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**Needed:
A Twenty-First Century Vision
for Economic Assistance**

G. William Anderson, FSO
Agency for International Development

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NEEDED -- A TWENTY-FIRST CENTURY VISION FOR ECONOMIC ASSISTANCE

G. William Anderson

ABSTRACT

U.S. economic assistance programs lack a viable strategic vision that addresses U.S. interests, projects American values, and addresses global problems that we will be dealing with in the twenty-first century.

Unless we develop a new strategic vision,

- o we will make little or no progress in fashioning a more successful economic assistance program;
- o the remaining public and Congressional support for economic aid will continue to erode; and
- o we may soon lose much of the existing funding levels.

Without a credible strategic vision for economic assistance, the President may soon find himself without a principal instrument for developing partnerships with the developing and transitional economies -- whose stability and prosperity is proving increasingly more important to us as we enter the twenty-first century.

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INTRODUCTION

When Alice asked, "Would you tell me, please, which way I ought to go from here?" the Cheshire cat replied, "that depends a good deal on where you want to get to."¹

In a time of domestic economic uncertainty and stunning international change, the United States' foreign economic assistance programs are threatened because they lack direction. We do not know "where we want to get to" with economic aid. We don't have a clear and convincing answer to the question of why -- with the end of the Cold War -- we should still provide economic aid to poor countries and nations like Russia engaged in difficult transitions.

The main purpose of this paper is to propose a new strategic vision for all U.S. economic assistance programs that will be relevant for U.S. interests in the twenty-first century.

This paper discusses the need for a new vision for economic aid; the criteria this new vision must satisfy; and its strategic goals. It ends with a plan by which the Executive Branch can reach a political agreement with Congress and the major interest groups concerned with economic aid. The paper does not discuss how A.I.D. or other aid agencies should be restructured or the specifics of redirecting aid programs. These are important issues. But until our aims are clear and agreed on, our aid institutions and mechanisms have no long-term viability.

II. WHAT'S AT STAKE

After forty-five years of post-World War II U.S. economic assistance, survival of these aid programs is seriously threatened. Support is declining because of years of weak Executive Branch leadership, muddled aims, and growing public criticism. Most of all, support has declined because of economic aid's apparent lack of relevance to the world the U.S. will face in the twenty-first century. Since the end of the Cold War, no one has yet formulated a convincing answer to the question of why U.S. economic assistance to other countries is still important to U.S. interests and values. Under the pressure of pending domestic spending cuts and tax increases, overall funding levels for bilateral and multilateral aid programs will likely drop substantially -- unless someone answers the fundamental question.

Why Economic Assistance?

If the Congress cuts much of the resources now devoted to economic assistance, the President will lose a valuable foreign policy tool for addressing U.S. interests in the developing world and in the so-called "transitional economies" -- Eastern Europe and the former Soviet Union. Year by year, these countries grow more important to U.S. interests.

A post-Cold War foreign policy framework. Most foreign policy analysts agree on the principal strategic goals that should now guide U.S. foreign policy:²

- o **Military Security.** Ensuring the security of the United States and resolving regional conflicts;

- o **Economic growth.** Revitalizing the U.S. economy, increasing U.S. competitiveness, and seeking an open and growing world economy; and
- o **Democracy.** Promoting democracy, political reform, and human rights around the world.

In their confirmation hearings in January 1993, Secretary of State Warren Christopher and Deputy Secretary Clifton Wharton proposed these same themes as "consistent principles . . . that should guide foreign policy" in the post-Cold War era.³

In most discussions of America's emerging posture in the world, three other goals are repeatedly mentioned. First is the need to revitalize America's domestic economy. Second, that the U.S. should take the lead with Europe and Japan in modernizing multilateral institutions for the twenty-first century. Third, that American must maintain strong alliances with key allies and lead through both collective and selective engagement.⁴

Importance of the developing world and transitional economies. Economic assistance continues is one of the principal foreign policy tools for addressing U.S. interests in the developing world and the transitional economies of Eastern Europe and the former Soviet Union. The developing world and the transitional economies are important to U.S. interests because their ability to maintain stable economies and political systems and to provide basic needs for their people will determine much of the tenor of international relations in the next century. For the U.S., political stability and broad-based economic growth in these countries will stimulate U.S. exports; encourage democratic

institutions; and breed fewer transnational hazards -- such as terrorism, environmental destruction, and nuclear proliferation.

The world's most dynamic markets are in East and Southeast Asia. With a continuing growth rate of nine percent, China is the world's fastest growing economy and will be the world's largest economy by the year 2010.⁵ Developing countries now account for 35% of all U.S. exports and are our fastest growing markets.⁶

Most developing and transitional economies face daunting challenges. Because of more rapid population growth, four-fifths of the world's population will live in the developing world by the end of the 1990s.⁷ Because of deforestation and soil erosion, this population growth is destroying the agricultural productive potential of large areas in Latin America, Asia and Sub-Saharan Africa, thus impoverishing hundreds of millions people already poor. Many -- especially in Africa but also in Haiti and India -- have become environmental refugees, increasing the numbers of those who are already economic and political refugees.⁸

Developing countries and the transitional economies also face ethnic and religious conflict, massive migration, and pandemics like AIDS. This is causing the institutional and economic infrastructure of states like Somalia, Yugoslavia, Sudan, and Zaire to fail.⁹ Other poor nations with high levels of AIDS infection may lose the majority of their urban productive populations in future decades.¹⁰

Proliferation of nuclear and other weapons of mass destruction is likely to continue, particularly in the developing world. Such weapons could exacerbate in future regional conflicts. The transition of the 20-odd countries of the former Soviet Union and Eastern Europe to pluralistic economic and political systems will endure ups and downs and may be punctuated by regional and ethnic conflicts, as in the Caucasus and the Balkans.

From a range of security, economic, environmental, and human rights perspectives, therefore, the United States has a great interest in the equitable, sustainable, and market-oriented development of these countries. Economic assistance remains one of the most significant instruments we have to assist in this development.

Effectiveness of past economic assistance. The other principal reason for continuing economic aid lies in its substantial contributions to U.S. national security, development, and humanitarian objectives over the post-World War II period. In spite of recent media criticism, economic aid has had major successes when it has benefited from clear objectives and strong leadership. This was true with the Marshall Plan and with aid to Korea and Taiwan. In these cases, national security objectives were paramount, and Korea and Taiwan graduated from aid in the 1960s. U.S. and multilateral development assistance to improve education, child survival, and to reduce fertility has also enjoyed substantial successes. Increased agricultural yields

from high-yielding rice, corn, and wheat varieties in Asia and Latin America were sustained by the national and international agricultural research institutions established with substantial U.S. aid funding.¹¹

At other times, conflicting political and economic objectives -- as in the Vietnam War or in the Middle East -- have demanded too much from modest aid programs. Economic aid has also found itself at "cross-purposes" with trade, debt, and other U.S. international economic policies. Over time, innumerable layers of special country and program earmarks (or funding limitations) have combined with constantly increasing accountability and legal requirements.¹² Agencies like A.I.D. have become less and less able to function effectively. Their weaknesses lead to increased criticism. The Executive Branch and Congress then cut staff and increase restrictions. This leads to even less effective performance, and the cycle continues.

Need for a New Strategic Vision

To maintain a significant economic assistance program, we must reverse the trend of declining political and public support. To do so, we must formulate a new strategic vision for economic aid that links economic assistance to fundamental U.S. interests and values. Such a vision can attract bi-partisan support from Congress and the American people.

Congressional leaders, such as Senator Patrick Leahy, Chairman of the Senate foreign aid appropriations subcommittee,

and Administration policy makers agree. Senator Leahy has urged a "top to bottom reexamination of our entire foreign aid program."¹³ In his confirmation hearing, Deputy Secretary of State Clifton Wharton agreed that we first need to "come to some preliminary closure on what we believe should be the true goals and objectives of A.I.D. in the current world context."¹⁴

A new aid vision is essential because only a coherent and rigorous strategic vision will clearly connect economic aid to U.S. national interests and foreign policy objectives. With a clear strategic objectives, we can define more concretely what we want to achieve through aid programs (and conversely, what we will not achieve). A clear vision gives us a sound basis for coordinating aid programs with other aspects of international economic policy as well as with other donors, especially Europe and Japan.¹⁵ Finally, a new vision with Congressional backing will enable the Administration (1) to build support for economic aid in the American public and (2) to communicate that vision clearly to the developing world and to other aid donors.

III. THE CURRENT RANGE OF ECONOMIC AID PROGRAMS

To succeed, a new vision for economic assistance must cover the full range of economic assistance and related programs. Congress appropriates funds for at least 16 different agencies and separate programs. Of the \$12.3 billion appropriated for economic assistance and cooperation for FY 1993, A.I.D. manages \$6.6 billion or about fifty-five percent. Of the \$6.6 billion

appropriated for A.I.D., over half is aid provided for political or strategic reasons. The State Department controls the allocation of these funds, when they are not earmarked for particular countries by the Congress.¹⁶

Table 2 displays the FY 1993 funding breakdown of these programs by major category. In addition to A.I.D., the major agencies involved in managing the \$12.3 billion in economic aid are the Departments of State, Treasury, and Agriculture. State has direct responsibility for \$830 million in bilateral narcotics, migration and refugee, and anti-terrorism funds and oversees \$310 million in voluntary contributions to UN specialized organizations like UNICEF. Treasury oversees U.S. participation in the multilateral development banks (the World Bank and regional banks). Agriculture manages a substantial part of food aid. For export and trade promotion programs, the principal agencies are the Export-Import Bank, the Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA).

Table 2 -- FY 1993 U.S. Foreign Economic Assistance by Major Program (in billions of 1993 dollars)	
Development assistance	\$3.1
Economic Support Fund and similar programs	\$3.5
Other bilateral economic assistance	\$1.1
Food aid ¹⁷	\$1.9
Export and trade promotion ¹⁸	\$.8
Multilateral assistance	\$1.9
TOTAL	\$12.3

IV. A NEW STRATEGIC VISION FOR ECONOMIC ASSISTANCE

In recent years, think tanks, Congressional committees, and interest groups have made a number of proposals for restructuring economic assistance. Most are not politically viable. This section discusses recent aid reform proposals, necessary criteria for a valid rationale, and the content of a new strategic vision for economic assistance.

Recent Proposals for Restructuring Economic Assistance

Recent proposals for overhauling economic assistance range from a single clear objective to many strategic goals. Table 3 in Annex A summarizes the main points of the most prominent of these proposals.¹⁹

If we limit economic assistance strategy to a single broad objective -- such as broad-based and environmentally sustainable growth -- American aid can address only part of our interests in the developing world. In East and Southeast Asia, where economic growth is quite rapid, our trade and investment objectives may be relatively more important than our development objectives. In the Middle East and South Asia, we may use economic aid to prevent future regional conflicts. In assisting the transitional economies of Eastern Europe and the former Soviet Union, we are employing our aid to maintain a stable and secure Europe.

On the other hand, an economic assistance program with 33 objectives and limited resources (as at present) can have little

credibility.²⁰ Such a program promises too much and delivers too little.

Criteria for a Viable Strategic Vision

A viable, twenty-first century strategic vision for economic assistance must meet four stringent criteria. It must:

1) **Support national economic and security strategy and project fundamental American values.** International affairs analyst Terry L. Deibel writes that "Strategists are realists when necessary, idealists when possible."²¹ To be acceptable to the range of constituencies involved, U.S. economic aid must connect to immediate and basic U.S. interests, such as jobs, competitiveness, and security. In addition, aid programs must tap American idealism and improve the lives of poorer populations by helping expand freedom, protect human rights, and alleviate poverty.

(2) **Cover all U.S-funded bilateral and multilateral economic assistance programs.** A broader vision for aid will widen the current debate beyond a single agency like A.I.D. or its successor to focus all of our aid programs on key objectives.

(3) **Focus on a minimum set of strategic objectives.** With more limited resources, we must be more modest in the range of objectives we choose and in the level of achievement we promise. This may mean fewer countries with significant programs. It also means combining the economic assistance with other aspects of

foreign economic policy -- such as trade, investment, and debt -- for a consistent effect.

(4) Provide flexibility to respond to global forces sweeping us into the twenty-first century. In a world of constant surprises, we need the ability to respond to disasters, new pandemics like AIDS, and surging ethnic and religious conflict with an array of instruments, including economic assistance.

A new strategic vision that meets these criteria can secure bi-partisan Congressional support and make sense to the American people. Developing public support will require a vigorous media and public education campaign by all major stakeholders.

A Viable Strategic Vision for Economic Assistance and Cooperation

To meet the criteria discussed above, U.S. economic assistance programs should focus on four strategic objectives:

- o **Seeking sustainable growth:** To accelerate market-oriented, broad-based, and environmentally sustainable economic growth within open political systems;
- o **Strengthening U.S. competitiveness:** To increase U.S. exports and employment by supporting more aggressive U.S. business involvement in dynamic emerging markets for mutual benefit;
- o **Supporting regional security and democratic transitions:** To help prevent or resolve regional conflicts and assist the progress of new states and transitional economies (in Eastern Europe and the former Soviet Union) toward market economies and democratic political systems; and
- o **Confronting global issues and trends:** To address global forces leading us into the twenty-first century -- such as environmental threats; population growth and pandemics like AIDS; increased migration and refugee movements; famine and other humanitarian crises; ethnic and religious conflicts; and the breakdown of fragile

states (such as Somalia, Yugoslavia, Liberia, and Haiti).

What about democracy? Given the new Administration's emphasis in its foreign policy on promoting democracy, some would ask whether there is sufficient emphasis in this formulation on democratization?

Clearly, democratization will be a major focus of U.S. foreign policy. A main role of economic assistance is to support U.S. foreign policy objectives. That being said, aid resources are limited, and they should be focused on as few objectives as possible. Unless we eliminate one of the four strategic goals above, adding a separate goal of promoting democracy means increasing the number of strategic goals to five.

Development policy by a number of aid donors, including A.I.D., has focused more and more on the importance of "democratic governance" for market-oriented and equitable growth. Both in setting overall aid levels and in choosing quick-disbursing balance of payments aid over longer-term project assistance, donors can require satisfactory progress toward democratic governance and economic liberalization. Donors have recently done this in Kenya, which then moved to multi-party elections. More specifically, aid donors are also focusing on improving "transparency" and accountability in budget decisions, banking, tax administration, and access to basic services. Moreover, development assistance can support decentralization,

local revenue generation and institution-building, and the growth of grassroots associations of all kinds.

With regard to democratization, we should focus economic assistance on the policies and institutions essential for democratic governance and therefore essential for the more equitable and efficient use of scarce resources. This will promote broad-based growth and meet many of the necessary conditions for open political systems.

Seeking Sustainable growth

The most important strategic goal of U.S. economic assistance is seeking market-oriented, broad-based, and sustainable economic growth in open political systems. This is the heart of what our development assistance programs have been trying to do in poorer countries for forty-five years.

Development theory and practice have agreed on the need for a sound macro-economic framework, private sector growth in urban and rural areas, and major investments in basic social services (health, education, and family planning). These investments in people and in rural development are necessary for growth to benefit poorer population groups. Their increasing incomes and consumption will accelerate the rural-urban linkages that sustain and accelerate broad-based growth.

In addition to investments in people, a stable macro-economy, and private investment, sustainable development also means investments in rural infrastructure -- such as rural

roads, small-scale irrigation, clean water supplies, and rural telecommunications. These contribute to increased productivity and incomes. Finally, seeking sustainable development means protecting and rehabilitating the natural resource base through environmental assessments (and redesign) of infrastructure projects, reforestation and agro-forestry, and grassroots activities to protect endangered national forests, parks and species.

Relationship to other strategic goals. Efforts to establish sustainable growth complement other objectives. Sustained growth creates a favorable climate for U.S. investments and expands markets for exports.²² In conflict-prone regions, equitable growth is necessary for permanent peace. Reforestation and protection of endangered park areas contribute to halting environmental destruction. This could help prevent humanitarian crises, such as in Somalia and Haiti.

Role of other foreign policy instruments. Establishing sustainable development requires complementary action, such as debt reduction, private investment, and favorable trade policies. Fast-growing Asian economies, such as Thailand and Indonesia, benefit more from increased flows of investment, debt relief, and advanced technology transfers than from continued aid flows.²³

Current aid resources and programs aimed at sustainable development. Existing U.S. programs aimed at sustainable growth include the \$5-6 billion in annual bilateral and multilateral development assistance and food aid provided through A.I.D., the

World Bank, and United Nations specialized organizations. These efforts should continue but focus on fewer development problems and on building the capacity of grassroots private sector and nongovernmental organizations.

U.S. Constituencies: Constituencies focused on some aspects of sustainable development include the largely church-based coalition of development organizations (such as Bread for the World) and other humanitarian relief groups, landgrant universities, much of the environmental coalition, and much of the Congressional foreign affairs establishment. Many of these groups emphasize poverty alleviation or environmental protection over economic growth. With a coalition of sixty private development and environmental organizations, Bread for the World is currently undertaking a campaign, entitled Many Neighbors - One Earth, aimed at making the leading purpose in aid that of "reducing poverty and hunger in environmentally sound ways."²⁴

Strengthening U.S. Competitiveness

The second strategic goal for revitalized economic aid focuses on U.S. economic interests. Aid should increase exports and create jobs by supporting more aggressive U.S. business involvement in dynamic, emerging markets and in their high technology sectors such as telecommunications and power. Increased trade and investment in Asia and Latin America will lead to increased U.S. exports not only of construction and engineering services and capital equipment but also of

sophisticated technology and services in telecommunications, data processing, banking, and insurance.²⁵ In the new field of independent power projects, private financing with international consortia are funding multi-billion dollar power facilities in Pakistan, China, the Philippines, and elsewhere.²⁶

To participate aggressively in this growth, U.S. business and financial institutions need increased political and commercial risk insurance, investment and loan guarantees, equity participation and assistance in operating in regions where they have not operated before. U.S. corporations and investors also need early access to new projects as technical, financial, and legal feasibility specifications are being developed. This may mean expanding the activity of the Export-Import Bank, the Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA). These trade promotion programs must also build more creative partnerships with U.S. corporations and financial institutions, especially investment bankers and venture capitalists, so that the U.S. competes more effectively with Asian and European bankers and businesses.²⁷

Relationship to other strategic aid objectives. More involvement of U.S. business through trade and investment can strengthen indigenous private sectors and lead to more rapid and sustainable growth. In the transitional economies of Eastern Europe and the former Soviet Union, U.S. investment is important for these countries' successful transitions to market economies. On global issues, U.S. business can offer sophisticated

environmental technologies and systems and assist in sophisticated water resources and transportation planning.²⁸

Role of other foreign policy instruments. Emphasizing U.S. competitiveness in emerging markets overlaps with other aspects of international economic policy, particularly trade and investment. This demonstrates the need for a more integrated U.S. economic strategy and clear authority for deciding which objective has priority with respect to individual countries. Enhancing U.S. competitiveness through economic assistance also requires U.S. trade policy initiatives (1) to ensure observance of the new Helsinki tied aid guidelines and (2) to conclude the Uruguay Round of the GATT talks, with emphasis on new rules for trade in services and protection of intellectual property. American Ambassadors, the Foreign Commercial Service (Commerce Department), and the Foreign Agricultural Service (U.S. Department of Agriculture) all must contribute to expanding U.S. exports and developing new markets.²⁹

Aid resources and programs aimed at strengthening U.S. competitiveness. The three existing programs now focused directly on U.S. trade and investment objectives (the Export-Import Bank, OPIC, and TDA) apply \$800 million in appropriations (1993) and over \$16 billion in loans and loan guarantee authority. Through development assistance and ESF funding, A.I.D. currently funds some infrastructure or "capital" projects -- particularly in Egypt and the Philippines -- that complement these programs. Further, the "Buy America" provisions of the

Foreign Assistance Act "tie" most A.I.D. project assistance to procurement of U.S. goods and services. A.I.D.'s main contributions in this area should be first in helping establish a favorable macroeconomic climate for private investment (both domestic and foreign). Second, A.I.D. can help build entrepreneurs' capacity to develop sound business proposals and to negotiate mutually advantageous agreements with investors.

U.S. constituencies. Some in American business and in the Congress (especially the Senate) have proposed that more of our foreign aid be focused on trade and investment objectives, particularly through more aggressive export financing and through funding large-scale infrastructure projects in high technology industries.³⁰ Labor is concerned with increasing exports and jobs. In addition to corporations searching for export markets, financial institutions are aggressively issuing securities for governments and individual projects in these emerging markets.

Supporting Regional Security and Democratic Transitions

This third strategic goal of a new vision for economic aid aims at: (1) preventing or resolving regional conflicts -- such as in the Middle East or South Asia -- and (2) assisting the transitions of states like Eastern Europe and the former Soviet Union toward open economies and political systems. A more general peace agreement in the Middle East may require even more than the \$5 billion annually in economic and military aid we currently provide. In South Asia, the danger of greater

destruction in future regional conflicts argues for innovative efforts to resolve Indo-Pakistani tensions.

In Eastern Europe and the former Soviet Union, balance of payments support, infrastructure rehabilitation, guaranteed private investments, debt relief, and technology transfers can assist difficult transitions. We can condition assistance on progress toward market economies and democratic governance.³¹ For the nuclear weapons states of Belarus, Ukraine, and Kazakhstan, ratification of the START I and transfer of their remaining strategic nuclear weapons to Russia should be a principal condition of economic assistance.

Relationship to other aid strategic goals. Supporting regional security bolsters other strategic goals of economic assistance. Stable regional politics establish a positive climate both for investment and intra-regional trade. With stability comes reduced military spending, which frees up internal resources for more productive investments.

Regarding U.S. commercial interests, U.S. business seeks better access to emerging markets in Asia, the Middle East, Eastern Europe, and the former Soviet Union. Regional stability will expand the already growing trade and investment opportunities. With respect to global issues, many of the states involved in active or potential regional conflicts or in democratic transitions need help to avoid general breakdowns. If economic assistance is combined with other support, the U.S. and other developed countries can keep transitions moving. This can

avoid the potentially much greater costs of coping with the breakdown of civil society, basic services and economic systems.

Relation to other foreign policy instruments. Since regional conflicts and failed reform in Russia are our principal security threats for the foreseeable future, this economic aid goal is also a principal focus of U.S. diplomacy. The growing effort by the developed nations to assist the former Soviet Union and Eastern Europe requires generous debt relief, investment guarantees, broad-scale technology transfers, and favorable trade policies. Being limited, economic assistance can do little more than set the tone and prime the investment climate for larger transfers of resources and expertise through private channels.

Aid resources available. The main bilateral assistance programs currently available for supporting regional security and democratic transitions are appropriated under the Economic Support Fund (ESF) and ESF-like accounts. In FY 1993, these resources total \$3.5 billion, and additional aid for Russia is requested for FY 1994. However, other donors are providing substantial assistance to many of these same states, particularly in Eastern Europe and the former Soviet Union. The multilateral aid from the World Bank, the European Bank for Reconstruction and Development and the International Monetary Fund will also include significant U.S. contributions. Guaranteed private loans for food and other commodities from the Agriculture Department's Commodity Credit Corporation will supplement aid funds.

Principal constituencies. The major domestic constituencies

related to regional security are identified with the particular regions. For the Middle East, supporters of Israel and of a general Middle East peace settlement will wield major influence. The dynamic growth of other regions -- such as East and South Asia, Eastern Europe, and the former Soviet Union -- will attract the U.S. business and financial community. For those regions like the former Soviet Union, where U.S. security interests are at stake, the national security constituencies in the Congress, the Executive Branch, and elsewhere will stay involved.

Addressing Global Issues and Trends

Addressing global issues opens a Pandora's box of transnational hazards. At present, these global perils include:

- o environmental threats, such as global warming, soil and forest degradation, and nuclear contamination from aging nuclear reactors;
- o rapid population growth in poor countries leading to environmental damage and migration;
- o AIDS and other pandemics;
- o narcotics trafficking and terrorism; and
- o humanitarian crises resulting from religious and ethnic conflicts, famine, droughts, greater migration and refugee movements, and the breakdown of fragile states.

Applying economic assistance successfully to these problems means devising new models, technologies, and modes of assistance for what outgoing Secretary of State Lawrence Eagleburger recently called "a world in crisis and in chaos, one in which it is impossible to be certain of anything six months ahead."³² What

we need in our aid programs is a quick reaction capability to devise strategies for dealing with new issues that appear.

This strategic goal is clearly related to sustainable development. The distinction lies in whether we address AIDS, population growth, or global warming at a worldwide or country level.

Relation to other assistance goals. Over time, burgeoning population growth, massive migration, increased mortality from plagues like AIDS, and ethnic or religious conflict can cripple efforts at sustainable development. These phenomena contribute to breakdown of fragile states. They destabilize regional security. Without sustained development and regional stability, we will have no new emerging markets for U.S. trade and investment.

Role of other foreign policy instruments. Dealing with these and emerging trends effectively will require major diplomatic efforts to enlist the cooperation of other nations and international organizations. The growing international programs of U.S. domestic agencies -- such as Health and Human Services and the Department of Energy -- may contribute to solutions.³³ Moreover, national security policy should clarify the Defense Department's role in future humanitarian assistance activities -- like Project Restore Hope in Somalia -- which is estimated to cost the U.S. over \$580 million for three months.³⁴

Aid resources available. Much of the bilateral and multilateral development assistance aimed at population, health

and AIDS, and natural resource management is aimed at these global problems. The same is true for the \$830 million in foreign aid administered directly by the State Department and focused on migration and refugee assistance, the narcotics trade, and terrorism. Some resources from the Economic Support Fund for Latin America contribute to anti-narcotics efforts as do resources of the Drug Enforcement Administration (DEA) and DOD. Emergency food aid resources (Title II of the Food for Peace Program) and supplemental funds that are periodically voted during a major humanitarian catastrophe, such as the current Southern Africa drought, target famine victims. The U.S. should direct these resources toward the development of effective multilateral approaches to these problems.

Principal constituencies. Constituencies for global issues change as new issues emerge. They include the church-based humanitarian relief and hunger community and the environmental coalition that also support the goal of sustainable development. Law enforcement and national security constituencies focus on narcotics traffic, terrorism, and immigration. In Congress, those interested in these issues cut across a wide swath of committees.

In summary, this strategic vision meets the criteria discussed earlier for a twenty-first century vision for economic aid. Other proposals do not. It covers the full range of bilateral and multilateral economic assistance, and it confronts

global issues. It is a mutually-reinforcing but limited set of goals. It addresses fundamental national interests, expresses basic American values and can attract wide support.

Some argue that we should focus our economic assistance on only one of these goals, such as sustainable development. Others argue that these goals are so general that they contain all the current aid objectives and thus are not focused enough. Still others argue that this set of goals suffers from inherent conflicts among development, commercial, and security interests.

In response, we need a strategic vision for economic aid that can cover all existing aid programs; that expresses fundamental national interests and values; and that is relevant to what the twenty-first century holds for us. Only such a vision can attract sufficient support to sustain economic aid programs in the future. While some conflicts among these aid goals are possible, just as many complementary relationships exist. These assistance goals also complement other foreign policy instruments, especially in international economic policy. Where conflicts appear among U.S. economic objectives toward a country or region, the Executive Branch must decide which objective has highest priority and act accordingly. Making such decisions requires clear authority and strong coordination mechanisms for international economic policy.

Agreement on a coherent and focused strategic rationale for economic assistance and cooperation programs by the Executive Branch, Congress, and key constituencies opens the way for

subsequent decisions on organizations, resources, and responsibilities. We should now look briefly at how we can develop bi-partisan and public agreement on a new strategic rationale for foreign assistance.

V. REACHING CONSENSUS

What constitutes an effective political process for securing Executive Branch consensus, bi-partisan agreement, and public support for economic assistance? Formulating a new strategic vision for economic assistance requires first, political agreement among the Executive Branch, Congress, and the outside constituencies who have the most at stake. How can such an agreement take place?

Most observers agree that gathering representatives of the Executive Branch, Congress, and key interest groups to begin serious negotiations on a new rationale will require White House leadership. Participants must commit themselves to reaching an agreement that all can support. To lead such an effort, the White House must appoint someone senior enough to resolve the Executive Branch rivalries that will emerge among such departments as State, Treasury, and Agriculture. The leader of this process must also manage powerful, strong-willed individuals whose constituencies have conflicting points of view.

If agreement is reached, the parties to the agreement must undertake a major effort to educate and mobilize public opinion -- much as the Administration undertook with the national

economic program. All the parties to the agreement on a new aid rationale will have to participate actively in selling the new vision to the American people. Involvement of leaders of both parties from the beginning is essential. Bi-partisanship will increase the willingness of Congressional and interest group representatives to convince the public and their constituencies to support a new approach for economic assistance.

Why this idea won't work. Doubters can list a number of reasons why such a process won't work. First, the White House is too engaged with higher priority domestic issues. Second, we need the details of a broader foreign policy framework before defining a new aid vision. Third, economic assistance is relatively small, and we need to pay more attention to our economic relationships with Europe and Japan. Fourth, if we can just fix A.I.D., the rest of the economic aid program can continue to limp along.

Why decision-makers can fashion a new vision for economic aid in spite of difficulties. First, a number of signs exist that decision-makers are ready to work on a new approach to economic assistance. Although busy with domestic issues, the President has spent considerable time on international economic issues and on aid to Russia. Congressional leaders are clearly ready for Executive Branch leadership in rethinking economic aid. More and more stakeholders realize that if a viable aid approach does not surface soon, they risk losing much of the remaining aid programs that concern them.

Second, the foreign policy and international economic strategic frameworks are becoming sufficiently clear to support rethinking of economic assistance.

Third, although relatively small, economic assistance remains the principal foreign policy tool the U.S. can use in achieving its objectives in developing countries and the transitional economies. As important markets and sources of global problems, these countries are beginning to challenge the traditional importance of Europe and Japan in U.S. foreign policy. Further, the question of how Europe, Japan, and the U.S. deal with the economic, security, and global issues posed by the developing and transitional countries is seizing more and more of the diplomatic agenda of the developed world.

Finally, A.I.D.'s problems are a symptom of the lack of a credible purpose for economic assistance. With hard lobbying, it may be possible to pass one or two more aid appropriations bills in the current muddled atmosphere. But the price may be such increased Congressional micromanagement, special earmarkings, and decreased operating budgets that implementation will become practically impossible. If we wait until everyone agrees that we need a new look in economic assistance, the next Congressional or Presidential election will be too close to take on the issue.

VI. HOW TO PROVIDE ECONOMIC AID

Only after answering the more fundamental question of why we still need economic assistance, can we address the important but

narrower questions of priorities, how to provide aid, and how to relate aid to other policy instruments.

Defining Relative priorities. We will have to decide the relative priorities of the strategic goals they have chosen. Which goals, regions of the world, and countries deserve more resources and time of top decision-makers?

Setting Funding levels. Given U.S. domestic difficulties, what level of resources is appropriate for seeking the strategic goals of economic assistance? Some recent foreign policy and foreign assistance studies have proposed increases.³⁵ However, the tough spending cuts and tax increases now being discussed will make it very difficult to increase economic aid budgets in the foreseeable future, no matter how compelling the rationale. These constraints should narrow the breadth of objectives and encourage creative alliances with private investment, other donors, and other tools of foreign economic policy.

Clarifying authority. We need to clarify who directs international economic strategy and therefore overall U.S. policy and programs toward the developing world? Is it the Department of State or Treasury? Or does the White House set policy and the departments and agencies execute that policy? Should the Executive Branch have a better handle on the rapidly expanding technical cooperation programs of domestic departments and agencies with developing countries?

Using bilateral or multilateral organizations. Most U.S. economic assistance flows bilaterally. Some argue that relying

on multilateral agencies is more efficient and "leverages" larger resources from a number of other donors. Others argue that bilateral agencies like A.I.D. have more success in developing institutions and specialized human resources than multilateral agencies.³⁶ If we channel more U.S. resources through multilateral agencies, how will we get more of a focus on our strategic objectives?

Restructuring U.S. economic assistance organizations. Too much of the current debate over economic assistance has focused on A.I.D., which is only one of a number of aid agencies. Should the present situation continue -- in which ten U.S. departments and agencies implement various pieces of the economic aid program and over which no agency is in effective charge? Should we have a separate, organization responsible for all or most of U.S. bilateral economic assistance and cooperation or should this function be subsumed in the Department of State?³⁷ Or should responsibility for bilateral assistance be split among domestic agencies according to their functional specialty? Answers to these questions will provide the basis for new statutory authority and for decisions on more effective ways of providing assistance.

CONCLUSION

U.S. economic assistance programs aimed at the developing world and the transitional economies are suffering from the lack of a credible and relevant strategic vision -- a vision that

addresses fundamental U.S. interests, projects American values, and confronts global forces leading us into the twenty-first century.

Unless we develop that new strategic vision,

- o we will make little or no progress in fashioning a more effective economic assistance program;
- o remaining public and Congressional support for economic aid will continue to erode; and
- o existing funding levels will likely decline rapidly.

Without a credible strategic vision for economic assistance, the Administration may soon find itself without an important foreign policy tool (1) for addressing major U.S. economic and security interests; (2) for projecting fundamental American values of peace, freedom, fairness, and compassion; and (3) for developing economic and political partnerships with developing and transitional economies. These countries' stability and prosperity will become more and more important to us as we enter the twenty-first century.

ANNEX A -- TABLES

Table 1 --COMPARATIVE FOREIGN POLICY FRAMEWORKS

PROONENT(S)	SECURITY	ECONOMIC GROWTH	DEMOCRACY	GLOBAL ISSUES	OTHER
Christopher/Wharton (1993)	maintain military strength	improve eco.competitiveness	promote democracy & human rights	address pop., environment & refugees	
NSC (1993)	-ensure US security; -supp. global & reg. secur.	seek open world econ. system	seek democ. pol. systems		lead collective response to world crises
Carnegie (1992)	seek a safer world	a more prosperous US and world	a freer world	a more livable world	
Overseas Development Council(ODC)	resolve reg'l conflicts	seek US and global eco. growth	support polit. reform and democracy	address global challenges	alleviate poverty;dev. human res.
Bergsten (1992)	promote collective security	enhance US competitiveness			smooth rel's among 3 eco. superpowers
Heritage Foundation (1992)	-protect US frontiers -oppose hostile domination of Europe, E. Asia, or Persian Gulf	protect free trade; access to mkt & resources	encourage democracy	address terrorism, drug traffic	
Nye (1992)	support European & Asian reg. security	revitalize US economy	promote liberal democ. & human rights	address transnational threats	renew commitment to multilat. institutions

Table 3 -- ALTERNATIVE RATIONALES FOR ECONOMIC ASSISTANCE

PROONENT(S)	POVERTY ALLEVIATION	ECONOMIC GROWTH	GLOBAL ISSUES	DEMOCRACY/HUMAN RIGHTS	REGIONAL SECURITY
Carlucci (1983)	equity & fairness	economic growth and productivity		respect for individual liberty	Promote US security and peace
Hamilton/Gilman (1989)	poverty alleviation	economic growth	environmental sustainabil.	democracy and economic pluralism	
Berg/Smuckler (1989)	effective attack on poverty	broadly-based growth	end environmental destruction		
NSC (1991)	meet urgent human needs	promote market principles	address transnational threats	promote democratic values	peace, security, stability
Independent Group (1992)	invest in people	sustainable development	protect the earth	strengthen institutions of free societies	
Speth (1992)	broad-based and environ. sustainable growth		environmental sustainabil.		
Christopher/Wharton (1993)	support sustainable development	support free markets		support democracy	

ENDNOTES

1. Lewis Carroll, *Alice's Adventures in Wonderland*, in *The Annotated Alice*, Introduction and Notes by Martin Gardner, (New York: Penguin, 1960), pg. 88.

2. For pertinent discussions of U.S. interests and objectives in the post-Cold War world, see *National Security Strategy of the United States*, (Washington: The White House, January 1993); the foreign policy blueprint sketched out by Secretary of State Warren Christopher and Deputy Secretary of State Clifton Wharton in their January, 1993 confirmation testimonies; Carnegie Endowment National Commission on America and the New World, *Changing Our Ways: America and the New World*, (Washington: Carnegie Endowment for International Peace, 1992); The Heritage Foundation, *Making the World Safe for America: A U.S. Foreign Policy Blueprint*, (Washington: Heritage Foundation, April 1992); C. Fred Bergsten, "The Primacy of Economics," *Foreign Policy*, No. 87, Summer 1992, pp. 3-24; Joseph S. Nye, Jr., "What New World Order?", *Foreign Affairs*, Spring 1992, pp. 83-96; and John M. Sewell, Peter M. Storn, and Contributors, *Challenges and Priorities in the 1990s: An Alternative U.S. International Affairs Budget, FY 1993*, (Washington: Overseas Development Council, 1992). Table 1 in Annex A summarizes the main tenets of these proposed foreign policy frameworks. Although not shown in Table 1, a discussion by Terry L. Deibel, in an article entitled "Strategies Before Containment: Patterns for the Future," (*International Security*, Volume 16, No. 4, Spring 1992, pp. 79-102) proposes three basic areas of vital U.S. interests: (1) protecting U.S. physical security; (2) seeking economic prosperity of the U.S. and the world; and (3) projecting American values abroad.

3. Warren Christopher confirmation testimony before the Senate Foreign Relations Committee, January 13, 1993. Secretary Christopher's stated the need to (1) "advance America's economic security"; (2) "maintain a strong defense"; and (3) "encourage the global revolution for democracy that is transforming our world." Deputy Secretary of State Clifton Wharton, in his January 22, 1993 confirmation hearing stated that the administration's key foreign policy objectives are (1) "national security," (2) "economic competitiveness," and (3) "the promotion of democracy and free markets abroad."

4. 1993 National Security Strategy of the United States, (Washington: National Security Council, January, 1993), pg. 13; Stephen S. Rosenfeld, "Detached from World Turbulence", *The Washington Post*, February 19, 1993, pg. A-21; and Carnegie Endowment National Commission, *Changing Our Ways*, pg. 56.
5. "China, The Titan Stirs," *The Economist*, November 28, 1992, pg 3 (of special survey).
6. Francis G. McFaul, *U.S. Foreign Trade Highlights 1991*, International Trade Administration, U.S. Department of Commerce, May 1992, pg. 11.
7. Jessica Tuchman Mathews, "Redefining Security," *Foreign Affairs*, Vol. 68, No. 2, Spring 1989, pg. 163.
8. Jessica Tuchman Mathews, "Redefining Security," pp. 164-168.
9. Gerald B. Helman and Steven R. Ratner, "Saving Failed States," *Foreign Policy*, Number 89, Winter 1992-93, pg. 5, 13.
10. John Sewell et al., *Challenges and Priorities in the 1990s*, pg. 19.
11. Anne O. Krueger, *Economic Policies at Cross-Purposes: The United States and Developing Countries*, (Washington: The Brookings Institution, 1993), PP. 53-55.
12. Anne O. Krueger, *Economic Policies at Cross-Purposes*, pp. 55-61.
13. Senator Patrick Leahy, *A Strategy for Foreign Aid Reform*, Congressional Record-Senate, January 28, 1993, pg. S-870. In a November 4, 1992, letter to President-Elect Clinton, Senator Leahy urged that key individuals in the Congress and the Executive Branch meet to "work together to reshape" the overall aid program.
14. Secretary of State Warren Christopher, January 19, 1993 confirmation testimony before the Senate Foreign Relations Committee in response to a question from Senator Russ Feingold (D-WI). Deputy Secretary of State Clifton Wharton, January 22, 1993 confirmation testimony in response to a question from Senator Jesse Helms (R-NC).
15. See C. Fred Bergsten, "The Primacy of Economics," and Jeffrey E. Garten, "The 100-Day Economic Agenda," *Foreign Affairs*, Winter 1992-93, pp. 26-31.
16. The FY 1993 foreign aid appropriations bill totaled \$26.4 billion, of which \$12.3 billion was a quota increase for the International Monetary Fund (IMF) and \$4.0 billion was for

military assistance. The appropriations bill does not include an estimated \$1.9 billion in appropriations for the PL 480 Food for Peace and Section 416 programs -- which are included in the Agriculture and related agencies appropriations bill. An increased proportion of Food for Peace Programs is now managed by A.I.D. under reforms legislated in 1991 and should be added to the economic assistance programs in the appropriations bill. These adjustments leave a figure of \$12,278,000,000 or about \$12.3 billion for what could be considered regular appropriations in FY 1993 for economic assistance. Source: Conference Agreement on the FY 1993 Foreign Aid Appropriations Bill, dated October 4, 1992.

17. Food aid figures include \$1.9 billion in commodities provided under Public Law 480, Section 416(b), and Food for Progress.

18. In addition to the appropriated funds for the Export-Import Bank and the Overseas Private Investment Corporation (OPIC), the appropriations bill applies limitations on direct and guaranteed loans of \$650 million for OPIC and \$15.5 billion for the Export-Import Bank.

19. Among the most authoritative and informative discussions of options for restructuring economic assistance are: *National Security Strategy of the United States*, (Washington: The White House, August 1991), pp. 16-17; *A Report to the Secretary of State*, The (Carlucci) Commission on Security and Economic Assistance, (Washington: November 1983), pp. 8-9; Ralph H. Smuckler and Robert J. Berg with David F. Gordon, *New Challenges, New Opportunities: U.S. Cooperation for International Growth and Development in the 1990s*, (Lansing, Michigan: Michigan State University, Center for Advanced Study of International Development, August 1988), pg. vi; (Hamilton-Gilman) *Report of the Task Force on Foreign Assistance to the Committee on Foreign Affairs, U.S. House of Representatives*, House Document 101-32, February 1989, pg. vii; *Reinventing Foreign Aid: White Paper on U.S. Development Cooperation in a New Democratic Era*, The Independent Group on the Future of U.S. Development Cooperation, December 1992, pg. 1; James Gustave Speth, "A Post-Rio Compact," *Foreign Policy*, Number 88, Fall 1992, pg.155; Confirmation testimonies of Secretary of State Warren Christopher and Deputy Secretary of State Clifton Wharton before the Senate Foreign Relations Committee, January 19 and 22 respectively, 1993; *Partnerships for Global Development: The Clearing Horizon*, A Report of the Carnegie Commission on Science, Technology, and Government, (Carnegie: New York, December 1992), pg. 14-15; Ernest H. Preeg, "The Aid for Trade Debate," *The Washington Quarterly*, Volume 16, No. 1, pp. 99-114 and Senator David Boren, "'Aid for Trade' Foreign Aid Plan Passes Senate," Press Release, July 25, 1991, pg. 1; John W. Sewell, Peter M. Storm, and Contributors, *Challenges and Priorities in the 1990s: An*

Alternative U.S. International Affairs Budget, FY 1993, (Washington: Overseas Development Council, 1992), pp. 19-21; Report to the President - An Action Plan, The President's (Ferris) Commission on the Management of A.I.D. Programs, (Washington: 1992), pg. 11; National Security Strategy of the United States, (Washington: The White House, January 1993), pp. 10-11; and Development and the National Interest: U.S. Economic Assistance into the 21st Century, A Report by the Administrator, Agency for International Development, (Washington: A.I.D., February 17, 1989), Chapter 1 (pp. 13 - 25).

20. (Hamilton-Gilman) Report of the Task Force on Foreign Assistance to the Committee on Foreign Affairs, U.S. House of Representatives, pg. 27.

21. Terry L. Deibel, "Strategies Before Containment: Patterns for the Future," pp. 94ff.

22. India -- Foreign Economic Trends and Their Implications for the United States, International Trade Administration, department of Commerce, August 1992, pg.8.

23. Some developing countries appear to be benefiting from private investment in independent power projects (IPP) where demand for power is growing and profits look possible. See Jeannie Mandelker, "The Global Surge in Independent Power," Institutional Investor, December 1992, pg. 139.

24. Kathleen Selvaggio, Many Neighbors - One Earth: Transforming Foreign Aid, Bread for the World Background Paper No. 128, March 1993, pg. 2.

25. See Miriam Bensman, "Latin America's Year of the Deal," Institutional Investor, March 1992, pg. 103-117 and Jeannie Mandelker, "the Global Surge in Independent Power, Institutional Investor, December 1992, pp. 139-141.

26. Jeannie Mandelker, The Global Surge in Independent Power, pg. 139.

27. See Francesca Carnevale, "Eximbank and the Global Bundle," Trade Finance, January 1993, pg. 23; Lori Ioannou, "Power Bankers," International Business, February 1993, pp. 45-51; and Steve Coll, "Japan's Hands-On Foreign Aid," The Washington Post, January 13, 1991, pp. H-1,4.

28. James C. Clad and Roger D. Stone, "New Mission for Foreign Aid," Foreign Affairs, Vol. 72, No. 1 (1993), pp. 201-203.

29. "Let's Make a Deal," Newsweek, November 23, 1992, pp. 45-46.

30. See Ernest H. Preeg, "The Aid for Trade Debate," pg. 109 and Senator David Boren, "'Aid for Trade' Foreign Aid Plan Passes Senate," pg. 1.

31. See Shafiqul Islam, "Russia's Rough Road to Capitalism," *Foreign Affairs*, Vol. 72, No. 2 (1993), pp. 59-66.

32. Lawrence S. Eagleburger, Secretary of State, *Charting the Course: U.S. Foreign Policy in a Time of Transition*, speech to the Council on Foreign Relations, Washington, D.C. January 7, 1993, pg.14.

33. Susan Raymond, "Science and Technology for Development in the Federal Government: Organizational Sketches," in *The United States and Development Assistance: Background Papers for the Task Force on Development Organizations*, Carnegie Commission on Science, Technology, and Government, June 1992, pp. 2-4 through 2-14.

34. Eric Schmitt, "U.S. Job in Somalia is Growing in Cost," *New York Times*, January 17, 1993, pg. 7. The additional month of U.S. troop presence has raised the cost above \$700 million. By contrast, U.S. economic assistance to Somalia from 1961-91 totaled \$716 million. Source: *U.S. Overseas Loans and Grants and Assistance from International Organizations July 1, 1945-September 30, 1991* (CONG-R-0105), (A.I.D.: Washington, 1992), pg. 132.

35. Carnegie Endowment National Commission, *Changing Our Ways*, pg. 31 and Independent Group, *Reinventing Foreign Aid*, pg. 24. Both these groups argued for a doubling in real terms of current U.S. economic assistance by the end of the century to be financed mainly through savings or reprogramming from other areas, such as military assistance and defense.

36. *A Development Policy for the 1990s: Reducing Poverty through Education and Agricultural Science and Technology*, Highlights from a National Conference, June 17-18, 1991, sponsored by the Board for International Food and Agricultural Development and Economic Cooperation and the Citizens Network for Foreign Affairs, pg. 25.

37. The President's Commission (Ferris Commission) on the Management of A.I.D. Programs, *Report to the President -- An Action Plan*, pg. 5. recommended a merger of A.I.D. with the State Department.