the next century.

These measures alone would save between 3 and 4 million lives annually, perhaps eliminate 20 million early childhood deaths, ease immeasurable, unnecessary suffering, and make a significant contribution to lowering pressures for larger families. Part of the U.S. global health strategy also includes a major focus on AIDS, recognizing that while a cure may be decades away, we can help with aggressive prevention strategies in those parts of the world where the spread of the infection is epidemic.

Biodiversity is a third priority — a broad umbrella for the task of preserving God's creation, the biological inheritance that comprises all living things. This vast wealth of genetic information is critical to our long-term economic and environmental integrity, and we must do all that we can to preserve it. The U.S. Senate needs to ratify the Biodiversity Treaty, approved at the 1992 Rio

de Janeiro Earth Summit. Together with other signatories, the United States needs to launch a worldwide effort to catalog, prospect in, and sustainably utilize this great and largely unknown library of information. The next century will surely be the century of biology, and we must be engaged in order to fully utilize these remarkable opportunities for new sources of food, fuel, fiber, and pharmaceuticals.

Integrating environmental and economic imperatives at the national level is a fourth priority. We can no longer assume that we bear no cost for fouling the air or depleting our resources. Instead, we need to internalize those costs and allow the genius of the marketplace to help determine the most efficient means of achieving our environmental goals.

Fifth is the challenge of reforming our international institutions to better promote sustainable development. The World Bank, the most important public engine for development, will play a central role in fostering the transition to sustainable development. We must work harder to encourage changes in lending practices to make good on the promise of greater emphasis on smaller-scale, decentralized projects to promote alternative development, to protect the environment, to preserve the rights of local populations, and to recognize the role of crucial sub-populations — particularly women — in the development process.

This goal of institutional reform is part of the sixth and final challenge, the challenge of governing in the 21st century. In this post-Cold War world, our problems spill messily across traditional lines — global climate change, ozone depletion, biodiversity, refugees, narcotics — all these issues have become concerns that challenge us all and must be dealt with through stronger multilateral, cooperative organizations.

We must be sure our international institutions are adequate to the tasks of the 21st century. This will not be easy. Walls can be brought down in a day, but changing the consciousness of individuals and forging common cause among institutions is much more difficult. But we have a rich, if complicated, framework from which to build. I believe sustainable development will be a primary rationale for our institutional arrangements in the 21st century.

NEW CONCEPT OF SECURITY

In the newly configured world, national security is closely linked to human security. Human security is built on a foundation of peace and political stability, physical health, and economic well-being. The primary threats to human security may not be as easy to recognize as, say, an enemy's nuclear arsenal, but they are no less deadly.

These are the threats posed by the abject poverty in which one billion of the world's people live; the hunger that stalks 800 million men, women, and children; the spread of HIV/AIDS, which will infect 30 to 40 million people by the year 2000; and the combination of violence, poverty, and environmental degradation that has forced 20 million people from their homes.

In the United States and around the globe, we are coming to understand the close connections between poverty, the environment, the economy, and security. This historic transformation demands that we now liberate ourselves from outworn policies, from old assumptions, and from fixed views that only yesterday seemed to be the dividing and defining lines of our politics.

Crisis prevention and sustainable development are among the great challenges of the next century. It is time to retool our approach to national security, recognizing that our economic and environmental futures are one and the same. It is these challenges that will determine the future we leave to our children and grandchildren. ❑

❑ DEBT RELIEF FOR POOREST NATIONS: A NEW FRAMEWORK

By Jon Schaffer, USIA Staff Writer

A plan is being readied by major creditor nations and international financial institutions for extraordinary debt relief for the poorest developing countries to enable them to get back on a path toward economic growth and investment.

U.S., World Bank, and International Monetary Fund (IMF) officials interviewed by USIA say this plan — pushed forward at the Group of Seven (G-7) major industrial nations summit in Lyon, France, in June after many months of review — is the first to deal with the poorest countries' debt burdens comprehensively. Its success, they say, will depend on bilateral creditors and multilateral institutions working together to provide higher levels of concessional assistance than they have in the past.

"Without a comprehensive effort to reduce debt to sustainable levels, the debt problems of the poorest countries will continue to monopolize both monetary and human resources, to undermine initiative, and to discourage investors," U.S. Deputy Secretary of the Treasury Lawrence Summers said in a recent speech.

The medium- and long-term external debt of 41 highly indebted developing countries jumped from $77,000 million in 1984 to $200,000 million in 1994, the latest year for which data are available, according to the IMF. More than half of this is bilateral debt owed to other governments, almost a third is owed to international financial institutions, and the remaining 15 percent is owed to private creditors.

A major reason for the sharp rise in the poorer countries' external debt was the significant decline in the prices for their export goods relative to the cost of imports in the mid-1980s, which led to increased external borrowings, IMF officials say. Export earnings have recovered, but the average debt burdens remain very high. Even though three-quarters of the debt is on concessional terms, in 1994 debt service exceeded annual government revenues in 13 severely indebted countries.

THREE-PART PLAN

The architects of the debt-relief plan — which will have three distinct parts — hope to see final agreement in time for the annual meetings of the World Bank and International Monetary Fund in Washington in late September. The plan does not have an official name.

Officials estimate that only eight to 20 of the poorest highly indebted developing countries, mostly in Africa, will be eligible for the plan.

Among the countries that may be eligible are Bolivia, Burundi, Burma, Cameroon, Congo, Cote d'Ivoire, Ethiopia, Guinea-Bissau, Guyana, Madagascar, Mozambique, Nicaragua, Niger, Rwanda, Sao Tome-Principe, Sudan, Tanzania, Uganda, Zaire, and Zambia. Their total debt amounts to about $97,000 million.

The details of the first part of the new debt strategy will be hammered out by representatives of the major creditor countries at a meeting in mid-September.

This part of the initiative will involve bilateral official debt relief through the so-called "Paris Club," a 40-year-old informal group of creditor governments that meet to reach a common position on debt relief for individual countries.

For the new plan, the Paris Club will seek an agreement by going beyond the current "Naples terms" for debt relief for those heavily indebted poor countries that need even more relief.

Naples terms — established at the 1995 G-7 summit in Naples, Italy — permit the reduction of up to 67 percent of eligible countries' official debt in net present-value terms. Even debt previously rescheduled on concessional

terms could qualify for further rescheduling under Naples terms. Creditors have several options for achieving the 67-percent reduction: reducing the level of the stock of debt, reducing the debt service burden by lowering the interest rate on the loan, or extending the period for repayment.

The way the process works, one official explained, is that the debt of each country is rescheduled over a three-year period. Action is taken each year under one of the options. At the end of the three years, the Paris Club will consider a reduction in the stock of debt for those countries that have adhered to their IMF agreements in the interim.

While no ceiling has been set on the amount of debt relief to be offered under what are variously called the "Lyon terms" or "Lyon options" under the Naples terms, one U.S. official, who declined to be identified, doubted that it would go as high as 100 percent. Officials at the IMF and World Bank have mentioned 90 percent.

"We don't yet have Lyon terms per se," said the U.S. official. "What we have out of the Lyon summit is encouragement for the Paris Club to go beyond Naples terms, where appropriate .... It has not yet been completed. It is a process getting started."

The official stressed that the industrial countries see the Paris Club effort as a crucial component of a common and comprehensive approach for dealing with the debt of the poorest countries.

U.S. authority to participate in Paris Club debt reduction for the poorest countries has been granted by Congress since 1994 and has been renewed annually as part of the appropriations bill. Because of recent changes in U.S. budgetary rules, most debt reduction measures must be offset by a new appropriation that makes up the difference between what the U.S. government would expect to receive under the original obligation as compared to what it would expect to receive after debt reduction.

U.S. law also specifically limits this kind of debt relief to the poorest members of the International Development Association (IDA) — the concessional loan agency of the World Bank — and only to those who have negotiated economic reform programs with the IMF. The law further prohibits debt relief for countries engaging in terrorism, failing to cooperate on narcotics, undertaking excessive military expenditures, engaging in abuse of human rights, or having expropriated U.S. property.

THE PLAN'S SECOND AND THIRD PARTS

The second part of the new debt relief initiative would involve increased concessionality of loans within the Enhanced Structural Adjustment Facility (ESAF), an IMF lending program for poor countries willing to make economic reforms. Year-long negotiations are proceeding on selling a small portion of the IMF's $40,000 million in gold reserves in order to fund the ESAF over the next five years. The proceeds from the sale would be invested and the profits used to help finance debt relief, not only for what is owed the IMF but possibly also to private creditors, an IMF spokesman said. The form of the relief would vary from country to country but could include buying off a portion of the debt, rolling over an existing ESAF loan, or extending the maturity of an ESAF loan from the current 10 years to 15 or 20 years, the spokesman said. These issues are expected to be voted on by the IMF executive board during the next two months.

The third part of the initiative would be a debt relief trust fund of about $2,000 million managed within the World Bank. Many details still need to be worked out for how this fund would operate. In general, resources would be provided from the fund's net income to either pre-pay a portion of the obligations of the poorest highly indebted developing countries or to help these countries service their debts to the extent needed to achieve debt sustainability, a World Bank spokesman said.

The World Bank is prepared to devote $500 million to debt reduction in 1997, the spokesman said, adding that the bank is still working with other multilateral development banks — particularly the African Development Bank and the Inter-American Development Bank — as well as bilateral creditors on how much each would contribute to the fund. He said one option being considered is to allow donors to contribute to country-specific trust funds. The hope is to have agreement by the time of the World Bank-IMF annual meetings at the beginning of October. So far, few countries have offered bilateral contributions other than the Scandanavian nations, Switzerland, and the Netherlands, and then only if the major industrial countries come forward with contributions, the spokesman said.

There is already a debt reduction facility within IDA that buys commercial bank debt of the poorest countries,

sometimes for as little as 15 to 20 cents on the dollar. Established in 1989, the facility has bought $840 million in debt in Bolivia, Guyana, Mozambique, Niger, Sao Tome, Uganda, and Zambia. Additional action is expected in Senegal, Ethiopia, Guinea, and Nicaragua, the spokesman said.

Separate from this new approach to the poorest countries, the United States is currently implementing a program for Latin America that will allow the government to buy back or swap debt owed the U.S. government. The focus of the program, included in this year's foreign operations appropriations legislation, is on concessional debt owed primarily to the U.S. Agency for International Development, officials say. The program is built upon Enterprise for the Americas legislation that provided the opportunity for swaps on nonconcessional debt such as that owed the Export-Import Bank of the United States. The Clinton administration is currently conducting an interagency review to decide which countries will be eligible under the new law. Jamaica and Peru are the first countries being considered, one official said. ❑

MEDIUM- AND LONG-TERM EXTERNAL DEBT OF 41 HEAVILY INDEBTED POOR COUNTRIES
(in 1,000 millions of U.S. dollars)

	1984	1990	1993	1994
Total external debt	77.0	186.0	191.0	200.0
Of which:				
Multilateral	27.7	25.5	29.1	30.5
IMF	7.7	3.7	3.3	3.7
Other	20.0	21.9	25.8	26.8
Official bilateral	41.0	54.3	54.8	54.7
Private	31.3	20.1	16.0	14.9

(Source: International Monetary Fund, 1995)

OVERALL ASSESSMENT OF DEBT SUSTAINABILITY FOR 41 HEAVILY INDEBTED POOR COUNTRIES

Sustainable	Under Stress	Unsustainable	Not Yet Determined
Angola	Bolivia	Burundi	Liberia
Benin	Burma	Guinea-Bissau	Nigeria
Burkina Faso	Cameroon	Mozambique	Somalia
Cen. African Rep.	Congo	Nicaragua	
Chad	Cote d'Ivoire	Sao Tome-Principe	
Equitor. Guinea	Ethiopia	Sudan	
Ghana	Guyana	Zaire	
Guinea	Madagascar	Zambia	
Honduras	Niger		
Kenya	Rwanda		
Lao PDR	Tanzania		
Mali	Uganda		
Mauritania			
Senegal			
Sierra Leone			
Togo			
Vietnam			
Yemen			

(Source: World Bank)

❑ ASSESSING FOREIGN AID'S IMPACT ON DEVELOPMENT

From a statement by Cindy Williams, Assistant Director, National Security Division, Congressional Budget Office

While there is consensus among experts as to the kinds of policies and conditions needed to foster development, there is much less agreement on the role foreign aid can play in that process, says Cindy Williams of the Congressional Budget Office (CBO), a research agency of the U.S. Congress.

The economic and trade policies that a developing country pursues, and the quality of its government and institutions, are crucial for development, Williams says. Foreign aid can help countries that adopt good policies, but may hurt those that avoid reform.

This article is excerpted from a statement by Williams on the role of foreign aid in economic development given in May 1996 before the U.S. Senate Foreign Relations Subcommittee on African Affairs.

In the past 30 years, experts have come to recognize that the development process is complex and depends on many factors. The Congressional Budget Office has studied that process in an effort to answer two questions: What are the most important conditions that further successful economic and social development, and what is the role of foreign aid in development? Of those, the second is the more difficult to answer. A considerable consensus exists on the conditions that foster growth; there is much less agreement on the role of foreign aid in that growth process.

THEMES IN DEVELOPMENT

What do we mean by development? CBO employs a broad definition of the word. For us, development encompasses a long-term trend of growth in gross national product per capita, rising education levels, improving health conditions, low to moderate population growth, sustainable use of natural resources and the environment, and food security.

The literature on development tends to emphasize four broad themes.

— The economic and trade policies that a country pursues are often the key factors determining the course of its development.

— The quality of a country's government and institutions is a strong influence on development.

— When countries are well governed and adopt market-oriented economic policies, foreign aid may contribute modestly to development.

— Economic growth and improvement in human welfare are intertwined.

ECONOMIC AND TRADE POLICIES

Experts generally agree that a country's economic policies play an extremely important role in its development. In the long run, the growth of an economy depends on the growth of its physical and human capital stocks and on the growth of the productivity of those stocks. The growth of a country's population and skills largely determines the growth of a country's human capital; in turn, a country's rate of net savings determines its physical capital stock. Noninflationary monetary policies and low budget deficits provide a favorable environment for saving and the accumulation of capital, whereas large deficits, high inflation, and resultant financial instability work against them. The factors determining productivity are not well understood, but other aspects of economic policy can affect the ability of an economy to deploy resources productively. Regulation, for example, generally interferes with market prices, which signal the incentives for consumption, investment, and production. Such interference typically lowers economic efficiency and the ability of an economy to reallocate resources in response to shocks. Policies that create uncertainty or that otherwise harm the incentives for saving and investment and the accumulation of physical and human capital will inhibit development and economic growth.

According to development economists, uncontrolled fiscal policies have been at the center of the economic problems

of many developing countries. In most cases, an ill-disciplined public sector has diverted resources from the private economy. Large government deficits have been created in many developing countries by spending on large government payrolls, inefficiently run government industries, and various subsidy programs to the population as a whole, to specific economic sectors, or to individual industries. Expanding the money supply has often financed the resulting government deficits. But doing so has led in turn to inflation — which, if the country has a fixed nominal exchange rate, makes its goods uncompetitive in world markets. Foreign investors may be reluctant to lend to such an economy, and the foreign exchange reserves required to maintain a fixed exchange rate may run out.

The government can inhibit the functioning of private markets in ways other than by bad fiscal and monetary policies. Price controls, the granting of exclusive monopolies, and state subsidy of particular producers are all ways in which governments have wasted resources by overriding the functioning of the market. Placing controls on interest rates and capital flows and rationing foreign exchange become necessary when a government tries to isolate its domestic economy from the powerful market forces of the world economy.

Of particular importance to development appears to be the extent of a country's openness and integration in the world economy and trading system. The discipline of world market prices makes it much harder to sustain distortionary domestic policies that might divert the economy's resources to wasteful and inefficient uses. Substantial evidence indicates that the more a country keeps tariff and nontariff barriers low and generally adopts an outward-looking economic policy, the more likely it is to experience sustained economic growth and improvement in social welfare. Moreover, as indicated above, uncontrolled fiscal deficits can intensify the distortions in external trade when they contribute to overvalued exchange rates.

Prudent economic policies can reduce a developing country's exposure to external shocks and increase its flexibility in responding to them when they do occur. Production of primary commodities has dominated some developing economies, and historically their development has been particularly vulnerable to swings in the world economy. Development experts generally agree that developing countries with fiscal discipline are best able to cope with the swings in energy and commodity prices and with international recession. One way in which countries can hedge their risks is by investing in physical and human capital that broadens the endowments of the economy. In addition, market-oriented policies make for a flexible economy that can adapt to external shocks better than if it was centrally controlled or if the price system were so distorted that it could not deliver the appropriate prices.

GOVERNANCE AND DEVELOPMENT

A second major point is that the way in which a country is governed may affect its rate of development. Three characteristics seem key: Countries that enjoy a high measure of political stability and social order are more likely to develop than countries that have experienced instability and chaos; the less corrupt a developing country's government, the more likely it is to achieve long-term development; and successful development usually depends on functioning governmental institutions that can support a growing economy.

Political stability: Political instability is likely to impede productive activities by raising the economic risk for potential investors. Countries with stable political systems tend to be more capable of development.

Self-serving government officials: Policies that damage an economy may be pursued simply because they benefit government officials and others with political and economic power. When governments require permits, licenses, and quotas that effectively create private monopolies throughout the economy, they essentially lower economic output and raise prices. Governments can also increase waste through uncompetitive contracting that favors the politically well connected. Governments may charge explicitly for the monopoly or contracting privileges they grant. Moreover, government officials may take bribes and kickbacks or embezzle government funds. In these cases, the resource represented by the labor of the government employees contributes nothing to the economy's productive capacity; even worse, it creates inefficiency elsewhere in the economy.

Governmental institutions: Some experts argue that governmental institutions that can support economic activity are important to development. For example, an independent judiciary can protect property rights, enforce contracts, and maintain the rule of law. Such a judicial system makes the economic system less arbitrary and lowers the economic risk of investing in productive

activities. In cases in which those conditions do not exist, potential entrepreneurs may be discouraged from starting businesses or expanding existing ones.

Other institutions that appear important to economic growth include a central bank to regulate the money supply and a ministry of the treasury to oversee national finances and investment. Development tends to benefit when a developing country has the institutions and laws that permit effective tax collection to provide the revenue for public goods such as ports, roads, and communication systems, as well as investment in human capital.

THE ROLE OF FOREIGN AID IN DEVELOPMENT

In those cases in which a developing country's government has a positive influence on development and pursues economic policies conducive to growth, foreign aid may contribute to development. Aid has often done so by providing an additional pool of capital that can be used for investment in infrastructure, industry, health services, education, and the like. In addition, many forms of technical cooperation — such as agricultural research and extension — have helped in transferring improved production methods to developing countries. Donors have also provided technical assistance that furthered the reform of economic policy and improved governance.

Even in countries that do not yet have all of the governmental and economic attributes that support development, aid has often been used to spur policy reform and to ease the transition to a market-oriented economy. Donors often make their aid conditional on carrying out those reforms. Aid can help soften the impact on people adversely affected by such policy adjustments. Without reform, however, aid can reinforce policies that do not further development.

One reason for the inconclusive evidence regarding the importance of foreign aid is that development is not the only reason countries give foreign assistance. Aid may be given to alleviate the effects of natural disasters, protect the donor nation's political and strategic interests, or increase the donor's exports. Foreign aid may not be as useful in encouraging economic growth when the donor shapes its program with another goal in mind. For instance, when aid goes to an ally to further strategic objectives, it may even have the effect of reinforcing poor economic choices. Sometimes other economic or trade policies undermine the goals of a nation's foreign assistance program.

ECONOMIC GROWTH AND HUMAN WELFARE

Some experts argue that to a large extent economic growth is the first essential ingredient of development. It may provide the resources for higher investment and growth. Richer countries are better able to feed their populations — either through domestic production or by buying the necessary foodstuffs on the international market. Growing economies also tend to generate demand for a better educated labor force and for better health care. Economic growth provides the resources and technological capabilities for slowing population growth.

But it is equally important to recognize that improvements in education, health, and nutrition can promote increased economic activity. A better-educated population not only contributes to the economy by being more productive but is more knowledgeable about the benefits of good health, safe medical practices, and child spacing. Similarly, healthier individuals are more productive at work and more readily attend school.

CONCLUSION

Many developing countries and foreign aid donors face a dilemma. Some developing countries figuratively — if not literally — may be consuming their seed corn. Those that are unable to feed their populations are unlikely to be able to save enough to begin the economic growth process. Foreign aid may allow a country's economy to get beyond the point where it is eating its seed corn. However, as pointed out in the World Bank's 1990 World Development Report, most aid to the poorest countries does not even do that — it just helps their economies reach the subsistence level of consumption. But even if that point is reached, there is no guarantee that foreign aid recipients will adopt the political and economic policies that favor growth and development.

Overall, the literature on development and the post-World War II experience of many developing countries suggests that the sources of economic growth and improvements in social welfare lie primarily within a country. Foreign aid may help or hurt the development process if it is given to countries that adopt policies that are not conducive to growth or if it is given for reasons unrelated to development. But as the development field continues its research, the themes identified here, drawn from a broad review of the literature, may change. ❑

❑ FINANCIAL FLOWS TO EMERGING MARKETS: A CASE FOR ECONOMIC REFORM

An Interview with Charles Dallara, Managing Director of the Institute of International Finance

Charles Dallara, managing director of the Institute of International Finance (IIF) since 1993, was formerly U.S. executive director of the International Monetary Fund. The IIF, whose membership comprises more than 175 global financial institutions, including many of the world's largest banks, provides detailed confidential data and risk analysis on 48 emerging markets, and serves as a forum for the international banking community.

Dallara believes that the vast majority of financial flows to emerging economies in the future will come from the private sector, mostly in the form of foreign direct investment and other equity finance. Countries with the strongest macroeconomic performance and the most open economies will win the largest share of flows, he says. But he warns that countries seeking debt reschedulings will find it increasingly difficult to obtain access to private capital markets.

This interview was conducted by USIA Economics Writer Jon Schaffer.

Question: *In 1996, more than 75 percent of external financial flows to developing countries is projected to be provided by private investors and lenders, unlike the 1980s, when bilateral and multilateral aid agencies were major donors. To what do you attribute this shift?*

Dallara: It is a dramatic shift, and one that I attribute to three things. First, Latin American economies, in particular, had to move beyond the debt problems of the 1980s. Second, the tremendous flow of private capital has been supported by a sweeping change in attitudes toward economic reform and liberalization from Asia to Central Europe to Latin America. There has been privatization, reductions in trade barriers and subsidies, and movement toward more market-based economic policies. Related to this has been progress on basic macroeconomic and financial stability. An open, liberal economy running an inflation rate of 200 percent is not going to attract foreign investment. Nor is a very stable, well-managed economy that is not open to the outside world. Third, a whole new world of investors and lenders — pension funds, insurance companies, and institutional and retail investors — has stepped into emerging markets. The huge growth of the mutual fund industry has helped "intermediate" — that is, facilitate the movement of — this flow into the world of emerging markets.

Q: *But aren't most of these private flows concentrated in only a handful of countries?*

Dallara: The figures are a little misleading. For example, even though an economy like the Czech Republic has not attracted a dramatic amount of financing relative to aggregate global flows, the amount that has been attracted relative to the Czech economy is quite significant. The Czech Republic last year received $2,500 million in net equity investment, $2,300 million in net commercial bank lending, and $1,000 million in bonds. For China, those figures look minuscule. But for the Czech Republic, an economy of 10 million people, they are significant.

Similarly, in 1995 Colombia received a net $1,700 million in equity, $1,500 million in commercial bank lending, and $1,000 million in bond finance. To the world at large, those are not large numbers. But given Colombia's needs, they are significant.

Poland, Thailand, and Malaysia are three other countries that are beginning to see similar benefits from the liberalization of their investment regimes.

Q: *What did the Czech Republic do to attract that investment?*

Dallara: It followed one of the most rigorous sets of market-oriented policies in Central Europe. While it still needs to strengthen the efficiency of the corporate sector and deepen local capital markets, the Czech Republic avoided an accumulation of external debt during the 1970s and 1980s, followed rigorous policies of minimum fiscal deficits, and maintained inflation below 10 percent annually, a soundly managed currency, and a strong privatization program. Put those things together with political stability, and I'm confident that the Czech Republic will continue to be an attractive place for investment.

Q: *What other countries are poised to attract new flows of private capital?*

Dallara: I think Hungary is repositioning itself to attract more significant flows. In Latin America, Peru is putting its debt problems behind it. If it can come to grips with its large current account deficit, it should become increasingly attractive to private investors.

Even India, which is still at the relatively early stages of opening and reforming its economy, has tremendous potential to attract much more dramatic levels of private finance, if it accelerates its economic reform process.

Q: *What does a major bank or financial center look for when deciding where to invest its resources?*

Dallara: It looks for a basically stable macroeconomic environment — an economy that is well-managed in terms of inflation, fiscal deficits, current account and trade deficits, and exchange rates. Clearly, these are key to sustaining private flows. A country can probably attract some private flows in the short term without those factors, but over a long time they need to be present. Second, it looks for a liberal, open payments regime in which it can repatriate principal and dividends. Third, it looks for a legal and institutional structure that is transparent, easily understood, and embodies the rules of the game. There will also be other factors, depending on the nature of the investment.

Q: *Although the ratio of private flows to aggregate flows is on the rise, the absolute amount of external private financing may be trending downward. What are IIF's latest projections?*

Dallara: Our latest estimates show that there probably will not be a decline, though some decline in short-term bank lending would actually be helpful. If there is too much short-term bank lending, you are probably building a problem, not a solution.

Too much short-term capital creates vulnerability in the balance of payments, as Mexico discovered. You need a healthy mix of short- and long-term capital, both debt and equity, to build a stable flow of capital from the private markets. The amount of short-term debt that went into countries such as Thailand and Brazil last year would have been of concern had it continued, because these countries would have built up a huge accumulation of short-term external liabilities. With such liabilities, a break in public confidence resulting from a macroeconomic, political, or structural problem can quickly be translated into dramatic downside pressure on exchange rates, which can create its own self-defeating spiral.

What we have seen is some retrenching in short-term bank lending, broadly offset by medium-term bank lending, very strong medium-term bond financing, and a continuation of strong equity flows. We now estimate that total private flows will be in the range of net $200,000 million this year, the same as last year. There will be a reduction in total flows in 1996 simply because of smaller official flows relative to the huge official disbursements last year to Mexico, and to a lesser extent to Argentina, which will not be repeated this year.

Q: *If emerging economies are attracting fewer commercial bank loans, what kind of capital are they attracting?*

Dallara: In 1981, just prior to the debt crises, there was net private lending of $75,000 million, of which about 80 percent was commercial bank lending. For the better part of the 1990s, the average of commercial bank lending as a percent of total private lending has been around 30 percent. This dramatic shift is really a story of equity and the bond markets.

Equity — foreign direct investment and portfolio investment — is the only part of private flows that has grown steadily in absolute terms every year during the 1990s. All the other components, particularly bond markets and commercial debt, have shown volatility. This reflects two phenomena. First is the growing realization of multinationals that they must strengthen the span of their global production facilities if they are to compete in today's global marketplace. Producers all over the world are looking for the most efficient place to base their next manufacturing plant. Second is the growing willingness of developing countries to allow foreign direct investment to take over previous state-owned enterprises and to create "greenfield" (new) production facilities for anything from paper manufacturing to automobile manufacturing. There is a steady, outwardly pressing movement of capital from the industrial world to the developing world in the form of this direct investment.

In addition, the growth of mutual funds is now intermediating private as well as corporate savings into the local equity markets as countries have opened these markets. Five years ago, it was not feasible to invest in Indian equities. Today you can find any number of investment

vehicles to buy Indian equities, and that story is repeated across another two dozen emerging market economies.

Q: *How do you see private capital flows breaking down regionally?*

Dallara: This year, of the some $200,000 million in total net private flows, the Asia-Pacific region is expected to receive $101,000 million, or just over half, reflecting the dynamism and growing relative size of these economies. Another quarter of the total, or about $50,000 million, is going to Latin America, about $20,000 million is going to Central Europe, and perhaps just a few thousand million is going to the Middle East and other countries.

Q: *Following the Mexican economic crises of late 1994 and early 1995, the market for emerging country bonds slumped. Has that market recovered yet?*

Dallara: Investors have regained confidence, and governments have committed themselves to sensible policies to help reinforce that confidence. For four months last year, global bond markets were virtually closed to all borrowers from emerging markets. Had this continued, it would have meant a new major reversal in capital flows because there were a lot of repayments due from bonds issued in the early 1990s. By the middle of last year, those bond markets reopened, reflecting two basic trends.

First, investors realized that Mexico was a relatively unique event. Second, a lot of governments took the Mexico situation as a sign to strengthen their own policies. Countries as diverse as the Philippines, Argentina, and Hungary all strengthened their commitments to reducing fiscal deficits, avoiding any overvaluation of their exchange rates, bringing inflation down, and opening their economies further. These actions helped fuel another strong flow of money into developing world bond markets. Another factor is the continuation of relatively low interest rates in the industrial world. Investors are looking for other investment opportunities to generate higher rates of return and are willing to take some higher risks for them.

Q: *What happens to a country that seeks to refinance its external commercial debt through a "London Club" rescheduling?*

Dallara: I think London Club reschedulings — meetings by private creditors to reach common positions on debt reschedulings on a case-by-case basis — will be more and more rare; if they do occur, it will be increasingly difficult for a country to access substantial amounts of capital in the short run. The London Club structure was created for a world dominated by commercial bank lending. You cannot take a London Club approach to bond markets or to equity flows. Investors and lenders are dealing now in liquid instruments. If they begin to doubt the ability of a country to meet its obligations on time, they will trade the instrument. The bottom line is that countries are going to have to be very wary of seeking reschedulings in today's world because it will be much more difficult to reaccess the private capital markets if they do. Certainly there will be a need for Paris Club reschedulings of official debt for the low-income countries.

Q: *The IMF recently initiated a voluntary program encouraging countries to collect and publish an array of economic data. What does this mean for developing countries?*

Dallara: I believe emerging economies increasingly will have to meet certain standards for transparency. They will have to publish data on reserves, on fiscal imbalances, on monetary and trade positions, and on a variety of other important variables. If they don't, I think they will pay a price in the market. That price could be a higher interest rate on their debt instruments. Or, at some point, they could find their access to the capital markets blocked in a more generalized way.

Q: *What does your crystal ball tell us about the future of private capital flows?*

Dallara: I see the fundamental trend of reform, liberalization, and increasing diversification on the supply side of capital to the developing world continuing, and I see increasing amounts of private capital going to these countries.

Countries that are most aggressive in opening their markets, in becoming transparent, and in creating standards, and that are most committed to following sound macroeconomic policies, will benefit most from this trend. The world has become increasingly competitive for capital, so we are going to see increasing separation of fast-track countries from the medium-track and the slower countries. Authorities need to be mindful of the fact that they are not competing only in a national environment but in a global environment as well. ❑

❑ A CONGRESSIONAL PERSPECTIVE: MOVING AFRICA FROM AID TO TRADE

An Interview with Congressmen Jim McDermott and Philip Crane

In an initiative that reflects the reality of declining aid budgets and the conviction that trade is the engine of growth, two members of the U.S. Congress are calling for what they describe as a fundamental shift in U.S. economic policy towards sub-Saharan Africa.

"We want to create a transition path from development assistance to self-sufficiency for those economies committed to economic reform," says Jim McDermott, a Democratic congressman from Washington state.

McDermott and Republican colleague Philip Crane of Illinois say their goal is to fashion a comprehensive trade and investment strategy for sub-Saharan Africa. Their proposal authorizes $200 million for privately managed investment funds. It includes an initiative to open U.S. textile markets to imports from sub-Saharan Africa. The centerpiece of their strategy is the creation of a U.S.-Africa Free Trade Area by the year 2020.

The lawmakers say they expect to introduce legislation in September.

McDermott, a self-described "friend of Africa," has traveled extensively in the region and served in Kinshasa, Zaire, as a State Department physician in the 1980s. Crane, as the Trade Subcommittee chairman for the House of Representatives Ways and Means Committee, has been one of the strongest supporters of open trade in Congress.

The two lawmakers recently discussed their proposal and the future of U.S. foreign aid programs with USIA staff writers Jim Fisher-Thompson and Berta Gomez.

Question: The United States this year dropped to fourth position among international aid providers — behind Japan, Germany, and France. Was your initiative for sub-Saharan Africa motivated by a sense that the aid budget will continue to decline?

McDermott: There is no doubt that Congress is less and less willing to put money into the aid budget. The Cold War is over. Priorities have shifted all over the world, and our aid policy in general — not only toward Africa — is being questioned.

People aren't satisfied with how things are going now in sub-Saharan Africa and how our aid dollars have been spent there. What I am doing is putting an alternative out there for them to consider. There is a lot of support here in Congress for getting sub-Saharan Africa off charity and into the role of trading partner.

Q: How would your bill accomplish that?

Crane: Our proposal calls for the negotiation of a free trade agreement with countries in sub-Saharan Africa that take appropriate steps to reform their economies. Moreover, to put momentum behind these negotiations and to focus greater attention on the region in the private sector, our proposal calls for the creation of a U.S./Sub-Saharan Africa Economic Cooperation Forum. This forum will provide regular opportunities for policy leaders and heads of state to meet to discuss issues of mutual interest and to keep the trade negotiations on track.

Our proposal will also create privately managed equity and infrastructure funds to encourage private institutional investors in developed countries to pool their resources to make investments in established businesses and infrastructure projects in sub-Saharan Africa. By leveraging monies from private institutional investors, I believe that these funds will inject thousands of millions of dollars more into the region and promote greater economic growth and development than USAID programs ever could.

McDermott: The United States currently imports $43,000 million worth of textiles — but only $350 million from sub-Saharan Africa. It's not because Africans don't know how to make cloth — it's because we have the Multi-Fiber Arrangement that favors imports from other nations. Those quotas will end in 2005 in accordance with the Uruguay Round global trade accord, but in the

meantime, countries like Kenya have been hit by quotas that have led to the loss of 11,000 jobs since 1995.

Our proposal could mean an enormous boost in textile trade and could help create over the nine years of the Multi-Fiber Arrangement, $32,000 million worth of exports from sub-Saharan Africa.

Q: How do you answer concerns that sub-Saharan Africa is not ready to engage in free trade with the United States?

Crane: Trade agreements typically take many years to negotiate. Congressman McDermott and I have proposed a goal of the year 2020 for free trade with sub-Saharan Africa, which is identical to the goal set in the Asia Pacific Economic Cooperation (APEC) forum for free trade among all of its members. In my view, free trade agreements do not come about until someone sets a goal for their achievement.

McDermott: It's true that many people are apathetic about the region because of the growing economic competitiveness of Asia and Latin America — but the belief that you can't do business in Africa is nonsense. I have seen the creative skill and ability there with my own eyes, and there is no reason why what has happened in Asia can't happen in sub-Saharan Africa.

Q: Some describe this initiative as a "radical" shift from traditional development strategies to a private sector and market-incentives approach. How radical is it, really?

Crane: While this proposal does represent a dramatic shift in our approach to the countries of sub-Saharan Africa, it is actually very consistent with how the United States approaches its relations with the rest of the world. At present, the United States is undertaking major trade-liberalizing initiatives in the Western Hemisphere, in the Asia-Pacific region, and even with the European Union. Indeed, it is clear that not having a trade initiative toward sub-Saharan African countries, most of which are already members of the World Trade Organization, is a major gap in U.S. trade policy at present.

In some respects, this proposal finally gives the countries of sub-Saharan Africa the attention and treatment that we have already given to developing countries in the rest of the world. If you look at countries in Asia and Latin America 20 years ago, most of them were at the same stage of development that sub-Saharan Africa is today. Today, those economies are the fastest-growing in the world. The reason for this dramatic change is that the U.S. public and private sectors have targeted their attention and resources toward those parts of the world. I believe that the economic growth that accompanies trade and investment is the key for all countries to raise their standards of living and to make traditional foreign assistance programs no longer necessary.

Q: How do you assess past and present U.S. aid programs in sub-Saharan Africa?

McDermott: The development strategies we have used in sub-Saharan Africa over the last 35 years have helped at the margin, but most failed because they were not self-sustaining. Without stable governments and sustained private sector-led growth, traditional assistance programs are always jeopardized by the problems that still plague many sub-Saharan African nations: corruption, inefficiency, civil strife, debt overhang, and natural disasters.

We need to move beyond current policies and try to bring sub-Saharan Africans into the integrated trading world that is developing.

Crane: Traditional foreign aid alone has not and will not make countries self-sufficient. Only private sector investment can bring about the type of economic development that we would all like to see. It is also clear that federal budget constraints will continue to diminish traditional foreign aid resources. For this reason, our proposal seeks to reach out to sub-Saharan African countries to offer them an alternative course for their future.

In my view, the global marketplace has helped to create a momentum for the economic and investment opportunities that must inevitably serve as the catalyst for developing countries to emerge as business partners, rather than as aid recipients. No amount of government aid anywhere in the world can take the place of private sector investment and job creation.

Q: Your proposal nevertheless preserves funding for basic humanitarian assistance provided through the U.S.

Agency for International Development. How important is it that these programs continue?

McDermott: We can't wipe out USAID. We know that. There are parts of Africa that need our help right now for such things as AIDS education and other important social and health-care issues. We need to continue funding these, and we have specifically made that a part of our bill.

But for those parts of sub-Saharan Africa that can stick with structural adjustment programs and meet their debt problems, there is no reason why we shouldn't be encouraging them to become economically self-sustaining, so that they can compete with everyone else.

Crane: The proposal recognizes that there are countries in sub-Saharan Africa that may not be able to undertake the economic and political reforms now that are necessary to attract investment because they are consumed with civil strife and violence. On this basis, there will be a need still for emergency humanitarian and disaster relief.

The key point, however, is that the United States has never developed a plan to help the countries of sub-Saharan Africa transition themselves away from traditional foreign aid to self-sufficiency. Congressman McDermott and I hope to provide that blueprint in our proposal. By giving sub-Saharan African countries a trade and investment alternative to foreign aid, I believe that it will encourage the type of economic and political reforms in the region that will ultimately make traditional assistance unnecessary.

Q: The media have made much of partisan differences on Capitol Hill. How real are those differences in matters of foreign aid and trade?

Crane: In the area of international trade, there has been a long-standing tradition of bipartisanship because both major political parties have their own protectionist camps. The only way we are able to advance free trade initiatives to open new markets to U.S. goods and services is for the two parties to work together.

I think that there is also a growing bipartisan consensus about foreign aid, which both recognizes today's federal budget constraints and the fact that these programs were never intended to be permanent fixtures in the countries that they are intended to help. The United States must have a policy in place to help transition countries away from foreign aid programs as they make progress in their development.

McDermott: I am finding support for our proposal from both parties in Congress. Even supporters of traditional aid are enthusiastic when they see a private sector possibility of getting aid recipients to become self-supporting.

We all know, for example, that in the long run the social needs of Uganda are going to be handled by an economically sound Uganda — not by getting $5 million from the United States, $17 million from the Norwegians, and $10 million from the Swedes.

African leaders know that, too, and that is why 23 African ambassadors in Washington recently signed a letter saying that, while there is still a need for traditional aid, sub-Saharan Africa is more interested in having the trade advantages that other regions have. ❑

❑ INCREASING AID EFFECTIVENESS IN AFRICA

By Nicolas van de Walle, Visiting Fellow at the Overseas Development Council and
Director of the Project on Aid Effectiveness in Africa

The Project on Aid Effectiveness in Africa has paired research institutions in seven major donor nations with similar institutions in seven sub-Saharan African countries to study the effectiveness of foreign assistance. The project, coordinated by the Overseas Development Council, a private nonprofit international policy research organization in Washington, will issue a final report in September 1996.

The project's main new finding is that recurring problems with aid effectiveness in Africa are a result of the failure of recipient governments to integrate the assistance into their own development strategies, says van de Walle. Donor governments and nongovernmental organizations must recognize that their assistance will have a lasting effect only if they can help host governments develop the technical and institutional capacity to carry on the projects once the donors are gone, he says. Van de Walle is an associate professor of political science at Michigan State University.

Sub-Saharan Africa has received unprecedentedly high levels of foreign aid in recent years but is certain to continue to need external assistance for some time to come since so much of the region remains mired in economic crisis and underdevelopment.

Partially because of disastrous policies of the past, partially because these are typically small economies that are trapped by their own poverty, most African countries are not capable of meeting all of their development needs from their own resources. And with the exception of South Africa and Botswana, African countries are not going to be able to attract significant amounts of private capital any time soon. Foreign aid remains necessary if they are to break out of poverty.

THE IMPACT OF AID

The well-known failures of foreign assistance in Africa should not obscure the fact that aid has been behind many of the continent's important achievements over the last several decades — roads and bridges have been constructed, schools and universities have been built, central banks have been established, and hundreds of thousands of Africans have received scientific and technical training.

In the health sector, aid can claim much of the credit for the eradication of endemic diseases such as smallpox and for the sharp decline in the incidence of others. Aid helped bring about the dramatic drop in fertility in Kenya and is funding the battle against AIDS. Aid has helped finance the establishment of new health institutions, the training of personnel, and the development of public awareness campaigns.

In the agricultural sector, aid has played a key role in promoting food security. Although recent famines in the war-torn countries of the Horn of Africa garnered the press attention, aid has been instrumental in creating robust food security across much of the rest of the continent.

Nonetheless, much aid has been ineffective. The main new finding of the Project on Aid Effectiveness in Africa is that the ability of the recipient government to integrate the aid it receives into its own coherent development strategy is critical to the success of aid. Donors can never fully compensate for the absence of an effective government with an appropriate budgeting and planning process. Most of the recurring problems of aid in Africa have their origins in the weaknesses in these governmental functions.

DIFFICULTIES IN MANAGING AID

Several factors have particularly affected the ability of governments to adequately manage aid resources.

— The extremely low capacities of many African public institutions account for the majority of difficulties during an aid program's project cycle. While the level of education and training in the civil services has improved, the ability of public bodies to implement aid projects effectively remains limited. These abilities vary enormously across countries, but, in general, most African public organizations are not capable of implementing more than simple administrative tasks.

Typically, they have limited analytical capacity to design or critically evaluate aid activities. As a result, aid projects that do not involve complex procedures and intensive administrative oversight will be less taxing of the government's limited managerial capacities and thus more likely to succeed. Similarly, an aid activity is more likely to be successful when it has a few clear objectives that are easily assimilated by government officials and enjoy the support of the top leadership.

— The long-term economic crisis in many African countries has had a devastating impact on government capacity and thus on aid effectiveness. Economic crisis pushes governments to reduce various recurrent expenditures, and it leads, over time, to reduced governmental effectiveness. For example, in some countries, civil servant salaries are a fraction of what they were 25 years ago, pulled down by a combination of sustained high inflation and governments' almost permanent fiscal crunch. At such wage levels, staff turnover is extremely high, particularly for skilled positions, while corruption, moonlighting, and absenteeism are rife.

In addition, the persistence of crisis over a number of years institutionalizes a kind of crisis management in which long-term development planning and careful budgeting are replaced by ad hoc gap-filling, continuous negotiations with external creditors, and the increased politicization of revenue allocation. Over time, sound management practices are eroded and public corruption increases. Continual underspending on maintenance and various other recurrent expenditures eventually prevents public organizations from functioning effectively.

— Certain donor practices have contributed to weakening government development management capacities. The proliferation of donors and donor projects taxes existing government capacities. The countries of our sample — Botswana, Burkina Faso, Ghana, Kenya, Senegal, Tanzania, and Zambia — typically worked with between 35 and 45 official donors on over 600 distinct projects. These figures do not even include aid from nongovernmental organizations (NGOs), which is often fragmented over dozens of small organizations. In Burkina Faso, 181 NGOs were officially registered with the government. While donors have increased informal coordination at the country level, little progress has been achieved on consolidating or harmonizing project accounting, procurement, or evaluation procedures.

Pressed by the need to achieve quick results, donor agencies have often sought alternatives to the arduous and long-term task of developing central governments' management capacities. They have, for example, exercised control over the identification, design, and evaluation of projects. Many aid projects are designed with little or no local input. Donors have fielded long-term expatriate experts to staff projects rather than rely on local expertise. As a result, there are between 40,000 and 80,000 foreign experts in Africa, and their salaries are often equivalent to those of several hundred civil servants. More pernicious yet, donors have too often tried to bypass central state institutions entirely, first by setting up stand-alone project structures in the 1970s and 1980s and increasingly today by turning to civil society and the NGO sector to implement projects.

These donor practices undermine capacity development because government institutions are often marginalized in the aid process. In Senegal, for example, only 54 percent of all projects in the mainly donor-funded Public Investment Program have ever been formally evaluated by the government. Valuable opportunities for host government officials to gain experience designing and evaluating projects are lost. More seriously, such practices erode a government's sense of "ownership" over projects and lessen the likelihood that it will develop a long-term financial commitment to a project. In Botswana, where high levels of aid effectiveness were found, the government insisted on integrating all aid within its own budgeting and planning. The government was willing to turn down aid resources if they did not fit with its development priorities. Most African governments do not feel they have this luxury.

The plethora of organizations involved in aid activities defies coordination by the government. In Tanzania's health sector alone, official donors are currently funding no fewer than 15 stand-alone projects outside of the Ministry of Health. Often, these independent structures are more efficient than the government at delivering short-term results; they may be cheaper, closer to the population, and less bureaucratic. But bypassing the central government leads to predictable results in the longer term: Projects are less likely to be sustained after the end of donor support; there is a haphazard and fragmented quality to policy implementation; and, starved of resources, government institutions suffer further declines in skills and capacity. NGOs can be extremely cost-effective service providers, but they cannot replace the central government across a wide array of public goods.

REFORMS TO IMPROVE AID EFFECTIVENESS

Several measures could help improve the capacities of government to manage their aid resources effectively.

First, donors should stop trying to bypass the central state. The widespread belief of both free-market economists and NGOs that government is the problem and not part of the solution has become self-fulfilling. In fact, far from undermining the private sector, a limited but effective state enables a vibrant civil society and strong business sector. It is the best means to foster both economic growth and poverty alleviation. Donors must devote greater attention and resources to help build the capacity of African governments to manage aid effectively, even as they encourage the central state to retrench from nonessential functions.

This entails greater support to the policy, planning, and evaluation departments of government, as well as to central budgeting activities. Perhaps more important, it entails a greater respect for the integrity of the national budgeting and investment planning processes of government during the aid cycle. With World Bank assistance, many countries are now developing rolling three-year public investment programs and sectoral investment strategies that greatly increase the coherence of government development efforts. Donors should ensure that aid activities are explicitly integrated into these processes so that the long-term recurrent expenditure implications of aid are formally planned for.

Second, donors should give preference to recipient governments that have demonstrated their commitment to improve aid management. Current efforts to promote performance-based allocation of aid should be continued and deepened. Donors should establish clear incentives to governments to improve their capacity to manage aid resources. In poorly performing countries, aid should be refocused onto the nongovernmental sector to meet basic needs and human capital investments.

In this context, donors must allow the government to play a larger role in the design, management, and evaluation of aid activities. Rather than "pushing" aid and seeking short-term results, donors should help governments formulate their own preferences and act upon them, even if this means lower aid levels in the short run. Encouraging state decentralization, privatization, and the growth of civil society are all appropriate and desirable, but donors should not view them as substitutes for central state institutions.

Third, the economic stabilization and adjustment efforts of the World Bank and the International Monetary Fund should be supported. Achieving macroeconomic stability is a prerequisite for the effective use of public resources, including aid. Progress on such issues as poverty reduction and child welfare will not be sustained in the absence of steady growth and healthy public finances. There is thus no alternative to the sometimes quite painful reforms advocated by the international financial institutions. At the same time, more attention should be devoted to enhancing state capacities in countries undergoing economic reform, to ensure that they are not eroded by fiscal crisis. Donors can and should begin to upgrade key parts of the recipient countries' civil service right away, most notably those involved in economic policy-making.

Fourth, donor coordination efforts should be refocused. Groups like the Development Assistance Committee (DAC), the Special Program for Africa (SPA), and the Global Coalition for Africa (GCA) are useful forums for donors to engage in dialogue with each other and to harmonize their policies and procedures. They should be reinforced. At the country level, however, the recipient government should take on the job of coordinating all aid activities, and forums directed by the donors need to be progressively downgraded.

Donors can, however, undertake a number of measures at the country level to facilitate government coordination efforts. For instance, donors should consider specialization in a few sectoral and sub-sectoral areas in which they have a comparative advantage. The resulting decrease in the number of donors present in any one area would facilitate governmental coordination and thus increase effectiveness. ❑

❑ TRADE PREFERENCE PROGRAMS

U.S. programs for developing countries and aid recipients

U.S. policy to encourage development has long included special incentives for developing countries to sell their goods in the U.S. market. These preference programs, based on eliminating or reducing import tariffs, have helped some developing country exporters establish a presence in the U.S. market. All the programs exclude certain items, most significantly apparel and footwear — a result of lobbying by domestic U.S. industries that produce these goods.

GENERALIZED SYSTEM OF PREFERENCES (GSP)

The United States and 19 other industrialized countries instituted the GSP tariff-exemption program on January 1, 1976, as a unilateral preference for developing countries. GSP has since been extended to Eastern Europe and the Newly Independent States of the former Soviet Union. At present, 149 countries and territories are eligible for GSP preferences, ranging from long-time beneficiaries in Latin America and Africa to Russia and the West Bank and Gaza.

The U.S. GSP program was renewed in August 1996 retroactively to cover imports since July 31, 1995, when the previous GSP law expired. The new law extends GSP through May 31, 1997.

GSP covers more than 4,450 products. The value of U.S. GSP duty-free imports in 1994 — the last full year of the program — was approximately $20,000 million.

The U.S. GSP program features an annual review in which items can be added or removed from the eligible products list. Limits — known as "competitive need" limits — can be placed on imports of a designated item under GSP if total shipments rise above a certain dollar level. The new GSP law sets the dollar limit for a given product entering the United States under GSP in 1996 at $75 million, rising to $80 million in 1997.

The new law allows certain exemptions from the limits for GSP imports from "least-developed countries."
The U.S. GSP program also has an annual process whereby petitioners can ask that a GSP beneficiary country be suspended from the program because of violations of accepted international practices for workers' rights or for failure to protect intellectual property rights.

As is common in tariff preference programs, a few larger countries provide most of the products imported under GSP. However, countries are "graduated" from the GSP program when they exceed certain per-capita income levels, or for other reasons, so the principal beneficiaries change. Singapore, Hong Kong, Taiwan, and South Korea were the biggest GSP beneficiaries until they were graduated in 1989. Mexico then became the biggest beneficiary until it was removed from the program in January 1994, when the North American Free Trade Agreement (NAFTA) went into effect. When the GSP program lapsed in July 1995, Malaysia was the biggest single beneficiary; it has been recommended that Malaysia be "graduated" in January 1997.

The new U.S. law reduces the standard for graduation, requiring the use of the World Bank definition of a "high-income" country. In 1994, the GSP graduation standard was a gross domestic product per capita of $11,000, while the World Bank "high income" definition was $8,600.

CARIBBEAN BASIN INITIATIVE (CBI)

The U.S. government launched the Caribbean Basin Initiative in 1982 to encourage expanded trade and more diversified investment in the smaller economies of the Caribbean and Central America. The so-called "centerpiece" of CBI was a U.S. tariff exemption/tariff reduction program that began on January 1, 1984.

The CBI tariff exemptions and reductions cover more products than GSP, are permanent, and are not subject to annual review or "competitive need" limits. The 24 CBI participants include all Central American countries, all island Caribbean countries (except Cuba, the Cayman Islands, and the Turks and Caicos Islands), and Guyana.

The beneficiaries cannot be graduated from the program because of increased per-capita incomes, although countries can be suspended for other reasons.

CBI initially excluded apparel. However, a special program grants CBI countries liberal import quotas for apparel produced from fabric made and cut in the United States. Apparel is the region's most rapidly growing export.

Total 1994 U.S. imports from the 24 CBI countries were valued at $11,200 million. Imports entering duty-free or at reduced duties under CBI tariff exemptions in 1994 totaled $2,018 million. The biggest single item entering tariff free under CBI in 1994 was footwear uppers — the upper part of a shoe — from the Dominican Republic, valued at $219 million.

CBI has helped diversify Caribbean economies by increasing investment in nontraditional export industries, thereby reducing dependence on traditional, price-volatile agricultural and raw material exports such as aluminum, bananas, coffee, petroleum, and sugar.

In 1984, more than half of the $8,649 million in imports from the 24 countries were from three oil-producing or oil-refining countries. Oil and other commodity prices sharply declined after 1984. The dollar value of U.S. imports from the Caribbean countries did not surpass the 1984 level until 1992. In that year, only 23 percent of the $9,425 million in imports came from the oil-producing countries. Costa Rica and the Dominican Republic emerged as the two biggest exporters to the United States, shipping about 26 percent of the total. This included apparel and other manufactures, as well as traditional products such as coffee and sugar. Apparel imports by 1994 accounted for 40.5 percent of U.S. imports from the CBI countries, compared with 5.5 percent in 1984.

CBI countries have expressed concern that they will lose investment to Mexico because of NAFTA's better tariff exemptions coupled with Mexico's lower transportation costs and greater production capacity. Legislation has been introduced in the U.S. Congress to give CBI countries duty parity with NAFTA.

ANDEAN TRADE PREFERENCE ACT

The Andean Trade Preference Act (ATPA), effective in December 1991, eliminates or reduces tariffs on designated U.S. imports from Bolivia, Colombia, Ecuador, and Peru. ATPA is intended to promote broad-based economic development in the Andean countries and thereby offer long-term economic alternatives to the cultivation of coca and production of cocaine.

ATPA includes more products than are covered by GSP, and it offers more liberal product-qualifying rules. There is no annual review of ATPA eligible items, and tariff concessions are authorized through December 2001.

In 1994, U.S. imports from the four countries totaled $5,879 million. Of this amount, about $648 million entered under the ATPA program.

Of the four countries, Colombia is the biggest trading partner with the United States. In 1994, it provided slightly over half of the total U.S. imports from the countries and 60.2 percent of the imports under ATPA.

The main product qualifying under ATPA was fresh cut flowers. About $300 million in fresh cut flowers entered the United States in 1994 under ATPA. About $250 million worth of the flowers were Colombian.

The second biggest item entering under ATPA is jewelry of precious metals, which amounted to $85 million in 1994. About 80 percent of this was from Bolivia.

Although the program is relatively new, the use of the ATPA preferences has surpassed the use of GSP preferences by the four countries. In 1994, U.S. imports from the four countries entering under GSP totaled $339 million. About $288 million of the countries' imports entering under ATPA would not have qualified under GSP largely because of the "competitive need" limits.

According to the U.S. International Trade Commission's annual report on ATPA, the "newness" of the program makes it difficult to determine if it has had the intended impact on coca and drug production.

U.S.-ISRAEL FREE TRADE AREA AGREEMENT

The U.S.-Israel Free Trade Agreement, the first such accord entered into by the United States, went into effect on September 1, 1985. Its provisions to phase out tariffs imposed on each others' imports were fully implemented on January 1, 1995. Certain other trade barriers remain and are the subject of consultations. Legislation in Congress would extend the U.S.-Israel FTA to areas now under the control of the Palestinian Authority. ❑

❑ U.S. FOREIGN ASSISTANCE

Foreign Aid Priorities in 1996

The current U.S. foreign aid program began in 1961 with passage of the Foreign Assistance Act, which established the U.S. Agency for International Development (USAID). From 1962 to 1994, the United States distributed a total of $244,496 million in economic assistance — both loans and grants, mostly to developing countries — for an enormous variety of programs.

The regions and programs that have been the focus of U.S. assistance have changed from decade to decade. Much aid was provided as a response to wars and regional crises. In some cases, aid became less necessary as recipient countries developed their economies.

Total appropriations for foreign assistance have declined in recent years for a number of reasons, most notably the end of the Cold War, concern about the effectiveness of aid, and the lack of a strong domestic constituency for many of the assistance programs. At present, there is significant sentiment in the U.S. Congress for reducing assistance, except for aid to the Middle East.

Congress resisted an effort in 1995 to drastically cut back aid funding. All agree, however, that the overall U.S. aid budget is not going to be increasing and that the aid provided will have to be used more effectively.

AID IN 1996

U.S. foreign assistance legislation appropriated $12,186 million for foreign economic and military assistance in fiscal year 1996, which ends September 31, 1996.

The economic assistance portion of this amount totaled $9,614 million, down from the $10,312 million in economic aid provided in 1995. Much of the decrease reflected reduced contributions to the International Development Association, a World Bank affiliate, and to United Nations agencies.

Of the 1996 economic assistance funds, $6,763 million was appropriated for programs administered by USAID. This total represented a slight increase over the 1995 fiscal year amount of $6,516 million. The 1996 total, however, included more than $200 million in new spending in Bosnia-Hercegovina. Aid to other parts of the world was reduced, except for the Middle East, where the assistance amount increased.

The United States contributed a total of $1,438 million to multilateral development banks and to United Nations agencies in 1996, a decline from previous years. The United States has been the largest single contributor to international financial institutions and was a founding member of the World Bank, the International Monetary Fund, and other regional multilateral development banks.

Most U.S. aid is bilateral, however. Among the major categories of U.S. bilateral aid are the following:

— Development assistance (DA): This is spending for specific projects or programs. A sampling would include programs for child survival, family planning, primary school education, reform of the public administration of local government, and improved agricultural yields. In 1996, $2,369 million was appropriated for development assistance.

— Economic Support Funds (ESF): ESF is generally direct cash transfers to the recipient government. The bulk of this is the annual ESF cash transfers to Israel of $1,200 million and to Egypt of $800 to $900 million. In 1996, $2,359 million was appropriated for ESF.

— Special Assistance Initiatives for Russia and the Newly Independent States: In 1996, $1,163 million was appropriated for this category.

— Food aid: The United States supports three food aid programs under Public Law 480. They are Title I, which provides concessional loans to developing countries to buy U.S. agricultural products; Title II, which transfers food supplies to countries in need; and Title III, which provides assistance to help improve the recipient nation's food production and distribution systems. In 1996, $262.9 million was appropriated for Title I, $821 million for Title II, and $50 million for Title III.

— Anti-narcotics programs: In 1996, $115 million was

appropriated for anti-narcotics programs.

— Peace Corps: In 1996, $218 million was appropriated for Peace Corps volunteer operations around the world.

An additional $817.5 million was appropriated for other programs that do not fit into any of the specific categories and that are not classified as region specific. The largest portion of this, $671 million, was for migration and refugee assistance. An appropriation of $88 million was for the loan subsidy and administration expenses of the Overseas Private Insurance Corporation (OPIC), which insures U.S. companies' investments in developing countries. There was also $70 million for peacekeeping operations, $50 million for emergency refugee and migration assistance, $50 million for the U.S. trade and development program, $20 million for nonproliferation and disarmament programs, and $20 million for the Inter-American Foundation.

Following is a summary of U.S. assistance on a region-by-region basis as appropriated for fiscal year 1996.

AFRICA

For Africa in 1996, a total of $1,074 million was appropriated. The largest amount, $629 million, was for development assistance. Another $339 million was appropriated for P.L. 480 Title II food assistance.

A total of 46 African countries received some form of U.S. aid in 1996. The biggest single recipient was South Africa, which was designated $122 million — nearly all development assistance.

The second largest recipient was Ethiopia, which received $109 million: $32.8 million in development assistance, $40.3 million in Title II food assistance, and $34.7 million in Title III agricultural development assistance.

The third largest recipient in 1996 was Rwanda. Nearly all of the $106.5 million it received was in P.L. 480 Title II commodities, mostly for feeding refugees and other persons displaced by the 1994 civil war.

The U.S. aid program for Africa includes initiatives to address regional problems and to facilitate cooperation among neighboring states. In 1994, the United States launched the Greater Horn of Africa Initiative, which covers 10 East African countries, as a regional effort to increase food security and to help prevent conflicts. A second regional undertaking is the Initiative for Southern Africa, which promotes the integration of the countries in southern Africa, concentrating on education, infrastructure development, and building democratic institutions.

ASIA AND THE MIDDLE EAST

This region includes Israel and Egypt, which received about 42 percent of all U.S. foreign aid — economic and military in 1996. Most of the $5,888 million appropriated for Asia and the Middle East in 1996 was spent in Israel, Egypt, Jordan, and the West Bank and Gaza. Israel and Egypt have long been the biggest recipients of U.S. aid, as part of the U.S. commitment to support the 1979 Camp David peace agreement.

In 1996, Israel received $1,800 million in military aid and $1,200 million in economic aid. Israel also receives other forms of U.S. aid, most notably loan guarantees. Under the loan guarantee program approved in 1992, the U.S. government can provide up to $2,000 million in loan guarantees a year from 1993 through 1997. The guarantees are intended to help Israel resettle and absorb immigrants from the former Soviet Union and other countries. Since 1993, a total of $7,286 million in guarantees have been authorized. The Israeli loans that the U.S. has guaranteed through this program have been allocated for a variety of purposes including expenditures on infrastructure, such as roads, highways, and bridges, and the Israel Electric Corporation.

Egypt received $1,301 million in military aid and $815 million in economic aid in 1996. Jordan in 1996 received $11 million in economic aid and $171 million in military aid, reflecting assistance resulting from its peace treaty with Israel. The West Bank and Gaza received $75 million in economic assistance, a program begun to support the Israeli-Palestinian peace process.

Other major recipients of aid in Asia and the Middle East in 1996 include India, which received $48.6 million in development assistance and $107.8 million in P.L. 480 Title II food assistance; Bangladesh, $41.5 million in development assistance and $32.5 million in P.L. 480 Title II; the Philippines, $47.5 million in development assistance and $4.7 million in Title II food aid; and Indonesia, $52.7 million, nearly all in development assistance. Twenty-nine other Asian and Middle Eastern countries received some U.S. assistance.

EUROPE/NEWLY INDEPENDENT STATES

About 85 percent of the $1,367 million appropriated for this region during 1996 was distributed through the Special Assistance Initiatives for the Newly Independent States.

In 1996, the $228 million allocated for Ukraine surpassed the $148.3 million appropriated for Russia. In previous years, Russia has been this region's largest aid recipient. In 1995, Russia received $260.7 million, while Ukraine received $165.8 million.

Bosnia received a special appropriation of $248 million, as part of the reconstruction efforts called for by the Dayton Peace Accords. Bosnia also received $49.8 million in P.L. 480 Title II assistance.

Armenia was the third-largest aid recipient of the Newly Independent States in 1996, receiving $86 million. Thirty other European and former Soviet states also received some U.S. assistance.

LATIN AMERICA AND THE CARIBBEAN

This region was appropriated $589 million in 1996. In 1996, development assistance accounted for $248 million, while ESF totaled $113 million and P.L. 480 Title II food assistance totaled $136.8 million. Funds earmarked for anti-narcotics assistance totaled $56.9 million, the largest amount for any region.

The largest aid recipient in 1996 was Haiti, reflecting the third year of an effort to support the restoration of democracy in that country. Haiti received $122 million in aid: $24 million in development assistance, $60 million in ESF, $27.4 million in P.L. 480 Title II, and $10 million in P.L. 480 Title III.

The second largest recipient of U.S. aid in the region in 1996 was Peru, which was appropriated $91.1 million. The largest amount of this, $52.4 million, was for P.L. 480 Title II assistance. Another $22 million was for development assistance, and $15.2 million was for anti-narcotics programs.

Bolivia was the third-largest Latin American recipient: $26.6 million in development assistance; $25.1 million in P.L. 480 Title II aid; and $15 million for anti-narcotics programs.

These three countries were also the largest recipients during 1995.

The fourth largest recipient in 1996 was El Salvador, which received $41.8 million. The majority of this was for development assistance, $22.1 million, and ESF, $16 million. El Salvador was the biggest aid recipient in Latin America during the 1980s, as the U.S. government provided military and economic assistance to help the government combat a Marxist insurgency.

Twenty-one other Latin American countries also received aid in 1996. ❑

❑ PRIVATE AND NONGOVERNMENTAL AID PROGRAMS

The role of nongovernmental organizations in foreign assistance

Nongovernmental organizations (NGOs) play an important role in promoting development. These groups can differ dramatically in size, scope, and influence. A few NGOs are fully funded by private donations; some depend almost entirely on government grants; most depend on a combination of public and private funding to carry out their work.

Following is a small sample of the hundreds of U.S.-based NGOs.

AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL (ACDI)
50 F Street, N.W., Suite 1100
Washington, D.C. 20001
Telephone: (202) 638-4661
Internet: http://www.ari.net/acdi

ACDI provides educational and management assistance to farmers worldwide through one-on-one training programs and workshops on a variety of farm-related issues. The organization is involved in projects in 38 countries in Africa, Asia, South America, Central and Eastern Europe, and the former Soviet Union.

AMERICAN RUSSIAN CENTER
Business Education Building, 203
3211 Providence Drive
Anchorage, Alaska 99508-8356
Telephone: (907) 786-4300
E-mail: ayarc@acad2.alaska.edu

The University of Alaska's American Russian Center works in the Russian Far East to promote small-business development through training and technical assistance. The center was established in 1993 with a U.S. Agency for International Development grant; its branch offices in Russia offer basic courses in small-business management.

CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE (CIPE)
1615 H Street, N.W.
Washington, D.C. 20062-2000
Telephone: (202) 463-5901
Internet: http://www.cipe.org

Sponsored by the U.S. Chamber of Commerce, CIPE works directly with foreign business organizations, think-tanks, and other business-oriented private sector organizations to help them function in a free enterprise system. CIPE's monthly magazine, "Economic Reform Today," is distributed through USIA to government policy-makers around the world.

CIPE recently embarked on a two-year, $1.7 million program of training and grants to help the Russian Federation Chamber of Commerce and Industry (RCCI), support the transition to market-based democracy.

HARVARD INSTITUTE FOR INTERNATIONAL DEVELOPMENT (HIID)
One Eliot Street
Cambridge, Massachusetts 02138
Telephone: (617) 495-2161
Internet: http://www.hiid.harvard.edu/

HIID was founded in 1974 to help developing countries achieve sustainable growth, promote public welfare, and participate in the emerging global economy. It operates in more than 30 countries in Asia, Africa, Eastern and Central Europe, and Latin America and has 60 resident advisers in the field. Each year, HIID fields nearly 200 consultants to work with these resident advisers and local decision-makers on specific problems.

SOROS FOUNDATIONS/OPEN SOCIETY INSTITUTE - NEW YORK
888 7th Avenue
New York, New York 10106
Telephone: (212) 974-0367
Internet: http://www.soros.org/found.html

Famed investor George Soros has established a network of independent nonprofit foundations in 25 Central and Eastern European countries, South Africa, and Haiti, designed to help build the infrastructure and institutions of an open society. The foundations employ more than 1,000 people and spend more than $300 million annually. Soros is also the founder of the Central European University in Budapest and Warsaw. ❑

KEY CONTACTS AND INTERNET SITES

KEY CONTACTS

U.S. Agency for International Development
320 21st Street, N.W.
Washington, D.C. 20523
Telephone: (202) 647-4274

Office of the U.S. Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508
Telephone: (202) 395-3230

U.S. Department of Commerce
International Trade Administration
14th and Constitution Avenue, N.W.
Washington, D.C. 20230
Telephone: (202) 482-3809

U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436
Telephone: (202) 205-1806

The World Bank
1818 H Street, N.W.
Washington, D.C. 20433
Telephone: (202) 477-1234

Overseas Development Council
1875 Connecticut Ave., NW
Suite 1012
Washington, D.C. 20009
Telephone: (202) 234-8701

Middle East/North Africa
Economic Summit
c/o Gregory Blatt
World Economic Forum
53 Chemin des Hauts-Crets
ch-1223 Cologny
Geneva, Switzerland
Telephone: 41-22-736-02-43
Fax: 41-22-786-27-44

KEY INTERNET SITES

U.S. Agency for International Development:
http://www.info.usaid.gov

U.S. Trade Representative: http://www.ustr.gov

International Trade Administration:
http://www.ita.doc.gov

U.S. International Trade Commission:
http://www.usitc.gov

World Bank (links to bank affiliates):
http://www.worldbank.org

Inter-American Development Bank:
http://www.iadb.org

Asian Development Bank: http://www.asiandevbank.org

International Monetary Fund: gopher://gopher.imf.org

United Nations Development Fund
(links to other UN economic agencies):
http://www.undp.org

Organization for Economic Cooperation and Development, Development Cooperation Information:
http://www.oecd.org/dev/

Overseas Development Council: http://www.odc.org

Virtual Library on International Development:
http://www.synapse.net/~acdi03/indexg/welcome.htm

Middle East/North Africia Economic Summit:
http://www.ita.doc.gov/mena/econof.html

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U.S. International Trade Commission. "Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution." Second Annual Report. Washington, D.C. : USITC, September 1995.

The World Bank. "From Plan to Market." World Development Report 1996. Washington, D.C.: The World Bank, 1996. ❑

ECONOMIC TRENDS

Indications are the U.S. economy is slowing down in the middle of 1996, but the outlook remains good for sustained moderate growth.

Inflation-adjusted gross domestic product (real GDP) increased at a 4.2 percent annual rate in the second quarter, but early indicators for July reflect a retreat from that fast pace.

Industrial production crept up just 0.1 percent in July, the smallest gain in five months. Factory output rose 0.3 percent in July, half the rate of increase in June. Utility output fell, reflecting cooler-than-normal summer temperatures in the East.

Retail sales in June and July slowed down considerably from April and May.

The unemployment rate rose to 5.4 percent in July from June's nearly 30-year low of 5.3 percent. July's jobs gain, 193,000, fell far below the 237,000 average monthly gain in the first six months of 1996.

The Federal Reserve's survey of U.S. economic activity, called the beige book, also suggested a slowdown. "The economy continued to expand in June and July though in some areas the pace of growth has moderated," the report said.

"The economy has slowed down from the 4.2 percent pace we saw in the second quarter," Lewis Alexander, U.S. Commerce Department chief economist, said in an August 14 interview with USIA.

Along with a rebound in federal government spending after winter's partial shutdown, consumer spending played the biggest part in the second-quarter rise in GDP. Indexes of consumer sentiment and expectations for the months ahead both went up sharply in July.

"I see no reason why the consumer won't keep going," Alexander said, "and if the consumer keeps on going, we're going to continue to get moderate growth."

Higher interest rates have contributed to the slowdown, especially in interest-sensitive housing sales and retail sales of durable goods like major appliances. Factory orders for durables dropped 0.8 percent in June.

Alexander foresees little change from a pattern of moderate inflation any time soon.

Except for food, commodity prices changed little in recent months; prices for goods at the crude and intermediate stage of production are down from the same period a year earlier.

The consumer price index went up 0.3 percent in July, somewhat higher than in recent months. Alexander attributed the rise to housing prices, which reflect higher interest rates. "But given slower sales, I see no reason to expect an inflation push from housing," he said.

One possible source of inflation remains labor costs. Wages and salaries went up 1 percent in the first quarter of 1996 and up 0.9 percent in the second after rising only 0.7 percent in each of the five preceding quarters.

Labor costs per unit of output went up 3.8 percent in the second quarter after rising only 1.5 percent in the first, according to a preliminary U.S. Department of Labor report. The report also said that non-farm business productivity slipped 0.1 percent in the second quarter. ❑

CONGRESSIONAL CURRENTS

Key Economic Legislation
(as of August 19, 1996)

1997 FOREIGN AID APPROPRIATIONS

BILL NUMBER.......... H.R.3540 (Rep. Callahan)
BACKGROUND......... The House and Senate have passed different versions of the 1996-97 foreign aid bill. Both chambers voted to cut President Clinton's $12,900 million budget request — the House by about $1,000 million and the Senate by $700 million. Both bills maintain high aid levels for Israel and Egypt.
HOUSE ACTION........ Passed $11,900 million bill on June 11.
SENATE ACTION .... Passed $12,200 million bill on July 26.
STATUS/OUTLOOK ..... A House/Senate conference committee will meet in September to fashion a compromise. Differences remain on House-passed restrictions on family planning organizations, funding for the International Development Association, and creation of a new Middle East Development Bank.

IRAN/LIBYA SANCTIONS

BILL NUMBER.......... H.R.3107 (Rep. Gilman)
DESCRIPTION.......... Imposes sanctions against foreign firms that help develop the oil industries of Iran and Libya, including mandatory sanctions for entities that invest at least $40 million in the petroleum industries of either country. Possible sanctions include denial of U.S. Export-Import Bank assistance and a ban on imports from the violating company.
HOUSE ACTION........ Passed bill on July 23.
SENATE ACTION .... Passed bill on July 16.
STATUS/OUTLOOK ..... President Clinton signed bill into law on August 5.

GENERALIZED SYSTEM OF PREFERENCES (GSP)/MINIMUM WAGE

BILL NUMBER.......... H.R.3448 (Rep. Archer)
DESCRIPTION.......... Renews the GSP program, allowing duty-free entry for some imports from designated developing countries. The program expired July 31, 1995. Previous renewal efforts faltered, so supporters amended the U.S. minimum wage bill to include reauthorization of GSP benefits retroactively to July 31, 1995, and through May 31, 1997.
HOUSE ACTION........ Passed minimum wage bill (with GSP amendment) on August 2.
SENATE ACTION .... Passed measure on August 2.
STATUS/OUTLOOK ..... President Clinton signed bill into law on August 20.

EXPORT ADMINISTRATION ACT OF 1996

BILL NUMBER.......... H.R.361 (Rep. Roth)
DESCRIPTION.......... Would update and streamline the process of licensing "dual-use" exports that have both civilian and military applications. Would impose economic sanctions against companies and countries that contribute to the proliferation of weapons of mass destruction.
HOUSE ACTION........ Passed bill on July 16 and sent it to the Senate.
SENATE ACTION .... Measure referred to Finance Subcommittee on International Trade.
STATUS/OUTLOOK ..... Supporters say updating America's 17-year-old export control law is a top priority, but acknowledge that the fall election campaign may delay action.

U.S. TRADE WITH CAMBODIA

BILL NUMBER.......... H.R.1642 (Rep. Crane)
DESCRIPTION.......... Would extend permanent most-favored-nation (MFN) trading status to Cambodia.
HOUSE ACTION........ Passed bill on July 11, 1995 and sent it to the Senate.
SENATE ACTION .... Senate Finance Committee amended bill to include language expressing concern over political repression, environmental degradation, and drug trafficking in Cambodia. Bill was passed by the full Senate and returned to the House on July 25, 1996.
STATUS/OUTLOOK ..... Senate amendments require House approval before the bill can be signed into law.

U.S. TRADE WITH BULGARIA/ROMANIA

BILL NUMBERS......... H.R.2853 (Rep. Crane) H.R.3161 (Rep. Crane)
SUMMARY .... Bills extending permanent most-favored-nation (MFN) trading status to Bulgaria (H.R. 2853) and Romania (H.R. 3161) were passed by both houses of Congress and signed into law by President Clinton. The Bulgaria measure was signed July 18; the Romania bill on August 3. ❑

CALENDAR OF ECONOMIC EVENTS

Sep 3-4 . . . . . Free Trade Area of the Americas (FTAA) Working Group on Investment; San Jose, Costa Rica

Sep 3-13 . . . . Ninth Intergovernmental Negotiating Committee on the Convention to Combat Desertification; New York, New York

Sep 9-12 . . . . World Trade Organization (WTO) Basic Telecom Negotiations; Geneva, Switzerland

Sep 9-20 . . . . Organization for Economic Cooperation and Development (OECD): Multilateral Agreement on Investment Negotiations; Paris, France

Sep 16-17 . . . Asia Pacific Economic Cooperation (APEC) Experts Meeting on Food; Manila, Philippines

Sep 17-20 . . . OECD Working Party on Telecommunication and Information Services Policy (TISP) and Committee for Information, Computer and Communications Policy (ICCP) Meetings; Paris

Sep 20-Oct 5 . UN Food and Agriculture Organization (FAO) Committee on World Food Security 22nd Meeting; Rome, Italy

Sep 23-27 . . . Paris Club negotiations of creditor governments; Paris

Sep 23-Oct 2 . World Intellectual Property Organization: Governing Bodies; Geneva

Sep 25-27 . . . Fifth Annual World Economic Development Congress; Washington, D.C.

Sep 29 . . . . . International Monetary Fund (IMF) Interim Committee Meeting; Washington

Sep 30 . . . . . . International Bank for Reconstruction and Development (World Bank)/IMF Development Committee Meeting; Washington

Oct 1-3 . . . . . IMF/World Bank Annual Meetings; Washington

Oct 12-20 . . . APEC Senior Officials and Subcommittee Meetings; Manila

Oct 14-18 . . . WTO Basic Telecom Negotiations; Geneva

Oct 17-18 . . . Fordham Corporate Law Institute's Twenty-Third Annual Conference on International Antitrust Law & Policy, Fordham University School of Law; New York

Oct 21-25 . . . Paris Club Negotiations; Paris

Nov 5-11. . . . APEC Sixth Asia-Pacific International Trade Fair; Manila

Nov 6-8. . . . . OECD Working Group on Bribery; Paris

Nov 11-15. . . WTO Basic Telecom Negotiations; Geneva

Nov 12-14. . . Middle East/North Africa Economic Summit; Cairo, Egypt

Nov 13-17. . . World Food Summit; Rome

Nov 18-22. . . Paris Club Negotiations; Paris

Nov 20-21. . . FTAA Working Group on Investment; San Jose

Nov 20-23. . . APEC Informal Senior Officials Meeting; Manila

Nov 22-23. . . APEC Ministerial Meeting; Manila

Nov 25 . . . . . APEC Leaders Meeting; Manila

Dec 2-20 . . . . World Intellectual Property Organization, Diplomatic Conference; Geneva

Dec 6-8 . . . . . Summit of the Americas Follow-up Sustainable Development Summit; Santa Cruz de la Sierra, Bolivia

Dec 9-13 . . . . WTO Ministerial; Singapore

Dec 11-15 . . . United Nations Trade and Development Board, Special Session; Geneva

Dec 16-20 . . . Paris Club Negotiations; Paris ❑

WHAT'S NEW IN ECONOMICS: ARTICLE ALERT

Knight, Virginia Curtin. ZIMBABWE'S RELUCTANT TRANSFORMATION (Current History, vol. 95, no. 601, May 1996, pp. 222-227)

The government of Zimbabwe, dominated by a single president for its 16 years of independence, is now spending nearly 50 percent of its budget on debt payments, while domestic manufacturing declines and international lenders show no interest. Massive government spending, financed through borrowing, raised interest rates and crowded out private business, with a resultant loss of jobs. Knight places major blame on preservation of the import license system left over from colonial days.

Bechtel, Stephen D., Jr. REFLECTIONS ON SUCCESS (Daedalus, vol. 125, no. 2, Spring 1996, pp. 147-166)

This entire issue is devoted to essays by leading U.S. executives on how firms can compete in international markets. The author of this essay, who inherited a thriving multinational engineering and construction firm, describes how new technology and other factors have affected his business over the years. He offers advice on how to balance individual responsibility and managerial authority. He distinguishes between the government's role in creating the conditions for market activity, and the private sector's role of creating wealth.

Belt, Bradley D. FROM THE INDUSTRIAL AGE TO THE INFORMATION AGE: RETHINKING THE REGULATION OF SECURITIES MARKETS (The Washington Quarterly, vol. 19, no. 3, Summer 1996, pp. 107-126)

U.S. securities regulations have been overwhelmed by today's securities markets due to vast increases in the number of shareholders and trading volume, the internationalization of markets, and a 24-hour trading day with instantaneous worldwide communications, says Belt. New financial products no longer fit within the older definition of "securities." The growing use of the Internet also confronts an underfunded U.S. Securities Exchange Commission with questions of how to apply regulations in cyberspace and how to exercise authority in a global marketplace.

Jaakson, Reiner. TOURISM IN TRANSITION IN POST-SOVIET ESTONIA, (Annals of Tourism Research, vol. 23, no. 3, 1996, pp. 617-634)

Democratization and privatization have both liberalized and stymied Estonian tourism. Questions about the restitution of property have created uncertainties over ownership that have slowed land development. Nonetheless, tourism is increasing. The Hanseatic Old Town of Tallinn is the principal attraction. Finns, accounting for 80 percent of the visitors, are drawn by favorable exchange rates. Jaakson says Estonia's tourism industry should depend less on one-day ferry visits and encourage the development of new sites — such as on the Baltic islands — by means of tax incentives.

Dyer, Jeffrey H. HOW CHRYSLER CREATED AN AMERICAN KEIRETSU (Harvard Business Review, July-August 1996, pp. 42-56)

Many U.S. firms have adopted part of the Japanese model of manufacturer-supplier relations by instituting "just-in-time" provision of parts. U.S. firms, however, avoid Japanese-style "keiretsu" partnerships with suppliers, preferring to continue with contractual ties based on competitive bids. Chrysler has created its own form of manufacturer-supplier cooperation that is not quite a keiretsu, but which assures an efficient supply of parts, has shortened the product development cycle, and reduced the cost-per-vehicle. Dyer believes other firms can learn from what Chrysler has done.

Cour, Jean-Mair; Naudet, David. WEST AFRICA IN 2020 (OECD Observer, No. 200, June/July 1996, pp. 20-21, 24-26)

Western systems for data collection miss the vibrancy of the real African economy, painting a bleak but inaccurate picture of the continent. The authors, contributors to the OECD's soon-to-be-released West Africa Long-Term Perspective Study, argue for new criteria for judging Africa. These criteria would include measures of population density, urbanization, and the rise of competition. ❑