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Lessons and New Directions for Foreign Assistance

The tragedy of September 11 and growing U.S. commitments around the world have forced the United States to confront escalating public expenditures for homeland defense, new private-sector costs to help protect critical infrastructure, and numerous trade-offs as security has come to overshadow other priorities. In the public mind, U.S. foreign policy post–September 11 carries a sense of urgency we have not seen in a decade. Americans feel a new sense of vulnerability; nevertheless, as we wrestle, debate, and implement programs to meet those pre– and post–September 11 challenges, our underlying foreign policy, national security, and international economic policy objectives remain constant.

U.S. policy is shaped by and encourages personal liberty and respect for human rights, democracy, pluralism, the rule of law, and broad-based capitalism as the mode of economic development. Free markets, entrepreneurial opportunity, and a withdrawal from large, state-central planning is embraced, in varying degrees, as the chief means by which nations can improve the quality of life for their citizens. Democratic choice and individual opportunity have succeeded over Communist and central-planning ideologies precisely because such systems have proven incapable of meeting urgent citizen needs.

Several months ago, Brent Scowcroft, National Security Council adviser to former president George H. W. Bush, commented that future U.S. security and prosperity in the world depends on how well we can change underlying trends in parts of the world post–September 11. In his view, problems transcend the fault lines between Islam and the West and result from a more complex, fractured state of affairs. The expansion of the United Nations

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from 51 member nations at its birth in 1945 to its current membership of 191 reflects this heightened fragmentation over the last half-century. For some 20 or 30 of these countries, the prospect of globalization offers a great promise of development. For the rest, it offers only a growing divide from the developed world. Simple statistics illustrate this trend: 40 years ago, the world's 20 richest nations had per capita incomes that were 20 times greater than the per capita incomes of the world's 20 poorest nations. Now, that difference is 37 times greater.[1]

As the world has increasingly fractured into a kaleidoscope of nation-states, it has, at the same time, become more united along key democratic and free-market dimensions. Freedom House noted continued gains in democracy in its 2001 annual report. Measured by the degree of political and civil liberties, it found that the number of free countries has increased from 65 in 1990 to 86 in 2001. Two-and-a-half billion people—40 percent of the world's population—live in free countries, the largest percentage since the organization began its survey. Yet, this great stride still means that the remaining 60 percent of the planet suffers from limited freedom. Freedom House also notes that the number of partly free countries increased from 50 in 1990 to 59 in 2001. By definition, "partly free" describes those nations in which limited political and civil liberties exist because of corruption, a weak rule of law, and dominance by one political party. Some 1.4 billion people, or 25 percent of the world's population, live in these countries. Despite the remarkable progress, we must continue to push to expand freedom's borders.

Funding to combat HIV/AIDS has more than doubled but more will be necessary.

In the minds of some, globalization—the expansion of capitalism, or of free-market principles in practice—remains an evil phenomenon. A few months ago, Washington, D.C., witnessed another round of protests at the World Bank and International Monetary Fund (IMF) meetings. Young, mostly peaceful protesters marched through the corridors of power in our nation's capital, criticizing capitalism. Although the passions expressed by these protesters stem from valid concerns, we must not lose sight of the fact that the United States and the international community have an overriding foreign policy interest in sustainable global integration. Moving toward this goal will help generate the benefits that can allow the United States to attain its development and foreign policy objectives.

"Is globalization here to stay?" is not, in my view, a question that is still in doubt in either the United States or the developing world. For example, the

General Agreement on Tariffs and Trade (GATT) at its inception in 1947 had 23 nations as original signers. Now, the World Trade Organization (WTO), its successor organization, has more than 140 members, of which developing nations, surprisingly enough, comprise 80 percent. Furthermore, the WTO reports that international trade has increased from $1.8 trillion in 1983 to more than $6 trillion in 2000.[2] The widespread commitment among nations to the principles of capitalism and global trade is apparent.

Aid, Trade, and Development

Over these last two sessions of Congress, I have worked hard with my colleagues to make strides in U.S. foreign assistance. Although the appropriations process for fiscal year 2003 has stalled, when the dust settles, total foreign assistance levels will not be reduced from the increases contained within the foreign operations bill passed by the House Appropriations Committee. If we assume the levels contained in the bill are enacted, U.S. assistance programs to improve child survival will have increased from a little more than $1 billion in 2001 to $1.7 billion in 2003, an increase of $700 million, or 60 percent. In addition, over the past two years, we have worked to increase funding levels to combat global health diseases.

For example, HIV/AIDS funding has more than doubled, growing from $315 million in 2001 to $786 million in 2002. Over the 2002–2003 period, Congress plans to set aside $250 million—plus an expected $100 million from the FY 2003 labor, health, and human services appropriations bill—to bring the total U.S. contribution to $650 million for the Global Fund to Fight AIDS, Tuberculosis & Malaria—the largest contribution from a single nation. Certainly, these are significant investments in fighting the pandemic, but it is clear that much more will be necessary. The Joint United Nations Program on HIV/AIDS (UNAIDS) estimates that programs in developing countries and countries in transition will need to have about $10 billion annually to fight the pandemic by 2005—just three years from now. All governments, including and specifically the United States, must increase the resources they commit to fighting this disease.

Although I take some satisfaction in these and other foreign assistance accomplishments, their impact pales in comparison to a single vote for and efforts to ultimately enact Trade Promotion Authority (TPA). That accomplishment of the 107th Congress was almost 10 years in the making. In my 18 years of Congress, it was the most dramatic bill on which I have ever worked. When first considered on the House floor on December 6, 2001, the vote was open for 48 minutes. It passed on two occasions by a single vote. In my opinion, the passage of TPA was the most important development-assistance vote in Congress in the last 10 years. It gave the president the authority to lead international trade negotiations and gave this country an indispensable tool to meet the challenge of globalization. TPA will make a dramatic difference in the developing world if used as a powerful lever to generate free trade among developed and developing countries.

That TPA vote, in my opinion, will have far greater impact than any investment the United States can make in foreign aid. Most U.S. development-assistance investments will fall far short of their objectives, if they are not completely wasted, unless economic and political systems exist to sustain them and generate economic growth as a result. With foreign assistance alone, we may positively touch a few lives, but we will see little long-term improvement in the quality of life for the people of the developing world. The traditional forms of assistance may make us feel good, but they will not last unless other economic tools work.

Lessons Learned in Development Assistance

As public officials and people of influence in development policy, it is our responsibility to continuously seek to improve our aid delivery as well as ensure that our overall development policy benefits from lessons learned over the last several decades.

Lesson #1: It is not the quantity of foreign assistance that is integral to successful development.

The United States has given more than $167 billion (in constant 1999 U.S. dollars) in official development assistance (ODA) to 156 countries, regions, and territories since 1980. Of that number, 97 entities for which data is available received more than $144 billion in inflation-adjusted ODA since 1980; yet that group's median-inflation-adjusted per capita gross domestic product (GDP) declined from $1,076 in 1980 to $994 in 2000[3]—a decline in real terms.

No solid relationship is apparent between economic growth and ODA levels. Another study noted that, between 1980 and 2000, 23 recipients of U.S. ODA received amounts equivalent to one quarter of their entire GDP in 2000. This is just U.S. assistance; it does not include aid from other nations or the World Bank. Growth in per capita GDP for these countries averaged -0.16 percent, with 12 countries experiencing negative growth, and only 4 countries experiencing growth of more than 1 percent.[4] In another study, a former World Bank development economist found a similar noncorrelation. Bill Easterly noted that, between 1950 and 1995, Western countries gave $1 trillion in aid in constant 1985 dollars. He concluded, after studying investment and growth patterns in more than 80 countries in a similar time frame, that "[a]mong all low-income countries, there is not a clear relationship between aid and growth."[5] The time frames of these studies—20 years and 45 years, respectively—should be noted because the long duration provided sufficient time for positive progress to be achieved.

Simply put, the focus on the amount of aid is misplaced. Tax policy, regulatory policy, anticorruption practices, transparency, and the rule of law matter far more in a developing country than the amount of development assistance.

Trade promotion authority will mean more than foreign aid.

Lesson #2: It's all about economic growth.

Recent success has occurred in poverty reduction, among other key areas of development. In 1990, 29 percent of the world's population lived on an income of less than a dollar per day. In 2000 it was 23 percent, a 6-point drop. The absolute number of people living on less than a dollar per day has declined even as the world population has increased.[6] Yet, simultaneously, the ODA level has been reduced by 30 percent.[7]

Other measures confirm this progress. During 1990–2000, adult illiteracy rates for males aged 15 and older in low-income nations decreased from 35 percent to 28 percent; for females aged 15 and older, the figure declined from 56 percent to 47 percent.[8] Although only 30 percent of people in the developing world had access to clean drinking water in 1970, that figure has increased to about 80 percent today.[9] Wages and conditions have improved as economies have grown. In 1970, 35 percent of all people in developing countries were severely malnourished. In 1990 the figure had fallen to 20 percent.[10]

Why have we seen this success? Increased personal incomes enable nations to achieve their aspirations and go hand in hand with broad-based economic growth. Success stories around the globe, mostly in countries that did not receive U.S. aid, prove it. China's growth has been consistent at 7 percent, reaching 10 percent over the last decade. Indonesia, Vietnam, Brazil, and Mozambique have sustained significant economic growth. Some countries have even managed to double GDP per capita, including Botswana, Chile, Thailand, and Korea. None are major aid recipients.

Such sustained growth is only possible with capitalism, investment, and trade. The World Bank's empirical research shows that, during the last decade, income per capita in developing countries that were focused on capitalism and participation in the global trading system grew more than three times faster than in those countries that chose not to participate. Moreover, the World Bank found that the benefits of that economic growth were evenly distributed throughout the population strata of those countries. As a result, the absolute poverty rates for trading nations have also fallen sharply over the last 10 years. History has indeed shown that nations that have embraced democracy combined with capitalism and participation in the global trading system have experienced the highest economic growth and generated the highest quality of life for their citizens.

LESSON #3: GOOD GOVERNANCE MATTERS.

Yet, free markets and trade are not sufficient. For instance, several Latin American countries have been moving toward a free market for the last decade, but economic growth remains elusive. Some experts suggest that the growth of the early 1990s appears to have been an aberration—a few years sandwiched between the lost decade of the 1980s and the lost second-half of the 1990s. As a result, popular acceptance of free markets and democracy across Latin America is less certain.

Focus on the amount of aid is misplaced.

The power of free markets as a tool of development cannot be exercised without the correct policy environment. Thomas Friedman, the Pulitzer Prize-winning diplomatic columnist, explains that nations must have a good governance "plug" to integrate into the global economy. A poor-quality plug simply will not meet the expectations of a global capitalist economy. Good governance is dependent on the creation of a corruption-free environment, supported by functional rule of law.

This is the case in Latin America. Historically, gross inequities of wealth and income in the region have created political environments that allow bureaucracies to manipulate the economy to benefit the power elite. As a result, pockets of both political and economic instability stretch from Haiti to Argentina. We should not be surprised that incentives exist for the traditional authoritarian Left or Right to stall growth toward free markets and more effective democratic governance.

LESSON #4: WE NEED TO REMAIN FOCUSED.

At both the multilateral and bilateral level, we have been ensnared in a cycle of "do-everything development," as Bill Easterly stated in his article, "The Cartel of Good Intentions."[11] Easterly uses the example of the IMF requirement for low-income countries to submit a Poverty Reduction Strategy Paper (PRSP). Niger's recently completed PRSP is 187 pages long, took 15 months to develop, and sets out spending for a five-year, poverty-reduction plan. The PRSP, in turn, must be compliant with the World Bank's Comprehensive Development Framework, a 14-point checklist covering everything from lumber policy to labor practices. This framework covers clean government, property rights, finance, social safety nets, education, water, arts, roads, cities, and tax policy. Policymakers seeking aid must complete a litany of reports, often duplicates or similar reports for multiple institutions—an incredibly inefficient process.

Foreign Assistance: One Leg of a Three-Legged Stool

With those four lessons in mind, we should evaluate carefully what we think the role of our development assistance should be. But before addressing that question, it is important to articulate how U.S. foreign assistance is an integral component of our overall foreign and national security policy. I often relate our total foreign assistance—the entire foreign operations bill—as one leg of a three-legged stool providing a sturdy U.S. foreign policy. Each leg is essential for the stool to carry the weight of the policies projected and coming together at the top. One leg is that of our diplomatic corps and intelligence services; another relates to national defense and security strategy; and the third has, as its core, our foreign assistance.

Our foreign assistance in a macro sense plays multiple roles within our foreign policy process. At its first level, the foreign assistance leg can be used as a vital tool to ease the suffering of people around the world. At a more nuanced level, it can enhance health, education, and national infrastructure. In light of security challenges to the United States, we can also link the foreign assistance leg of the stool to the national security leg by using it in the form of Foreign Military Financing. Of even more importance, it can and should nurture the structures of capitalism and the rule of law, making it possible for the poor to participate in market economies and for poor countries to participate in the global economy.

I believe this is the role we should want development assistance to play. If experience shows that successful development is driven by a country's ability to access and use all its available resources for economic growth—particularly those that relate to integration in the global economy—then we must strategically align development assistance to that end. Our development assistance should serve as a catalyst to help countries prepare for greater participation in the global economy.

Where Do We Go from Here?

It is time to move beyond the debate on the quantity of foreign assistance to a focus on economic growth and helping countries maximize the benefits of participating in the global economy.

We must be sure that our expectations and definition of success are aligned with our development experience. All too often, advocates for development assistance argue that success is only a matter of additional resources. Experience tells us otherwise. Decades of development experience have demonstrated that resource transfers—without the environment of an effective political economy—will generate poor results. Our policy development and our advocacy must place an emphasis on those policies that will generate success—not simply the addition of more resources.

> Sustained growth is only possible with capitalism, investment, and trade.

The United States must generate a development policy that is more holistic in outlook. Two pillars must be elevated in importance. First, U.S. policy must recognize trade and foreign direct investment as development tools. Second, economic growth must become its own objective and be strongly integrated into the fabric of our development programs. This is particularly true for many African countries where HIV/AIDS is actually projected to reduce GDP growth rates, making the situation of responding to the pandemic even more challenging.

Historically, we have focused exclusively on increases in foreign assistance and debt relief as the chief drivers of development. I would argue that giving developing countries access to the markets of the United States, Europe, and Japan creates a self-reliant path while aid is a donor-development path. For instance, if sub-Saharan Africa had an additional 1 percent of international markets in the form of exports, the region would have $60 billion more in resources derived from revenue earned through international trade.[12]

Our domestic discussion on development must consider the potential cost of failure in the new round of trade talks that were launched in Doha, Qatar, in November 2001 or of failure in negotiations for U.S. free-trade agreements (FTAs) with Central America or the countries of southern Africa. The World Bank has calculated that a successful round of global trade negotiations, coupled with related market reforms, could add a whopping $2.8 trillion to global income by 2015—much of it in developing countries.[13]

Knowing that we have a tendency to ask developing countries to accomplish all of our bilateral objectives at the same time, it is imperative that we remain focused. That should result from a reflection on our need to break out of the trap of "do-everything development."

These messages of trade and focus are not ones that we—and many in the development or advocacy communities—are accustomed to hearing. In fact, some do not wish to hear it. We have become so devoted to the assistance programs or causes we each represent. Moreover, if we are serious about development, we have to be serious about trade. As a representative of Oxfam International has said, however, the "playing field is not level."[14] It slopes downhill from developed countries.

As the Bush administration continues to work on the Millennium Challenge Account (MCA), I would offer these suggestions. It should consider offering MCA recipient countries special consideration for expedited bilateral trade preferences (such as those offered in conjunction with the African Growth and Opportunity Act or the Andean Trade Preferences Act) or the option of negotiating an FTA with the United States. The administration should offer developing countries the prospect of ownership of their development strategies with U.S. assistance. In exchange for ownership, developing countries should be willing to accept the fact that MCA resources may be withdrawn if criteria for eligibility are not maintained or results not achieved. The MCA should aim to build and reinforce the governmental capacity of recipient countries to manage their own development. In establishing the MCA, we must minimize the administrative bureaucracy and bureaucratic requirements in assistance delivery. Once countries qualify, the MCA should complement current assistance efforts but, most importantly, generate a focus on economic growth and self-sufficiency.

Finally, the administration should aim to make sure development and economic opportunity is extended to those currently outside the formal economy. By this, I mean that the rule of law, property rights, and the ideas of Hernando DeSoto should be incorporated into our programs as a development goal.[15] The promise of capitalism as a tool for economic development and poverty reduction can never fully be achieved as long as large populations have no stake in the capitalist mode of development.

In conclusion, I firmly believe that we are going to have to think outside the box in our development-assistance programs. The reality is that what we have tried in the past has not worked. We must learn from our prior experiences, and in light of the challenges we face, we must be open to new ideas and tools that will help us prioritize our efforts when helping countries achieve broad-based economic growth and integration into the global economy.

Notes

1. See Gerald F. Seib, "World Disorder: Can the U.S. Thrive If It's the Norm?" *Wall Street Journal*, February 27, 2002.
2. International Monetary Fund (IMF), *International Financial Statistics Yearbook 2002* (Washington, D.C.: International Monetary Fund, 2002), pp. 127, 133 (measured as world merchandise).
3. Brett D. Schaefer, testimony before the Foreign Operations subcommittee of the Appropriations Committee, U.S. House of Representatives, June 27, 2002.
4. Ibid.
5. William Easterly, *The Elusive Quest for Growth* (Boston: The Massachusetts Institute of Technology, 2001), pp. 25–45.
6. Data taken from statistics shared by Dr. Frances Rischard, World Bank.
7. Ibid.
8. World Bank, *World Development Indicators 2002* (Washington, D.C.: World Bank, 2002), table 2.14.
9. "Moore Welcomes Oxfam Report But Cites Ommissions and Errors," World Trade Organization press release no. 285, April 2002.
10. Ibid.
11. William Easterly, "The Cartel of Good Intentions," *Foreign Policy* (July/August 2002): 40–49.
12. One percent of world merchandise exports as reported in IMF, *International Financial Statistics Yearbook 2002*, p. 133.
13. World Bank, *Global Economic Prospects: Making Trade Work for the World's Poor* (Washington, D.C.: World Bank, 2001), p. xiii.
14. Kevin Watkins, comments during "Fair Trade and the Fight Against Poverty," forum sponsored by the Carnegie Endowment for International Peace, July 2, 2002.
15. See Hernando De Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York: Basic Books, 2000).