

A REPORT OF THE CSIS
PROJECT ON PROSPERITY AND
DEVELOPMENT

Strategic Foreign Assistance Transitions

ENHANCING U.S. TRADE AND COOPERATION RELATIONS
WITH MIDDLE-INCOME COUNTRIES

*Project Director and
Principal Author*

Daniel F. Runde

Project Adviser

Johanna Mendelson
Forman

Lead Author

Amasia Zargarian

Contributing Author

Ilona Teleki

June 2012



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YEARS | CHARTING
OUR FUTURE

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INTERNATIONAL STUDIES

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Center for Strategic and International Studies
1800 K Street, NW, Washington, DC 20006
Tel: (202) 887-0200
Fax: (202) 775-3199
Web: www.csis.org



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EXECUTIVE SUMMARY

Justifying traditional U.S. assistance to middle-income countries is an increasingly difficult proposition, and refocusing limited U.S. government development resources away from middle-income countries offers an efficient way to identify savings in the foreign assistance budget. This is not the first time that the U.S. government has faced such questions, and it can draw upon past transitions—not all successful—for a variety of valuable lessons for repurposing the United States’ relationship with middle-income countries.

This report begins with a brief introductory chapter on the main issues and themes. Chapter 2 considers the experiences of South Korea, Lithuania, Costa Rica, Portugal, and Tunisia as case studies of countries with relatively successful U.S. assistance transitions. Chapter 3 examines Brazil, India, Russia, and Panama, four middle-income countries with which the United States can shift its assistance relationship toward a focus on bilateral trade and cooperation interests. Chapter 4 offers nine specific recommendations for shifting the United States’ relationships with middle-income countries from assistance to true partnerships. Chapter 5 concludes.

This report and its recommendations are the product of extensive conversations with members of the development and diplomatic communities in the United States and in Brazil, India, Russia, and Panama. More than 200 individuals were consulted through working group discussions, personal meetings, and telephone interviews, all on a not-for-attribution basis. Apart from a few development implementers, no one suggested that the United States should maintain the status quo with respect to its assistance programs in these countries. The overwhelming consensus was that the United States is using inadequate instruments in a changing context, and that it should broaden its bilateral relationships with middle-income countries to reflect mutual interests. These areas of interest are numerous, but in every case include cooperation on strengthening civil society, science and technology, “triangular” cooperation, people-to-people exchanges, and expanded trade. This set of transitions does not imply a larger budget funded by taxpayer money because the vast majority of new bilateral initiatives would not be inherently governmental functions and could be entrusted to nongovernmental entities.

Foreign assistance is not going to be excluded from ongoing debates about fiscal restraint. The U.S. government’s development and foreign policy system should anticipate these transitions, prepare for them immediately, and convey its intentions to recipient countries. Otherwise, assistance transitions will be forced by the political and budgetary process that generally guides these decisions and overrides the development and foreign policy objectives that the transitions are intended to achieve.

1

INTRODUCTION

Middle-income countries are a key area where the United States should radically rethink how it uses its limited foreign assistance resources and seek to shift its bilateral relationships toward trade and broader forms of cooperation.¹ The U.S. Agency for International Development (USAID) has already announced that it is examining transitions from a number of middle-income countries by 2015. Many middle-income countries have made tremendous strides in both the economic and political spheres during the past decade. These countries—some with trillion-dollar economies, membership in the Group of Twenty, and space exploration programs—are no longer the struggling, at-risk nations that initially drew U.S. development support. It is increasingly difficult to justify spending U.S. government funds on foreign assistance to such countries with more than adequate resources to finance their own development needs, particularly at a time of fiscal austerity in the United States. Nevertheless, segments of the State Department, USAID, Congress, and to a lesser extent the development community are reluctant to end traditional assistance, due to a number of vested interests that are threatened by such transitions.

The development community recognizes, for the most part, the need to shift development priorities and focus limited resources, and thus especially to repurpose U.S. bilateral relationships with middle-income countries, with greater attention to building partnerships in trade and other forms of cooperation. The United States' relationships with successful middle-income countries should resemble the ones it has with South Korea and Chile, just two examples of former recipients of U.S. assistance that pursued a path to prosperity and became steadfast U.S. partners. Although only a handful of countries are explicitly slated for transition from U.S. assistance, the experience of this group has implications for dozens of other countries over the next 5 to 10 years.

The current administration acknowledges the need to refocus U.S. development resources. In September 2010, President Barack Obama issued the first-ever Presidential Policy Directive on Global Development, emphasizing the need for the United States to be “selective about where and in which sectors it works.”²

However, phasing out assistance to middle-income countries is more than a question of limited money. With respect to middle-income countries, the United States has a series of growing trade and cooperation interests that are no longer being served effectively by a traditional development presence in those countries. These governments, furthermore, welcome or at least do not

1. The World Bank defines lower-middle-income economies as those whose GDP per capita falls in the range \$1,006 to \$3,975, and upper-middle-income economies in the range \$3,976 to \$12,275. Among this report's four focus countries, India belongs in the former category and Russia, Brazil, and Panama in the latter. World Bank, “Country and Lending Groups,” <http://data.worldbank.org/about/country-classifications/country-and-lending-groups>.

2. White House, “Fact Sheet: U.S. Global Development Policy,” September 22, 2010, <http://www.whitehouse.gov/the-press-office/2010/09/22/fact-sheet-us-global-development-policy>.

Box 1.1. Terminology in This Report

This report avoids the words “exit” and “graduation,” terms often used in similar discussions. The former word implies ending the U.S. government’s presence in a country altogether, while the latter has a condescending connotation. When the United States ends its official assistance programs in a country, it stays engaged in that country through a variety of other avenues. Neither term reflects the evolving nature of the bilateral relationship—namely, the opportunity to make a transition from foreign assistance funding from the U.S. government to a deeper trade and cooperation partnership more reflective of the countries’ shared interests.

oppose the possibility of transitioning away from U.S. assistance in the near future. As their global assertiveness grows, these countries are finding it increasingly difficult to reconcile receiving official U.S. foreign assistance with their ambition to trade and cooperate—and sometimes compete—with the United States on an equal footing (box 1.1).

Middle-income countries also offer the path of least political resistance for trimming the foreign assistance budget, in a period when some cutting might be needed. Therefore, the question is not whether U.S. assistance to successful middle-income countries should be phased out, but rather what is the best way to proceed with the inevitable transition to a relationship based on trade and cooperation. However, organizations often find it counterintuitive to plan themselves out of existence, and the inherent challenges in doing so result in external decisionmaking processes, which are often political or purely budgetary, to force the transition. Because transitions involve a wider scope of factors than just development realities, the implementers of U.S. assistance may not always be the ones pushing for transition and thus may be caught

unawares. Given the geostrategic thinking that such transitions entail, not to mention the inherent structural challenges, these decisions require leadership from the White House and the secretary of state. When the time comes for a particular assistance relationship to be transitioned, the relevant actors should already have a strategy in mind and a concrete plan in hand for shifting the bilateral relationship to a post-foreign assistance cooperative partnership.

Many of the countries where U.S. foreign assistance will end in the near future are emerging global powers with which the United States cannot afford to jeopardize bilateral interests.³ As these countries begin to play a greater global role, it is incumbent upon the United States to remain engaged with them in a meaningful capacity through cooperative platforms in a variety of sectors. A clear transition strategy is needed to create linkages between key U.S. and recipient-country institutions (including private-sector actors) and to deepen trade, in arrangements that continue to serve U.S. national interests and maintain the hard-earned legacy of U.S. foreign assistance. This is not a crisis, but rather a moment to rebalance U.S. development portfolios; the U.S. government, likewise, would better serve its national interests with a strategic repurposing of its foreign assistance, whereby it would increase trade and other forms of cooperative engagement.

Historically, U.S. assistance transitions have yielded mixed results vis-à-vis long-term U.S. interests, and, as described in this report, these past cases can provide insights for creating a more

3. Indeed, some countries hold such geostrategic significance for the United States that assistance to them will continue long beyond the period determined by purely development metrics. The Mérida Initiative in Mexico is one such assistance program. Israel is another country that, based on economic indicators, would no longer be a recipient of U.S. foreign aid, but the unique U.S.-Israel relationship entails a continuing assistance component.

comprehensive and effective transition strategy for USAID. Withdrawing hastily without putting in place mechanisms that build upon the U.S. assistance legacy could damage U.S. interests by leaving a vacuum for rival powers to exploit; China, for example, has already demonstrated its ability to gain a foothold in new regions through development projects. At the same time, assistance from the United States in the form of grants is not what is needed in most middle-income countries. Rather, assistance makes more sense in the form of trade and investment, greater people-to-people exchanges, partnerships in science and technology, helping countries become better donors on their own, and supporting the development of local philanthropy and civil society.

This report advocates moving away from “150 Account relationships” with middle-income countries in favor of bilateral partnerships that leverage common trade and other cooperation interests.⁴ A non-150 Account relationship entails an end to traditional government-to-government assistance and instead means higher levels of trade and a bigger role for the Overseas Private Investment Corporation (OPIC), the Export-Import Bank (Ex-Im Bank), and the U.S. Trade and Development Administration (USTDA), as well as increased technical and educational exchanges, funded by sources other than the U.S. government.

Because middle-income countries are likely among the first on the chopping block, USAID, the State Department, and Congress should immediately begin preparations for a strategic repurposing of limited resources, as part of a broader reframing of the U.S. relationship with middle-income countries in general. Such a reconceiving of U.S. bilateral relationships with middle-income countries would not only free up scarce foreign assistance resources but would also benefit U.S. trade and foreign policy goals.

Transitional Instruments Other Than Official Development Assistance

In addition to providing official development assistance through its traditional development agencies, the U.S. government also has a number of other development instruments at its disposal. These instruments can facilitate U.S. development and economic interests beyond simple government-to-government transfers of funds and thus need to be a central part of a U.S. strategy for transitioning to a trade and cooperation relationship with middle-income countries. And as the United States pursues this strategy, these instruments can act as bridges by catalyzing private investment, sharing risks, and often earning financial returns on their activities. The following paragraphs briefly introduce each instrument.

USTDA supports U.S. firms and economic growth in emerging economies by facilitating trade and investment opportunities. It connects private-sector actors and provides some of the technical assistance and capacity building needed to foster a better business environment in the countries where it operates. USTDA sees itself at the intersection of trade and development and is therefore ideally suited for middle-income countries, which are coming to terms with and seeking to maximize their increasing trade and investment potential. In this sense, USTDA is perhaps the ideal bridge institution between an assistance relationship and a trade and investment partnership.

The Development Credit Authority (DCA) is not an institution but rather an instrument that USAID missions can apply as part of their development efforts. Through DCA, a USAID mission

4. The term “150 Account relationships” refers to Function 150, the International Affairs Account of the federal budget, commonly known as the “150 Account.”

Box 1.2. The Special Case of the Millennium Challenge Corporation

The Millennium Challenge Corporation (MCC) was created in 2004 as a new, alternate form of U.S. foreign assistance in coordination with efforts to meet the United Nations' Millennium Development Goals. The MCC is expected to select countries that receive funding on a competitive basis, according to policy performance. In addition, MCC initiatives are led and implemented by recipient countries. Grants are distributed in two forms: compacts and threshold programs. The monetarily larger grants are compacts, five-year grants for countries that pass the selection standards for good governance, economic freedom, and investment in citizens. Upon the end of the five years, a new compact may or may not be issued in that country.

In this budget environment, second compacts with countries are increasingly unlikely. To date, the MCC's approach to development has not adequately envisioned postcompact scenarios, and it is often unclear what sort of legacy U.S. assistance leaves in countries upon completion of MCC compacts. In cases where MCC funding will end after one compact, the MCC needs to leave behind a set of policy practices and perhaps institutions that can bear the results of U.S. assistance. From now on, the MCC will need to be explicit about what it plans for its compacts to leave behind in recipient countries.

can provide risk guarantees of up to 50 percent for local lending institutions that are either reluctant to provide loans to entrepreneurial ventures or that otherwise charge very high interest rates. In the context of assistance transitions, DCA is a particularly valuable instrument because it promotes the investor confidence and entrepreneurial environment that are ideal legacies of U.S. assistance. Although DCA does require U.S. government funding, it can leverage modest amounts of taxpayer money to yield impressive results.

OPIC is considered the U.S. government's development finance institution. Through loans, project financing, and some investment guarantees, OPIC supports American companies (and ventures with at least 50 percent American ownership) looking to invest abroad, particularly in emerging markets. The major advantages of OPIC as an alternative instrument during assistance transitions are that it returns money to the U.S. Treasury, is self-funding, and imposes no additional costs on taxpayers. USAID missions in middle-income countries should use some of their limited development dollars to support OPIC's technical assistance and capacity-building activities and investment projects, or to encourage more aggressive risk sharing in cooperation with OPIC.

Similarly, Ex-Im Bank provides trade financing to U.S. exporters as well as to potential foreign purchasers of American products. Through loan guarantees, Ex-Im Bank helps reduce perceived risk for U.S. firms looking to export their goods to more challenging markets. In a middle-income country undergoing U.S. assistance transition, Ex-Im Bank can help attract more U.S. investment, turn that emerging economy into a profitable market for American exports, and bolster the bilateral trade relationship. There is also the case of the Millennium Challenge Corporation (box 1.2). For more detailed information on the capabilities of the U.S. government's nontraditional development instruments, see the December 2011 CSIS report *Sharing Risk in a World of Dangers and Opportunities: Strengthening U.S. Development Finance Capabilities*.⁵

5. This report is available at http://csis.org/files/publication/111205__Runde_SharingRisk_Web.pdf.

Middle-Income Countries: Moving to a Non-150 Account Relationship

Middle-income countries present the U.S. government with choices about the division of labor in its foreign assistance architecture. Much of what the United States and its upper-income donor peers currently allocate in aid every year to middle-income countries could instead be shouldered significantly by the regional development banks and the World Bank, institutions that are flush with resources after their recent general capital increases. As the United States and other bilateral donors draw down their foreign assistance presences, they can entrust some of their development interests to these multilateral development banks.

With respect to middle-income countries, the United States should focus its limited resources on catalytic funding, namely, creating or enhancing institutions that can facilitate U.S. bilateral partnerships with these countries. After an initial injection of capital, these institutions should seek to become sustainably self-funding, thus obviating the need for yearly U.S. government funding; considering the financial capabilities of middle-income countries, indefinitely spending taxpayer dollars on assisting them is neither strategically expedient nor justifiable. Currently, continued U.S. foreign assistance to countries that should be moving beyond such aid is explained in part by congressional earmarks that serve parochial special interests more than they do U.S. development and foreign policy goals. Repositioning U.S. foreign assistance to better serve these goals will therefore require a shift in mindset in Congress, where the development community has at times been ineffective in communicating the purpose and scope of assistance.

It is evident that the United States' relationship with many rising middle-income countries is undergoing a fundamental shift. Government officials, private-sector actors, and even representatives of nongovernmental organizations in these places have made it abundantly clear that their countries neither depend on nor particularly desire traditional U.S. foreign assistance. Instead, they seek a different sort of relationship with the United States, one built on more trade and constructive strategic engagement around mutual interests. That this sentiment is very nearly universal speaks volumes about middle-income countries' changing expectations of the United States. These countries want partnerships with the United States, and though they still do not match the United States in economic and political strength (nor will they in the medium term), the conventional donor–donee paradigm mischaracterizes the true nature of the evolving relationship. Traditional U.S. assistance programs in these countries have a limited impact at best and serve to distract from opportunities to foster more mutually advantageous partnerships. More than ever, what matters is the *quality*, not the quantity, of U.S. dollars going to middle-income countries. The U.S. government, by taking a few concrete and farsighted steps to form true partnerships, can advance bilateral trade and investment relations with these countries to a much greater extent than could current assistance programs.

2

HISTORICAL PRECEDENTS AND CURRENT CANDIDATES

The current spate of proposed assistance transitions is not the first time that the U.S. government has undertaken a large-scale reduction in the scope of its development activities. Similar series of transitions have occurred in the past, some triggered by pressing budgetary realities, akin to the current impetus for reevaluating the U.S. government's development strategy. Between 1990 and 1997, the U.S. Agency for International Development (USAID) closed out 26 missions, for a variety of reasons, though low budgets and strong economic performance by recipient countries were certainly factors as well. Although some of these USAID phaseouts have proven to be prudent, others have drawn criticism for the precipitous nature of the withdrawal, which in some countries resulted in a failure to establish a foundation for a mutually beneficial bilateral relationship beyond the foreign assistance presence. Under the so-called out-is-out policy in the 1990s, U.S. development officials, including USAID staff, were left frustrated by the hastiness of the withdrawals, feeling that the withdrawals shortchanged not only development goals but also U.S. strategic interests in those countries.

Still other cases offer positive lessons that should inform the planning process behind future transitions. Thus, this chapter consists of cases studies of five countries where the U.S. government ended traditional assistance by closing its USAID mission: South Korea, Portugal, Lithuania, Costa Rica, and Tunisia. All five of these transitions were largely successful, though all suffered some missteps in the process, and in some cases, lingering issues that should inform present-day thinking on the question of ending U.S. assistance. The current batch of countries that may witness an end to U.S. assistance in the near future has experienced similar economic transformations as these five case studies.

The report's next chapter will examine four countries that are likely candidates for an assistance transition in the coming years: Russia, Brazil, India, and Panama (the USAID Mission in the latter country will officially close on September 30, 2012). Like South Korea, which developed from a severely impoverished society into a country capable of competing with the world's leading economies, countries like Brazil and Panama have witnessed economic booms of their own. In traditionally inequitable societies such as Brazil and India, where the poor population remains large, millions of people have nonetheless climbed out of poverty in the last two decades alone. This rise in domestic human indicators has been accompanied by these countries' growing assertiveness abroad, both regionally and beyond.

As these four countries approach the end of their status as recipients of bilateral U.S. foreign assistance, the U.S. government would do well to look back at past transitions with countries that followed a similar economic trajectory. In the following pages, the five case studies of past transitions offer a broad set of recommendations on effective phaseout tactics as well as lessons learned on inadvisable approaches. No U.S. assistance transition has been flawless, and future ones will inevitably have their own shortcomings, but a measured transition strategy, informed by previ-

ous experience, will most effectively preserve U.S. interests and maximize the United States–host country partnership.

The five case studies below are structured to capture the possible motivations behind establishing and ultimately ending U.S. foreign assistance. These cases also consider the political and economic environments of the time, within the United States and the recipient country, both at the time of establishing assistance and that leading up to the transition. The cases examine not only the nature of U.S. assistance in each country but also the process through which the U.S. foreign assistance presence ended there, taking into account the country’s economic growth and U.S. budgetary realities. An equally significant area of study is the role that various actors played (or in some cases, did not play) in the decisionmaking behind the transition.

The ultimate success of a transition away from U.S. assistance, however, can be determined by the sequence of events that follows the end of assistance, including the preservation or even enhancement of U.S. interests vis-à-vis the country and the maturation of the bilateral partnership. Successful transitions have often been accompanied by legacy institutions that have effectively helped carry forward the U.S. bilateral relationship with a country (see boxes 2.1, 2.2, and 2.3). Furthermore, the success of a particular assistance transition can be measured by the increased level of trade between the United States and the former recipient country (see table 2.1), as well as the extent of bilateral cooperation in a number of focus sectors. (As explained in box 2.3, table 2.2 shows a sample of countries, among which a selective drawdown of U.S. assistance in the near future would lead to significant savings for the U.S. government.)

Box 2.1. “Legacy” Institutions

One way in which the U.S. government seeks to encourage continued interaction and cooperation with a former recipient country is through legacy institutions. One set of legacy institutions includes binational foundations, commissions, and endowed local organizations. *Binational foundations* are structured with joint governance between the United States and a foreign government. Although some binational foundations have more independence from U.S. oversight than others, they are each established in such a way that oversight decreases over time. A principal of mutual benefit often serves as an underlying framework for these foundations, although not every foundation supports this to the same degree. *Binational commissions* involve formal agreements and include the participation of high-level officials from both countries. Commissions are less prevalent and are often used outside USAID close-out strategies, such as the United States–South Africa Binational Commission. While USAID continues to operate a large mission in South Africa today, the commission was established in 1995 to “supplement” the bilateral relationship.

Another set of legacy institutions can be categorized as either endowments or sinking funds. *Endowments* serve specific purposes and only expend income earned from their assets, whereas the principal remains in place as investments. As with other legacy institutions, there is significant variation across endowments. Time horizons, funding sources, objectives, governance boards, and U.S. involvement and oversight can all vary. *Sinking funds*, conversely, are meant to spend their

continued next page

Box 2.1 (continued)

capital in its entirety, within a predetermined period of time. Endowments are utilized for two main purposes: either to provide financial stability for an institution or to fund local grant-making organizations. Despite the large initial investment that is required, endowments allow for the leveraging of alternative resources, making them beneficial when resources are constrained. For instance, the U.S.-Thailand Development Partnership (USTDP), a foundation established in 1996, was entrusted with both public and private funds. With the USAID mission in Thailand replaced by a regional program, USTDP's role was to use alternative funding to continue the transfer of U.S. expertise and technology to Thailand.

Historically, endowments have been a tricky proposition on Capitol Hill. After the initial establishment of an endowment, there is little to no need for annual appropriations from Congress. Endowments require relatively little oversight and can therefore encounter strong opposition from the Office of Management and Budget, the Appropriations Committees, and certain legislators in general. Putting together an endowment requires significant leadership and commitment not just from Congress but also from U.S. development and diplomatic officials (USAID and the State Department) as well as from the host country, and finding such congressional sponsors can be a prohibitively difficult task. Endowments also raise the question of protecting "donor intent," where the originally intended mission of an endowment is compromised through changing leadership. The recent conflict between the U.S. government and the Luso-American Foundation, revealed through WikiLeaks, highlights the relevance of preserving donor intent to U.S. interests in assistance transitions (for more information on this case, see the Portugal section of this chapter).

In addition to endowments and bilateral institutions, limited and strategic partnerships have also been used as alternatives to traditional mission presence. *Limited partnerships* represent a more focused strategy, typically in a few sector areas. *Strategic partnerships* are used when no USAID mission is present and involve local NGOs serving as the implementing partner. A final strategy, the *regional approach*, involves a regional office overseeing more limited assistance programs. USAID currently operates a number of regional programs throughout the world, such as the West Africa Regional Program in Ghana and the Regional Development Mission for Asia, based in Thailand. In the case of the upcoming Panama mission closure, the Central America Regional Program will help coordinate the transition process.

Sources: Kathleen Mikitin and Diane Osgood, *Issues and Options in the Design of GEF-Supported Trust Funds for Biodiversity Conservation*, Biodiversity Series 011 (Washington, D.C.: World Bank, 1993), as cited by Kathleen M. Horkan and Patricia L. Jordan, *Endowments as a Tool for Sustainable Development*, USAID Center for Development Information and Evaluation, USAID Working Paper 221 (Washington, D.C.: U.S. Government Printing Office, 1996).

Box 2.2. When to Transition: Thoughts for Diplomats and Development Experts

Some of the confusion and resistance within the diplomatic community surrounding the transition of a U.S. development presence from countries can be explained by the lack of strict criteria for determining when the transition should take place. Understandably, all such transitions in the past have been based on primarily political and budgetary decisions, rather than on ideal development realities. This was particularly true for some of the hasty USAID mission closures in the 1990s, transitions that did little to maintain or build upon the U.S. development legacy in the affected countries. However, even in cases where development realities are the ostensible reason for transitioning U.S. interests, there are no metrics in place to predictably trigger transitions in a uniform manner across the board. The pivoting of the United States' relations with a country will remain based on subjective notions of the economic success of the country in question.

Knowing when to draw down assistance to a country and replace that aspect of the bilateral relationship with a heavy emphasis on trade and cooperation has never been clearly telegraphed by U.S. foreign policy. The exact components of such a policy would be up to the White House, the State Department, and the relevant development agencies (e.g., USAID) to determine, but it could include quantitative measures of a country's economic performance or qualitative analysis of that country's geostrategic importance to the United States (and whether maintaining assistance to that country actually serves those interests). Having a strict set of metrics for the process is ultimately not feasible, and attempting to develop one is asking the wrong question. The U.S. government should nevertheless, to the extent possible, make this decisionmaking more transparent and predictable, so as not to leave others, including its own officials, in a lurch. Many past transitions away from U.S. development assistance would have been smoother processes for all parties involved if the thinking behind them had been more open and the transition itself more foreseeable. All such transitions will involve either a forced political or budgetary decision, to some extent, over pure development realities; nevertheless, it is best to have at the very least a general idea, openly known and agreed upon, of when or under what circumstances a transition will take place.

Box 2.3. Unwanted Aid: Serving or Hampering U.S. Interests?

Over the last decade or so, a number of countries have grown increasingly vocal and demanded more recognition, rights, and responsibility in a global context. Countries like Brazil and India, among others, consider themselves on a more-or-less equal footing with more established powers like the United States and China. Some of these countries (including Brazil, India, and Russia) are members of the Group of Twenty, which includes the world's largest economies; have operational satellites; and have launched or are planning to launch official foreign assistance agencies of their own. These countries also display very little if any interest in maintaining existing U.S. foreign aid programs. Considering the scale of these countries' economies and the minimal impact of current U.S. development programming there, it is not difficult to see why they feel this way.

The indifference shown by rising middle-income countries toward U.S. assistance makes the justification for continuing development programs in those countries even more difficult. If certain countries wish to be treated as equal partners, then there is little reason for the United States to continue funding traditional development efforts as part of its policy toward them, particularly in the current environment of austerity. This reality applies not just to the United States but also to all rich donor countries with traditional aid programs. The finance minister of India has even gone so far as to explicitly repudiate foreign assistance from the United Kingdom. Awkward incidents such as this will occur more and more often as conflict brews between the outdated development model and the growing ambitions of middle-income countries.

Some would argue that an official development presence can yield political benefits beyond what is possible in the context of standard diplomacy. Yet having a U.S. development presence in countries such as Russia and India no longer carries favor with those governments, certainly not enough for them to adjust their foreign policies in line with U.S. interests. The U.S. government continues to fund development programs in such places at the expense of its own greater interests there and to the benefit of domestic interest groups. U.S. foreign policy goals are not necessarily directly damaged by maintaining development assistance to countries that no longer need or want it, but continuing to pursue development projects in some middle-income countries distracts from cooperation activities that would better serve U.S. interests with respect to those countries. Table 2.2 shows a sample of countries, among which a selective drawdown of U.S. assistance in the near future would lead to significant savings for the U.S. government.

Table 2.1. Moving from Aid to Trade, 1985–2011 (millions of dollars, on a nominal basis)

| Country and Year | Bilateral Trade in Goods with the United States |
|-------------------------|--|
| Costa Rica | |
| 1985 | 923.0 |
| 1990 | 1,991.7 |
| 1996 (USAID transition) | 3,790.6 |
| 1997 | 4,347.7 |
| 1999 | 6,348.5 |
| 2011 | 16,236.5 |
| Portugal | |
| 1985 (USAID transition) | 1,240.5 |
| 1986 | 1,189.9 |
| 1990 | 1,754.2 |
| 2005 | 3,460.6 |
| 2011 | 3,903.0 |
| South Korea | |
| 1980 (USAID transition) | 9,118 |
| 1983 | 12,952 |
| 1985 | 15,969.6 |
| 1990 | 32,889.6 |
| 2001 | 57,362.2 |
| 2011 | 100,140.5 |
| Lithuania | |
| 1998 | 143.0 |
| 1999 | 163.0 |
| 2000 (USAID transition) | 194.6 |
| 2001 | 264.2 |
| 2005 | 1,023.9 |
| 2011 | 2,186.3 |
| Tunisia | |
| 1993 | 273.0 |
| 1994 (USAID transition) | 381.2 |
| 1995 | 285.3 |
| 2000 | 383.2 |
| 2011 | 938.0 |

Sources: U.S. Census Bureau, "U.S. Trade in Goods by Country," <http://www.census.gov/foreign-trade/balance/#K>; Larry L. Burmeister, "Development Dilemma: Trade Pressures and Agricultural Sector Adjustment," *Asian Survey* 30, no. 7 (July 1990): 711–723, <http://www.jstor.org/stable/2644560>.

Table 2.2. Sample of Countries for Which a Selective Drawdown of U.S. Assistance Would Lead to Significant Savings for the U.S. Government

| Type of Country | FY 2012 U.S. Foreign Assistance (millions of current dollars) ^a | Possesses Its Own Official Bilateral Aid Program? | Has Operational Satellite(s) in Space (as of 12/31/11)? ^b | Has a Sovereign Wealth Fund? | Is a Group of Twenty Member? |
|--|--|---|--|------------------------------|------------------------------|
| Countries of limited or no strategic interest to the United States^c | | | | | |
| Brazil | 17.2 | X | X | X | X |
| China | 14.3 | | X | X | X |
| Cyprus | 3.5 | X | X | | |
| India | 108.0 | X | X | | X |
| Ireland ^d | 2.5 | X | | X | |
| Kazakhstan | 18.8 | | X | X | |
| Macedonia | 19.1 | | | | |
| Mongolia | 7.1 | | | X | |
| Peru | 83.6 | | | | |
| Russia | 62.9 | X | X | X | X |
| Serbia | 38.9 | | | | |
| South Africa | 500.3 | | X | | X |
| Timor-Leste | 14.5 | | | X | |
| Turkey | 4.9 | X | X | | X |
| Ukraine | 113.9 | | X | | |
| Vietnam | 107.7 | | X | X | |
| Total | 1,117.2 | | | | |
| Countries of clear strategic interest to the United States for the foreseeable future^e | | | | | |
| Indonesia | 180.0 | | X | X | X |
| Nigeria | 625.4 | | X | X | |
| Mexico | 330.1 | X | X | X | X |
| Pakistan | 1,562.6 ^f | | X | X | |
| Colombia | 383.0 | | | | |
| Total | 3081.1 | | | | |

^a Source: Foreign Assistance Dashboard, <http://www.foreignassistance.gov>.

^b Source: See http://www.ucusa.org/assets/documents/nwgs/UCS_Satellite_Database_1-1-12.xls.

^c Continuing U.S. interests in these countries would be better pursued through a post-assistance binational institution.

^d This reflects U.S. assistance to the International Fund for Ireland, which works in both the Republic of Ireland and Northern Ireland.

^e Over the next three to five years. "Countries of clear strategic interest to the United States" refers to countries that are significant sources of trafficking in drugs or persons, or that are U.S. allies threatened by terrorism or domestic insurgencies.

^f Includes costs of Overseas Contingency Operations budget.

Case Studies of Past Transitions

This chapter examines five countries where, upon ending assistance, the United States established and maintained legacy mechanisms to pursue long-term strategic goals. These five countries were selected for variety in region and in political and historical context. The Cold War, shifting attitudes toward foreign assistance in the U.S. Congress, and recently even the Arab Spring are just some of the factors that have shaped the presence of U.S. assistance and its ultimate drawdown from countries in the last few decades.

South Korea is considered one of the staunchest military allies and most reliable economic partners of the United States. This strong relationship is the product of a long-standing development dynamic that transitioned smoothly into a cooperation partnership. Concerns over North Korean aggression, from the height of the Cold War and continuing to this day, have ensured deep bilateral engagement by the United States in South Korea. After providing massive support in building South Korea's economy and defending the country's territorial integrity, the United States also helped establish institutions that have guaranteed a strong U.S.–Korean relationship beyond assistance from USAID, which closed its mission in Seoul in 1980.

Among the countries of the former Soviet Union, the Baltic Sea states have experienced the smoothest paths toward democracy and a functioning market economy. The USAID missions in Estonia and Latvia closed in 1996 and 1999, respectively, and in 2000, Lithuania became the final Baltic country to transition from a U.S. foreign assistance presence. The opening and closing of USAID missions in much of postcommunist Europe differed fundamentally from the equivalent process elsewhere, as the missions were planned with a short-term life span already in mind, and Lithuania was no exception. The United States–Lithuania relationship has since benefited from continuing cooperation through institutions established as part of the larger foreign aid agenda. Through these mechanisms, a variety of exchanges and programs carry on the legacy of U.S. foreign assistance in Lithuania, at no cost to the U.S. government.

USAID established a mission in Costa Rica at the height of the Cold War to bolster that country's economy in light of creeping communism, and the U.S. assistance presence lasted until 1996. The United States–Costa Rica relationship continues to be strong and mutually beneficial, and this stability in cooperation stems partly from the establishment of an effective legacy institution, though the United States has terminated its involvement. Looking forward, USAID's Costa Rica experience offers guidance on establishing lasting bilateral linkages, beyond foreign assistance, as the basis for a steady relationship that can survive political and economic ups and downs.

The USAID Mission in Portugal was established to support the country's struggling economy and, as in the case of Costa Rica, help the government ward off the potential threat of a communist takeover. Because Portugal was already a middle-income country when USAID opened its program in 1975, the mission was kept small, with a purposefully limited time horizon, and it primarily funded projects that had been designed by the Portuguese government and were carried out by Portuguese nationals in conjunction with American technical experts. The Portuguese ownership and implementation of these projects was a key factor in facilitating a smooth phaseout of the USAID mission by 1985, with funding for unfinished projects carried over after the mission had officially closed. Furthermore, the subsequently established Luso-American Foundation has been a major factor in facilitating a continuing relationship between Portugal and the United States.

Until 1994, USAID maintained a presence in Tunisia in support of the country's Western-leaning rulers. In more than three decades of USAID activity in Tunisia, the country made significant progress on a number of indicators, including market liberalization and women's rights; and with additional pressure coming from budgetary concerns at USAID, the Tunisia mission was deemed ready for closure by the 1990s. Since then, the United States has continued bilateral cooperation with Tunisia through a number of partnerships, though no official bilateral legacy institution was established. Despite the mission's overall accomplishments, Tunisia's post-foreign aid experience has not been uniformly positive, with political freedom suffering particularly and leading to the chain of events that sparked the Arab Spring. Uniquely among these five case studies, Tunisia is now once again host to a USAID presence. After the January 2011 uprisings that overthrew the dictatorship, USAID's Office of Transition Initiatives started a program in Tunisia to help the transitional government consolidate advancements in governance.

South Korea

Background

South Korea is widely considered a major development success story: Its rapid ascension from postwar poverty to prosperity and its continuing positive relationship with the United States make it a valuable case study on the viability of repurposing a bilateral relationship from one of donor-donee to one based on partnership.

Following World War II, preventing the progression of communism was a national security priority for the U.S. government, whose policy of containment included providing assistance to countries considered to be "at risk" of communist incursion. When North Korea invaded its southern neighbor, the United States immediately joined forces with South Korea to repel the threat.¹ The war damaged South Korea's already-weak infrastructure and economy,² and it isolated the South from the peninsula's industrial and energy heartland in the North,³ leaving standards of living in South Korea comparable to those in Sub-Saharan Africa.⁴ The United States, concerned about South Korea's vulnerability to communism, immediately commenced a major development program in the devastated nation.⁵

U.S. Assistance to South Korea

The United States provided extensive support to South Korea in virtually every sector in the post-war period. In the 1950s, the United States at times provided one-third or more of South Korea's

1. Richard T. Detrio, *Strategic Partners: South Korea and the United States* (Washington, D.C.: National Defense University Press, 1989), 6.

2. Anne O. Krueger and Vernon W. Ruttan, "Assistance to Korea," in *Aid and Development*, edited by Anne O. Krueger et al. (Baltimore: Johns Hopkins University Press, 1989), 226–227.

3. Congressional Budget Office (CBO), "The Role of Foreign Aid in Development: South Korea and the Philippines," CBO Memorandum, September 1997, 6, http://community.eldis.org/.59ed3723/USCBO_Role%20of%20Foreign%20Aid%20in%20Development%20South%20Korea%20and%20the%20Philippines_1997.pdf.

4. Punday Pillay, "Chapter 4: South Korea," in *Linking Higher Education and Economic Development: Implications for Africa from Three Successful Systems* (Wynberg, South Africa: Centre for Higher Education Transformation, 2010), 71.

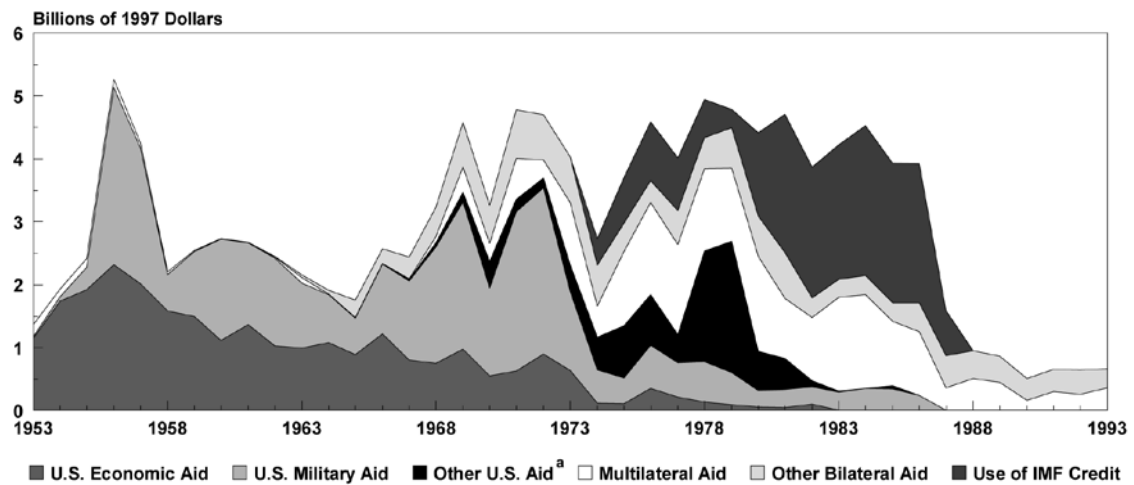
5. USAID, *AID Programs in the Far East*, April 1966, 9, http://community.eldis.org/.59ed3723/Aid%20Programs%20in%20the%20far%20east_USAID_1966.pdf.

overall governmental budget, with the figure reaching 58 percent in 1956.⁶ From 1953 to 1963, the United States was the only significant source of foreign assistance to South Korea.⁷

Initially, the United States provided assistance primarily in the form of grants and technical assistance. After 1970, the predominant form was concessional loans; and by 1975, loans from the Export-Import Bank (Ex-Im Bank) formed the largest portion of U.S. assistance to South Korea.⁸ Although the United States directed funds across a variety of sectors, its program placed a particular emphasis on investments in agriculture, land development, and economic growth.⁹

As figure 2.1 shows, massive U.S. military assistance to South Korea also played a prominent role in American development programming, subsidizing one of the largest sectors of South Korean public spending.¹⁰ Between 1946 and 1976, the United States provided more than \$6.8 billion in military assistance to South Korea (not including the huge infusions of military support provided during the war). This slightly outpaced economic assistance funding, at approximately \$5.7 billion.¹¹

Figure 2.1. Foreign Assistance to South Korea, 1953–1993



Source: Congressional Budget Office, “The Role of Foreign Aid in Development: South Korea and the Philippines,” CBO Memorandum, September 1997, 16.

6. CBO, “Role of Foreign Aid,” 21.

7. Ibid., 17.

8. Ibid., 14.

9. Ibid., 19–21.

10. Edward S. Mason et al., *The Economic and Social Modernization of Korea* (Cambridge, Mass.: Harvard University Press, 1980), 183–84.

11. In historical dollars, for comparison purposes; *ibid.*, 183.

In the 1960s, assistance from other sources began to complement U.S. efforts. South Korea received its first loan from the World Bank in 1962,¹² other bilateral donors emerged in 1965,¹³ and the Asian Development Bank followed suit in 1968.¹⁴ By then, South Korea had embarked on a prolonged period of high growth, such that the eventual closing of the USAID mission was seen as a foregone conclusion.¹⁵ This growth, coupled with the gradual rise in multilateral assistance, led the United States to steadily scale back its direct bilateral assistance, a trend that continued until the official closing of the USAID Mission in South Korea in 1980.¹⁶

As South Korea developed and the United States' perception of its political vulnerability abated, USAID began to focus on programs with greater host country involvement, aiming for eventual postassistance sustainability. In the late 1950s, the U.S. government started to apply more pressure on South Korea to show stronger development results. Initial investments in agricultural infrastructure were accompanied by programs providing food and other necessities for rural dwellers, while seeking to support that population in developing self-sufficiency.¹⁷ For example, U.S. assistance was instrumental in the creation of the Office of Rural Development, which combined agricultural research and extension services,¹⁸ and which evolved into today's Rural Development Administration,¹⁹ the South Korean government's central agricultural extension and research organization.²⁰

The Phaseout Process

USAID cited South Korea's advances in development, rather than budgetary concerns, as the official reason for the mission's closure.²¹ One USAID official present at the time confirms that budgetary concerns were not a prominent topic of discussion regarding the closure.²² Neither USAID nor the South Korean government issued great protest,²³ because the mission's closure had been anticipated well in advance of 1980; one former senior USAID–South Korea official noted that both parties were aware that closure was imminent at least two years before departure.²⁴

12. Kye Woo Lee, "Borrowing from the World Bank for Education: Lessons from Korea and Mexico," *Journal of International Cooperation in Education* (CICE Hiroshima University) 13, no. 2 (2010): 59.

13. Krueger and Ruttan, "Assistance to Korea," 232.

14. *Ibid.*, 232.

15. Mason et al., *Economic and Social Modernization*, 181.

16. Krueger and Ruttan, "Assistance to Korea," 233.

17. *Ibid.*, 246.

18. David Steinberg, *Foreign Aid and the Development of the Republic of Korea: The Effectiveness of Concessional Assistance*, USAID Special Study 42 (Washington, D.C.: U.S. Government Printing Office, 1985).

19. Yeong-Cheol Cho, "Agricultural Extension Programs in Korea," *Proceedings of AARDO International Workshop 2003: Agricultural Technology Transfer and Its Consequences*, n.d., 201, http://ir.tari.gov.tw:8080/bitstream/345210000/3182/1/publication_no107-12.pdf.

20. Rural Development Administration, "About RDA" and "International Cooperation," <http://www.rda.go.kr/foreign/eng/>.

21. Fred C. Shaver, AAG/EA to William E. Paupe, AID Representative USAID-Korea, July 10, 1980, Memorandum Audit Report 2-489-80-16: Termination of USAID-Korea Mission Activities, 2, http://community.eldis.org/.59ed3723/txFileDownload/f.59ed3723/n.USAID_Termination%20of%20USAID%20Korea%20Mission%20Activities_1980.pdf.

22. Interview with a former senior USAID-Korea official.

23. *Ibid.*

24. *Ibid.*

By 1980, staffing levels had been significantly reduced, most projects were considered “complete,” and the associated funds were entirely disbursed before departure. The few remaining uncompleted projects were planned for on a case-by-case basis.²⁵ Close-out documentation from the time demonstrates that USAID staff focused on more immediate concerns, such as final disbursements and staffing decreases, rather than planning for future United States–South Korea engagement.²⁶

Nor was the close-out seen as hasty or premature from the South Korean perspective. From 1962 to 1976, South Korea maintained an average growth rate of 10 percent a year. Exports grew from approximately \$50 million to nearly \$8 billion, per capita income skyrocketed, and agricultural yields increased dramatically. The South Korean economy was in such good shape, particularly in comparison with the region, that the U.S. government even approached the South Korean government regarding the possibility of the latter’s participation or ownership of U.S. assistance activities in nearby countries.²⁷

Legacy Institutions and Paths of Bilateral Cooperation

Despite the USAID withdrawal, many institutions and projects implemented with USAID funding continued to function effectively under South Korean management. Examples are the Office of Rural Development; the Korean Institute of Science and Technology, a multidisciplinary research institute and the South Korean counterpart to the U.S. National Academy of Sciences; the Korean Development Institute, which promotes the continued economic advancement of South Korea; and the Korean Educational Development Institute.²⁸

Additionally, some U.S. government development activities continued through agencies like the Overseas Private Investment Corporation (OPIC), Ex-Im Bank, and the U.S. Trade and Development Agency (USTDA). USTDA’s history of activities in South Korea began in 1983; through September 2011, it had provided more than \$6.6 million in funding to stimulate economic and infrastructural growth in South Korea while promoting U.S. job creation.²⁹ OPIC’s activities in South Korea have been influential as well—from fiscal year (FY) 1974 through FY 2010, OPIC provided nearly \$675 million in financing and insurance for projects in South Korea.³⁰

The extensive bilateral relationship has led to significant nongovernmental ties as well, such as linkages between South Korean and U.S. institutions. For example, during the era of the USAID mission, the Korea Research Institute of Standards and Science and the National Institute of Standards and Technology developed a relationship that has been maintained over time.³¹ Similarly, the Korea Institute of Science and Technology, which was founded in 1966 with partial funding

25. Memo from Shaver to Paupe, 2.

26. *Ibid.*

27. Interview with a former senior USAID–Korea official.

28. Steinberg, *Foreign Aid*, 87.

29. The \$6.6 million amount is in historical dollars. U.S. Trade and Development Agency, “USTDA/Korea History,” on file with the author.

30. This is in historical dollars. Interview with a senior OPIC official.

31. Interview with a former senior USAID-Korea official.; also see Korea Research Institute of Standards and Science (KRISS), “7th U.S.-Korea S&T JCM,” News and Events, n.d., http://www.kriss.re.kr/eng/communy/01_1view.html?code_id=31&b_index=576&gotopage=2.

from USAID,³² maintains several partnerships with American institutions,³³ and it has placed a South Korean foreign associate in the U.S. National Academy of Sciences.³⁴

Private-sector ties between the United States and South Korea are likewise extensive, particularly in joint venture relationships.³⁵ These partnerships have traditionally served as the primary method of U.S. investment in South Korea.³⁶ The USAID-funded Participants' Training Program also produced strong United States–South Korea ties.³⁷ One senior official with the USAID Mission in South Korea expressed the impression that this program was central in maintaining informal channels of United States–South Korea coordination and communication.³⁸ Under this program, graduate-level training was received by more than 4,000 South Koreans, many of whom became prominent figures in South Korea's public and private sectors.³⁹ These participants frequently maintained social and professional networks in the United States following their return, including participation in strong alumni networks, which became an important factor in the post-assistance United States–South Korea relationship.⁴⁰

Additional USAID programs benefited South Korea long after their creation. For example, through the Development Loan Program, the United States provided loans at zero percent interest rates, with small service fees, to the South Korean government and domestic lending institutions. Those institutions then on-lent those funds to end users at a low interest rate, repayable in local currency; and repaid funds were diverted into other programs to facilitate additional loans.⁴¹ Although this program was eventually canceled, many of these funds are still operational.⁴²

Nongovernmental bilateral organizations have also helped to facilitate the continuing partnership between the United States and South Korea. The Korea-U.S. Economic Council (KUSEC) is a South Korean organization promoting closer economic links between the two countries,⁴³ and the U.S.-Korea Business Council and the Korea-U.S. Business Council were established as spin-offs of

32. William Paupe, "The Korea Institute of Science and Technology (KIST)," November 17, 1981, 7, http://pdf.usaid.gov/pdf_docs/PNAAP798.pdf.

33. KIST, "Agreements," http://www.kist.re.kr/en/ic/cs_na.jsp. List some of the insititutions.

34. National Academy of Sciences, "Member Directory," http://nas.nasonline.org/site/Dir/2056766968?pg=vprof&mbr=1014433&returl=http%3A%2F%2Fnas.nasonline.org%2Fsite%2FDir%2F2056766968%3Fpg%3Dsrch%26view%3Dbasic&retmk=search_again_link.

35. Interview with a senior USAID official present at close of mission; for references to the prevalence of these joint ventures today, also see "Exports from the Heartland to Seoul: How the U.S.-Korea Free Trade Deal Will Help Americans," <http://thirdway.org/events/36/transcript>.

36. Inbom Choi and Jeffrey J. Schott, *Free Trade between Korea and the United States? Policy Analyses in International Economics* (Washington, D.C.: Institute for International Economics, 2001), 17.

37. The information about the Participants' Training Program is from an interview with a former senior USAID–Korea official. Similar programs continue in operation in other USAID missions, providing "short-term technical training or longer-term, degree-earning academic training for mid- to high-level professionals from the public and private sectors." USAID, "A Brief Overview: Participant Training," http://www.usaid.gov/our_work/education_and_universities/ptraining.htm.

38. Interview with a former senior USAID–South Korea official.

39. Ibid.

40. Ibid.

41. U.S. Information Service, "U.S. Aid to Korea: What It Is, How It Works, What It Means to Korea," 1963, 10, http://community.eldis.org/.59ed3723/US%20Aid%20to%20Korea%20Overview_USOM_1963.pdf.

42. Interview with a former senior USAID-Korea official.

43. See Korea-U.S. Economic Council, home page, <http://www.kusec.or.kr/main.action>.

KUSEC.⁴⁴ Additionally, the American Chamber of Commerce in Korea was founded in 1953, and its membership has grown to more than 2,000 (including more than 1,000 companies).

The degree of adjustment necessary after the USAID mission's closeout was significantly reduced by the United States' continuing military presence. Several experts cited the Mutual Defense Treaty—rather than any assistance activities—as the cornerstone of the United States–South Korea relationship,⁴⁵ and to a limited degree, the U.S. military presence in South Korea continues to this day.⁴⁶ Nevertheless, South Korea is a vital economic partner for the United States and is currently its seventh-largest trading partner,⁴⁷ a rank that is likely to rise following congressional approval of the U.S.-Korea Free Trade Agreement in 2011, after several years of negotiation. This agreement is expected to eliminate virtually all tariffs, liberalize cross-border services, expand the alliance, and facilitate private sector ties.⁴⁸

Lessons Learned

The USAID South Korean mission's close-out was considered to be a smooth end to a very successful program. However, U.S. assistance to South Korea was instituted within the parameters of a unique nation-to-nation relationship during the Cold War and a period of global economic growth. The bilateral military relationship, the threat of North Korean aggression and U.S. national security interests, and South Korea's unique aptitudes and geostrategic value distinguish the United States–South Korea partnership from U.S. relationships with other current and former recipients of USAID funding. Nonetheless, several valuable lessons can be drawn from this case study for planning and executing U.S. assistance transitions.

First, in planning the termination of an assistance program, whole-of-government coordination is invaluable. The activities of USTDA, OPIC, and Ex-Im Bank were initiated and/or continued following the phaseout of the USAID Mission in South Korea, maintaining an important facet of the United States–South Korea political relationship without imposing high costs on the United States as a donor. Additionally, the continuing U.S. military presence and the accompanying economic activity, though not necessarily instituted deliberately to facilitate this process, aided in a smooth transition.

Second, the U.S. government's engagement with private-sector organizations with a presence in the country helped the process. The participation of embassy officials in private-sector organizations—like the American Chamber of Commerce in Korea—helps to convey continuing U.S. dedication to the bilateral relationship. United States–based private-sector representatives also

44. Korea-U.S. Economic Council, "History," <http://www.uskoreacouncil.org/about/history>.

45. E.g., one former high-level Korean official cites the United States–South Korea alliance, which was cemented during the Korean War, as the "backbone" of our current political relationship. Interview with a former senior Korean diplomatic official.

46. One expert remarked that the U.S. military presence in Korea has at times created significant tension in the United States–Korea relationship, noting that mitigating this tension requires responsible management of forces and a prompt, high-level response to developing issues. Interview with a Korea expert from a private-sector organization, speaking on behalf of members.

47. This is as of December 2010, following only Canada, China, Mexico, Japan, Germany, and the United Kingdom. U.S. Census Bureau, "Trade Statistics: Top Trading Partners," <http://www.census.gov/foreign-trade/statistics/highlights/top/top1012yr.html>.

48. Office of the U.S. Trade Representative, "U.S.-Korea Free Trade Agreement," <http://www.ustr.gov/trade-agreements/free-trade-agreements/korus-fta>.

spoke highly of the U.S. government's facilitation of private-sector ties between the United States and South Korea.⁴⁹

Third, this case study underscored the value of a gradual and transparent transition process. Although a decades-long gradual reduction of staff and activities may not always be feasible, a measured and still-gradual approach aids in maintaining U.S. influence and minimizing some of the negative effects of transitions.

Finally, the United States–South Korea experience emphasizes the importance of developing partnerships and relationships during the course of assistance programs that can be sustained beyond the life of that assistance itself. The partnerships between universities, scientific institutions, and private-sector organizations; the personal relationships among beneficiaries of the Participants' Training Program and U.S. representatives; and the individual beneficiaries of United States–funded assistance programs all played a key role in maintaining and developing the United States–South Korea relationship.

Lithuania

Background

Lithuania, like Latvia and Estonia, regained its independence in 1991 after half a century of Soviet rule.⁵⁰ As the Soviet Union began to collapse, President George H. W. Bush emphasized U.S. support for the transition of the Central and East European nations (CEE) into democracies and free market economies, announcing the creation of enterprise funds to assist with the transition. In November 1989, the U.S. Congress passed the Support for East European Democracy (SEED) Act to support the economic reconstruction, democratic transition, and stabilization of society in the CEE countries. USAID was designated to facilitate the SEED Program.

The SEED Program provided cost-effective assistance to the CEE countries in recognition of democratic and economic reform and was expanded to include the Baltic countries in 1992.⁵¹ Initially, concerned that a lengthy mission would engender dependency, U.S. officials believed a three-year assistance program would be sufficient to help with the transition of the CEE nations from planned to market economies and to establish democratic institutions and practices. However, decades of communist practices inhibited the speed with which these institutions could be established.⁵²

U.S. Assistance to Lithuania

The USAID program in Lithuania began in 1992, targeting reform in various economic, political, and social sectors. USAID's Bureau for Europe and the New Independent States adopted a "supply-driven strategy," whereby scores of activities and projects were undertaken to move fund-

49. Ibid.

50. This section was researched and written by contributing author Ilona Teleki.

51. USAID Mission to Poland, "Support for East European Democracy (SEED) Act of 1989," <http://www.usaid.gov/pl/seedact.htm>.

52. Interview with a former U.S. ambassador to Lithuania.

ing quickly and make an impact in as many areas as possible.⁵³ Early programs sought to develop the private and energy sectors, support democratic institutions, offer training opportunities, and safeguard the environment.⁵⁴ Critics have argued that the bureau launched too many projects and activities without taking the time to develop an adequate understanding of the environment. A former U.S. embassy official noted that the USAID staff was not trained in the local language, nor did the staff have an understanding of the country, its culture, or its institutions.

Between 1992 and 2000, Lithuania received more than \$90 million in “technical assistance, training, equipment, and investments.”⁵⁵ In 1995, USAID reevaluated its strategy in Lithuania and narrowed its activities to four priority areas: fiscal policy and national budgeting, stabilizing the financial environment, improving national energy policies and nuclear safety, and increasing democratization via citizen participation.⁵⁶ Expertise was provided by U.S. government agencies, nongovernmental organizations (NGOs), and the private sector, with a strong focus on developing Lithuania’s free market economy.⁵⁷ More than 1,500 Lithuanian professionals were trained, and many of these individuals participated in and benefited from USAID-sponsored training programs.

U.S. diplomatic staff in Lithuania also credited Lithuanian Americans with having a positive impact on the transition process.⁵⁸ Many Lithuanian Americans returned to the country to help with this process and could be found working on behalf of both countries.

The Phaseout Process

The decision to close the Lithuanian mission was made in Washington without consultation with U.S. diplomatic staff in Vilnius.⁵⁹ In April 1996, the phaseout dates for USAID’s programs in the CEE countries were decided by the SEED coordinator at the State Department, but the specific timelines were kept secret due to political sensitivity both in the United States and abroad.⁶⁰ There was significant criticism that this planning process should have been more transparent.⁶¹

Staff on the ground complained that there was not enough time within the phaseout period to fully achieve some of the country’s strategic objectives. Additionally, USAID’s “New Results Framework” for performance monitoring and evaluation created additional work for an already-overburdened staff. Other obstacles to pursuing an orderly phaseout included a lack of accurate

53. The Bureau for Europe and the Newly Independent States was the previous name of USAID’s current Europe and Eurasia Bureau. The 10 strategic areas included “agriculture, environmental protection, energy, fiscal, financial and others”; Steve Landrigan and Shane McCarthy, “USAID Training Program Review,” USAID, Vilnius, May 31, 2000.

54. USAID, “Celebrating the Lithuanian-American Partnership,” Vilnius, http://www.usaid.gov/locations/europe_eurasia/countries/lt/pdfs/completebrochure.pdf.

55. *Ibid.*

56. Landrigan and McCarthy, “USAID Training Program Review.”

57. USAID, “Celebrating the Lithuanian-American Partnership,” 10, 13, 22.

58. Interviews with a former U.S. ambassador to Lithuania, a former Peace Corps volunteer, and a USAID consultant.

59. Interview with a former U.S. ambassador to Lithuania.

60. Fred C. Fischer, “Graduation Strategy Options for the USAID Assistance Programs in Eastern Europe and the Newly Independent States,” paper PNACA971, November 1, 1996, 9, http://pdf.usaid.gov/pdf_docs/PNACA971.pdf.

61. *Ibid.*, 6–7.

pipeline data in the field, the limited number of staff members, and inflexible procurement policies and procedures.⁶²

Nevertheless, Lithuania benefited from being the last Baltic country to make the transition from USAID assistance. USAID's phaseout from Lithuania began in late 1996 and continued until 2000, allowing for an escalating concentration of strategic objectives and projects.⁶³ As SEED money ran out for activities and projects, USAID approached other donors to assume funding responsibilities for specific projects. For example, it asked Sweden, Germany, the European Union, and the World Bank to assume funding responsibilities for programs for small and medium-sized enterprises.⁶⁴ Furthermore, through the U.S. Embassy in Vilnius, USAID maintained a postpresence program in Lithuania to complete most remaining projects in priority areas through FY 2001.⁶⁵

Legacy Institutions and Mechanisms

A number of legacy institutions developed from U.S. assistance to the Baltic states, and some continue to link the United States with Lithuania. In addition to these instruments, the networks created between Americans and Lithuanians within the business and scholarly communities during the period of U.S. assistance continue to benefit both sides.

The enterprise funds gave public monies to private individuals to both invest in and fund development activities. The Baltic-American Enterprise Fund (BalAEF) was incorporated in July 1994 with a U.S. government grant of \$50 million.⁶⁶ The BalAEF was approved as a USAID postpresence activity through 2005, but the possibility of extension remained. As the funds' investment activities came to an end, the return on their investments was used to create legacy organizations, including privatized financial institutions and charitable organizations to support civil society.⁶⁷ Thus, the BalAEF established Baltic-American Mortgage Holdings and Hanseatic Capital, with subsidiaries in each Baltic country.⁶⁸ The former's main function was to introduce American-style mortgage banking into the Baltic states, and the latter's was to provide assistance to small and medium-sized enterprises. These two companies form part of the legacy of the enterprise funds in the region today.

Dividends from the enterprise funds were also used to establish charitable legacy institutions in the region, including the Baltic-American Freedom Foundation (BAFF) in 2010.⁶⁹ BAFF imple-

62. *Ibid.*, 32.

63. *Ibid.*, 21.

64. *Ibid.*, 42.

65. USAID uses the term "postpresence" to describe activities in those countries where the USAID mission has closed. See USAID, "Partners for Financial Stability 2010: New Phase," May 5, 2010, which refers to "post-presence program[s] [are] active in countries where USAID was not present."

66. Beyster Institute, "Building Entrepreneurial Economies: Lessons from the Enterprise Funds' Experience in Central and Eastern Europe and Central Asia 1990–2007," White Paper prepared by Beyster Institute at Rady School of Management at the University of California, San Diego, May 24, 2007, http://www.seedact.com/files/pdf/enterprise_funds_conference_-_washington_2007,_white_paper.pdf.

67. *Ibid.*

68. U.S. Department of State, "U.S. Government Assistance to Eastern Europe under the Support for East European Democracy (SEED) Act," Bureau of European and Eurasian Affairs, January 2004, <http://www.state.gov/p/eur/rls/rpt/37005.htm>.

69. Baltic American Freedom Foundation, "BAFF: History," <http://www.balticamericanfreedomfoundation.org/about/history.aspx>.

ments an exchange program between the United States and the Baltic states, providing opportunities for students from the Baltic states to serve in U.S. organizations and companies, funding for graduate studies in the United States, and funding for scholars to engage in research projects with American colleagues.⁷⁰ The program advances U.S. strategic goals by transferring U.S. experience and business practices to the Baltic countries and strengthening country-to-country ties.

Additionally, the Baltic-American Partnership Fund (BAPF), established in 1998 with USAID and Soros Foundation funding to strengthen the NGO sector, has also left legacies in the country. For example, the BAPF funded a radio program that raised public awareness of the NGO sector, as well as the NGO Information and Support Center. BAPF was given a 10-year mandate and, until 2008, continued to function in the country as a postpresence activity.⁷¹

Lessons Learned

The research presented above underscores four important lessons learned from the CEE countries' transition experience. First, local staff and diasporans should be brought on board to participate in the design of development projects. Indeed, Lithuanian Americans played a significant role in the U.S. assistance program, which helped to transcend the cultural gap faced in some of the other CEE countries.

Second, USAID staff should also work closely with the U.S. embassies and other U.S. organizations in the region (e.g., the Soros Open Society Foundation in the CEE countries) in order to initiate and execute more focused projects and activities rather than “scores” of projects, an issue that many saw as a serious impediment to USAID's initial effectiveness. The CEE example shows that it helps to target assistance to one or two priorities (e.g., the priority in the CEE countries was free market democracy).⁷² Specifically focused projects are also easier to sell to the U.S. Congress and to the American public, not to mention more efficient than running projects across dozens of sectors.

Third, it must be noted that more members of the U.S. Congress visited Lithuania than any other CEE country. Congressional delegations received briefings on programs administered by USAID and the U.S. Embassy in Vilnius and would often see projects in action. These visits helped to maintain congressional support for foreign assistance to the country.⁷³

Fourth, and finally, this case exemplifies the potential benefits of enterprise funds. Unlike in some countries, the enterprise funds in the Baltic states were essential to maintaining and sustaining reform efforts across multiple sectors. A major success of the funds was that the legacy institutions they established were created using the dividends from these funds and not additional U.S. taxpayer money.

70. Baltic American Freedom Foundation, “About BAPF,” <http://www.alticamericanfreedomfoundation.org/about/>.

71. USAID, “USAID–Lithuania Post Presence Activities.”

72. Frank D. Martin, John Eriksson, Stephanie McNulty, and Steve Metzger, *USAID Graduation: Recent Experience and Outstanding Issues*, USAID Evaluation Special Study 81 (Washington, D.C.: U.S. Government Printing Office, 1999), http://pdf.usaid.gov/pdf_docs/PNACA926.pdf.

73. Interview with a former U.S. ambassador to Lithuania.

Costa Rica

Background

International development became a special focus for the John F. Kennedy administration at the height of the Cold War. As a presidential candidate, Kennedy argued that development assistance could be used to prevent communism from spreading, especially in newly independent states. Then, as president, to support development objectives, he established several institutions, including the Peace Corps, the Food for Peace program, and USAID, in addition to the more regionally focused Inter-American Development Bank (IDB) and the Alliance for Progress in the Western Hemisphere.⁷⁴

During the early years of the Ronald Reagan administration, concern about the revolutionary Sandinista government in Nicaragua prompted foreign policy adviser Henry Kissinger to draft a plan that would stymie Sandinista influence in Central America. Kissinger's four-pronged plan, which emphasized economic liberalization and democratization, involved working closely with multilateral agencies to stop economic declines in Central and Latin America with the help of substantial external aid.⁷⁵ Costa Rica, the region's only democracy at the time, received significant economic assistance.

Costa Rica's heavy borrowing through the late 1970s, combined with declining coffee prices, led the country to suspend payments of principal and interest on its international debts by 1981.⁷⁶ While Brazil, Mexico, and Argentina fared far worse than Costa Rica during the Latin American debt crisis of the early 1980s, growing wariness of the Sandinistas prompted the United States to provide Costa Rica with \$1.4 billion (in 1994 dollars) over a 10-year period beginning in 1982.

U.S. Assistance to Costa Rica

Having disbursed approximately \$2 billion in economic assistance to Costa Rica from 1945 to 1996, the United States played a significant role in Costa Rica's development.⁷⁷ The early phase of U.S. assistance to Costa Rica consisted of grants for technical assistance in key sectors. Technical assistance in agriculture and public health officially began in 1942 under the Institute of Inter-American Affairs and continued unilaterally until the Servicio Técnico Interamericano de Cooperación Agrícola was created by a bilateral agreement in 1948.⁷⁸ This tendency toward bilateralism continued over time, as more program officers and economists promoting development indirectly through Costa Rican institutions began to replace technical experts working directly in the development field.⁷⁹

From 1961 to 1972, USAID, together with the Alliance for Progress and the IDB, broadened the scope of assistance in Latin American countries to include massive infrastructure develop-

74. James Fox, *Real Progress: Fifty Years of USAID in Costa Rica* (Washington, D.C.: USAID, 1998), 19.

75. *Ibid.*, 24–25.

76. James Fox, "U.S. Aid to Costa Rica: An Overview," USAID, Washington, March 1996, 14, http://pdf.usaid.gov/pdf_docs/PDACK960.pdf.

77. Fox, *Real Progress*.

78. *Ibid.*, 4.

79. *Ibid.*, 20.

ment. While agriculture remained the focus of USAID's program in Costa Rica for much of the 1960s, infrastructure received almost one-third of major project resources.⁸⁰ Per the requirement of the Alliance for Progress, which mandated all participants to set up a national development plan and to carry out land reform, Costa Rica established the Oficina Nacional de Planificación (which later became the Ministerio de Planificación) and the Instituto de Tierras y Colonización (later the Instituto de Desarrollo Agropecuario).⁸¹ To address economic development, Costa Rica employed financing from the IDB and the Central American Bank for Economic Integration to rapidly develop and enhance the government's social and economic programs.⁸²

As early as 1970, USAID began planning for a gradual withdrawal from Costa Rica.⁸³ Rapid growth in international trade, spurred by an increase in the production and export of Costa Rica's agricultural products, prompted USAID to make reductions in its field staff. The mission turned its attention toward socioeconomic disparities, focusing on basic human needs for the country's poorest people. Projects during this period included a low-cost housing and urban improvement project, the establishment of a national poverty information system, and a nutrition loan.⁸⁴

After 1984, USAID shifted its development initiatives, this time to tackle macroeconomic restructuring.⁸⁵ Costa Rica's history of democratic institutions and earlier success with broad-based development allowed the USAID mission to focus on economic stabilization and transformation. From 1982 until about 1992, USAID worked with the Costa Rican government, seeking policy changes that would free interest rates, eliminate sectoral credit allocation by the Central Bank, and allow for greater competition within the national banking system.⁸⁶ In addition to financial liberalization and government-downsizing initiatives, USAID provided funds to establish the Costa Rican Investment Promotion Agency (Coalición Costarricense de Iniciativas de Desarrollo, CINDE) in 1982 in order to promote nontraditional exports and encourage foreign direct investment in Costa Rica.⁸⁷

The Phaseout Process

The USAID Mission in Costa Rica had already begun positioning the country for a postassistance relationship nearly 25 years before the program officially closed in 1996, but only in 1993 was there a formal announcement of 21 planned mission closures, including that in Costa Rica. USAID staff in Costa Rica received notification of the mission's closing in January 1995.⁸⁸ The mission director at the time of the transition emphasized the importance of a "soft landing" to mitigate the

80. Ibid., 11.

81. Fox, "U.S. Aid to Costa Rica," 9.

82. Ibid., 9.

83. Ibid., 12.

84. Fox, *Real Progress*, 23.

85. Fox, "U.S. Aid to Costa Rica," 15.

86. Ibid., 18.

87. Kenneth Lanza, *Institutionalizing Export and Investment Promotion Organizations: The Case of Costa Rica's CINDE*, Working Paper (Durham, N.C.: Center for International Development Research at Duke University, 1995): 1.

88. Author's interview with a former senior USAID–Costa Rica official, January 25, 2012.

effect of the anticipated resource gap.⁸⁹ The second half of the transition process would consist of “passing the baton” to the IDB and the World Bank.⁹⁰

In the early 1990s, USAID began to provide its final “institutional support” grants in an effort to move USAID-era institutions toward self-sufficiency. One of the final Economic Support Fund agreements included conditions pertaining to pension reform, tariff reduction, and the independence of the Central Bank. The mission director expressed his confidence in Costa Rica’s economic team, largely comprising “free market economists” who supported USAID’s track.⁹¹ In 1990, a Joint Local Currency Subprogramming Agreement between the Government of Costa Rica and USAID established an export foundation, FUNDEX, which received an endowment of \$27.15 million.⁹² The funds were provided to support nontraditional export projects, particularly CINDE’s activities, provided that CINDE continued to achieve objectives as defined by the Costa Rican government and agreed to by USAID.⁹³

In Costa Rica, USAID was also involved in setting up institutions that remain self-sufficient and successful to this day. In 1963, USAID contracted with the Harvard Business School to establish INCAE, the region’s preeminent graduate-level business school. At the end of this partnership, USAID gave INCAE a “\$3.9 million loan, payable over forty years.”⁹⁴ In addition, as part of a broader initiative to combat poverty in Central America, USAID helped found the Latin American Agribusiness Development Corporation (LAAD) with a series of loans. LAAD, a “for-profit investment and development financial institution,”⁹⁵ is still operational (and profit-making) today and has expanded its activities to 25 countries, where it has delivered significant returns in comparison with the relatively modest resources that USAID originally committed to it.⁹⁶

Yet the “keystone” of USAID’s transition strategy in Costa Rica was a binational foundation that would foster continued partnership between the two countries.⁹⁷ The Costa Rica–USA Foundation (CRUSA) was established in January 1996, nine months before USAID withdrew from the country. The U.S. ambassador and the Costa Rican president selected an assembly of 10 founding members—5 from the United States and 5 from Costa Rica—to help monitor the endowment funds.⁹⁸ Although U.S. budget constraints meant that CRUSA’s endowment would be totally funded by the local currency, this ultimately allowed the foundation to more readily absorb outstanding local currency resources. Within six months of its founding, CRUSA’s endowment

89. U.S. Foreign Assistance Oral History Program, interview with Ronald Venezia, “Costa Rica: First Phase-Out Ended for Political Reasons, Second ‘Soft Landing’ Planned, 1990–1993,” *Graduating Countries and Closing Down Programs*, Excerpts from the U.S. Foreign Assistance Oral History Program, August 1997, http://pdf.usaid.gov/pdf_docs/PNADD553.pdf.

90. *Ibid.*

91. *Ibid.*

92. Lanza, *Institutionalizing Export and Investment Promotion Organizations*, 26.

93. *Ibid.*, 26.

94. INCAE Business School, “Sistema de Bibliotecas, Recursos y Servicios: Timeline,” <http://conocimiento.incae.edu/EN/biblioteca/recursos-servicios/historia-incae/lineatiempo.php>.

95. Latin American Agribusiness Development Corporation, “Executive Management,” http://www.laadsa.com/who_we_are/Executive_Management.asp.

96. James W. Fox, *The Venture Capital Mirage: Assessing USAID Experience with Equity Investment*, USAID Program and Operations Assessment Report 17 (Washington, D.C.: U.S. Government Printing Office, 1996), <http://www.scribd.com/doc/28016995/Usaid-Venture-Capital-Experiences>.

97. Martin et al., *USAID Graduation*.

98. *Ibid.*, 27.

was valued at \$12 million.⁹⁹ CRUSA is still required by “its mandate to maintain the real value of its original Endowment,”¹⁰⁰ equal to \$67 million in 2010, and in the same year it invested \$1.6 million in a variety of projects.¹⁰¹

Initially, CRUSA focused on four areas: decentralizing state institutions and structures, environmental policies, technological development, and trade liberalization.¹⁰² These areas of interest were identified based on unfinished or in-progress USAID projects at the time of the mission’s closing.¹⁰³ CRUSA has since undertaken more than 300 projects focusing on the environment, the advancement of education, and the expansion of science and technology, working with private and public partners. The most notable of the private partners is Intel Corporation, which has established 12 programs and projects with a focus on technology, education, and environmental awareness.¹⁰⁴ A number of NGOs and nonprofit organizations have also formed partnerships with Costa Rica to work toward raising awareness about conserving biodiversity.

Lessons Learned

Since USAID withdrew from Costa Rica in 1996, the country has seen advancements in many areas. In 1999, the United Nations ranked Costa Rica fourth among developing nations worldwide for progress in eliminating severe poverty.¹⁰⁵ With a per capita income of approximately \$11,500 and an unemployment rate of about 6.5 percent, Costa Rica maintains the highest standard of living in Central America.¹⁰⁶ From 2003 to 2007, the country experienced sustained economic growth and rebounded from the 2008 global crisis with 4.2 percent GDP growth in 2010.¹⁰⁷

In terms of trade, Costa Rica has entered a number of regional trade agreements that have contributed to maintaining enduring partnerships. In August 2004, the Office of the U.S. Trade Representative and trade ministers from the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua signed the Dominican Republic–Central America–United States Free Trade Agreement.¹⁰⁸ Five years later, the agreement entered into force, and two-way trade between the United States and Costa Rica surpassed \$10.3 billion in 2010.¹⁰⁹ Costa Rica has also

99. *Ibid.*, 28.

100. CRUSA, “About Crusa,” <http://www.crusa.cr/en/acerca-de-crusa/>.

101. CRUSA, “Annual Report 2010,” <http://www.crusa.cr/wp-content/uploads/2011/05/AnnualReport2010.pdf>.

102. Interview with Ronald Venezia.

103. *Ibid.*

104. “The United States and Costa Rica: An Enduring Partnership for Sustainable Development,” *Ambassadors Review*, 2008, <http://www.americanambassadors.org/index.cfm?fuseaction=Publications.article&articleid=156&stoplayout=true>.

105. Organization for Economic Cooperation and Development, “Latin American Economic Outlook 2011: How Middle Class Is Latin America? Costa Rica,” Country Notes, http://www.oecd.org/document/7/0,3746,en_21571361_44315115_46592909_1_1_1_1,00.html.

106. U.S. Department of State, “Background Note: Costa Rica,” <http://www.state.gov/r/pa/ei/bgn/2019.htm>.

107. *Ibid.*

108. Peter J. Meyer, “Costa Rica: Background and U.S. Relations,” Congressional Research Service, June 2, 2009, 2.

109. *Ibid.*

enacted trade agreements within Latin America and with the European Union, Canada, China, and Singapore.¹¹⁰

Despite this progress, a lack of maintenance and new investment has led to the depreciation of Costa Rica's public infrastructure. Foreign investment flows are hampered by the country's current business environment, which has been harmed in recent years due to expropriations and U.S. citizen investment disputes.¹¹¹ Currently, Costa Rica ranks 121st out of 183 countries on the World Bank's Ease of Doing Business Index.¹¹² One former USAID mission director even suggested that Costa Rica's stability post-USAID is a "thin veneer."¹¹³

The mission director noted that USAID just "let the Costa Rica–USA Foundation happen" rather than seeing it as an opportunity to create a model for "timely and appropriate disengagement from direct assistance."¹¹⁴ A former Costa Rican ambassador to the United States and founding member of CRUSA shared this sentiment, suggesting that the binational foundation is "an exportable model" but requires more U.S. involvement.¹¹⁵ Nevertheless, the bilateral relationship is strong, with potential for mutually beneficial cooperation. Indeed, there is considerable desire on Costa Rica's part to partake in joint ventures with the American private sector, as well as other avenues of continued collaboration.¹¹⁶

Portugal

Background

U.S. assistance to Portugal was drawn against the landscape of the Cold War. In early 1974, the autocratic government of Marcelo Caetano was overthrown by a group of junior officers (the "Carnation Revolution"), bringing about popular uprisings and mass movements of agricultural workers. Many within the U.S. government worried that Portugal would become Communist within the year, particularly given the economic difficulties the country faced. However, a moderate Portuguese government took power in 1975, at which time the United States initiated economic assistance.

Portugal's economy in the preceding decades had been considerably more stable than those of its European neighbors, though it achieved only minimal growth. In the early 1960s, Portugal aligned itself more closely with the rest of Western Europe and much of the international community, and in the mid-1970s, Portugal was reclassified as a middle-income country thanks to its strong economic output. In 1978, Portugal's per capita GDP was roughly \$2,433 (in 2011 dollars).¹¹⁷ As table 2.3 shows, Portugal's basic human development indicators at the time set it on par with other middle-income countries (which at the time included Argentina, Venezuela, and Panama), though they were among the lowest rates in Europe.

110. Ibid.

111. Ibid.

112. U.S. Department of State, "Background Note: Costa Rica."

113. Interview with Ronald Venezia.

114. Ibid.

115. Author's interview with Luis D. Escalante, Washington, January 27, 2012.

116. Ibid.

117. UNData, "Per Capita GDP at Current US Dollars: Portugal 1970–1980," last updated March 2011, <http://data.un.org/Data.aspx?d=SNAAMA&f=grID%3A101%3BcurrID%3AUSD%3BpcFlag%3A1>.

Table 2.3. Human Development Indicators for Portugal Relative to Those for Other Countries

| Country or Group | GNP per Capita, 1978 (dollars) | Adult Literacy Rate, 1987 (percent) | Life Expectancy at Birth, 1987 (years) |
|----------------------|--------------------------------|-------------------------------------|--|
| Portugal | 1,990 | 70 | 69 |
| Argentina | 1,910 | 94 | 71 |
| Chile | 1,410 | 88 | 67 |
| Panama | 1,290 | 78 | 70 |
| Venezuela | 2,910 | 82 | 66 |
| Low-income countries | 200 | 38 | 50 |
| Industrial countries | 8,070 | 99 | 74 |

Source: World Bank, *World Development Report 1980* (Washington, D.C.: World Bank, 1980), table 1.

Portugal's most significant economic weakness was its agricultural sector, which experienced labor shortages in rural areas in the 1960s. Furthermore, a housing shortage developed in the 1950s and became especially acute in the following decade. The construction sector served as the source of most industrial employment during the 1960s and 1970s, but the rate of housing unit construction in Portugal remained significantly lower than that in other European states. In the years leading up to the 1974 revolution, Portugal's most vibrant economic sector was manufacturing; but even there, outdated technology and a lack of scale prevented the sector from advancing rapidly.

Portugal's economic strains around the time of the revolution were exacerbated by global economic problems. Rising oil prices resulted in a slowdown in the global economy and tripled the country's expenditures on oil-related imports. Foreign demand for Portuguese goods and Portuguese migrant workers decreased. The loss of the country's African colonies was especially damaging, because these had previously operated as guaranteed export markets for its goods. Finally, the influx of migrants from the newly independent former Portuguese colonies further complicated Portugal's situation.¹¹⁸ The country's economy contracted severely from 1974 to 1975; in 1975, real GDP fell by 4.3 percent, after growing by 1.1 percent from 1973 to 1974.¹¹⁹ Portugal's balance of payments had deficits in both its overall and current accounts, and the country faced a foreign exchange crisis by the end of 1977, after having pledged almost half its gold supply against short-term loans.¹²⁰

U.S. Assistance to Portugal

The economic difficulties following the Carnation Revolution triggered U.S. economic assistance to Portugal. In December 1974, Congress authorized a program of economic aid for Portugal and

118. USAID, "PROCALFER: Project Evaluation," October 29 to November 16, 1984, 13, http://pdf.usaid.gov/pdf_docs/XDAAR041A.pdf.

119. OECD StatExtracts, "Country Statistical Profiles, 1970–1980," Organization for Economic Development and Cooperation, <http://stats.oecd.org/Index.aspx>.

120. Hans O. Schmitt, "Economic Stabilization and Growth in Portugal," International Monetary Fund, Washington, D.C., 1981.

its soon-to-be-independent colonies. The initial amount was \$25 million (in 1974 dollars), consisting of grants and loans for FY 1975.

Portugal's economic concerns leading up to 1974 can be divided into three areas: fundamentally cyclical problems, such as the balance of payments deficit; inadequate provision of social services; and structural problems in a wide range of economic arenas such as agriculture and manufacturing.¹²¹ The USAID mission focused on responding to the first two problem areas and was geared, at least initially, toward addressing short-term concerns.

From the inception of the USAID mission in 1975 to its termination in 1984, U.S. economic assistance to Portugal amounted to approximately \$800 million (\$1.54 billion in constant 2009 dollars).¹²² Following FY 1978, economic assistance consisted primarily of technical assistance and additional grants and assistance associated with U.S. base rights in the Azores. Nevertheless, USAID retained considerable commitments through 1983, on account of the various development and technical assistance projects that had been initiated.

Two projects were promised in February 1975: a grant for technical assistance and training, and a feasibility studies loan; in addition, a low-cost housing loan was committed in June 1975. The development loan assistance was directed toward supporting the new government's provision of social services, with roughly \$133 million for construction of basic infrastructure. The technical assistance grant had two components: \$10.8 million for a training and technical advisory project, and \$10 million for an agricultural production project. A total of \$215 million in agricultural commodities were committed under the Food for Peace Act.

The largest single program under the USAID mission was a \$300 million balance-of-payments loan in 1978, which made up 37.4 percent of the total foreign assistance program.¹²³ The United States, in conjunction with Japan and European donors, oversaw the creation of a multilateral package totaling \$750 million under the framework of an International Monetary Fund stabilization agreement. As a result of this loan, the Portuguese government was able to stave off what could have been a disastrous economic crisis.

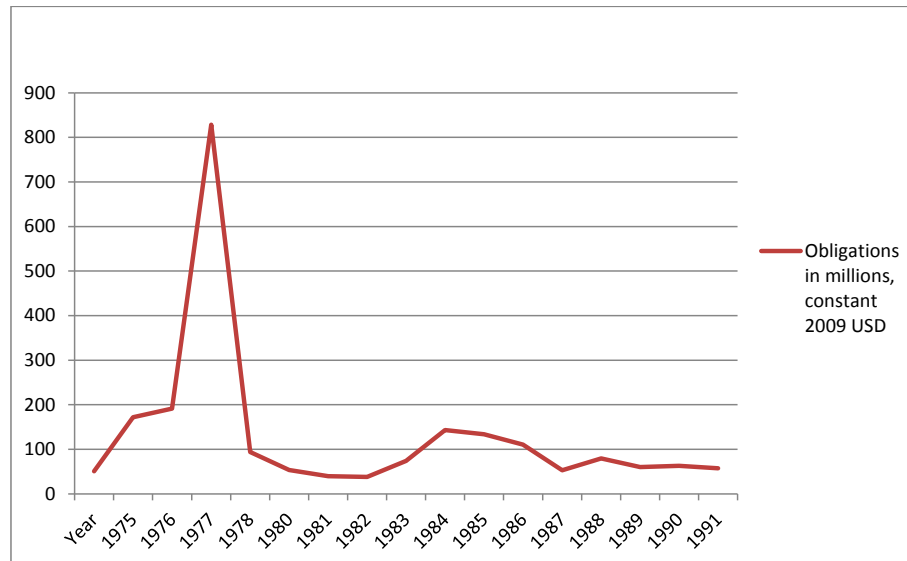
Roughly \$80 million in grants were committed to further development in the Azores, to be used over the course of four years starting in 1980. This last component of U.S. assistance, along with the emergency aid following the earthquake in the Azores in January 1980, did not stem from the same political and economic considerations underpinning the rest of the U.S. assistance program. But payments made to Portugal on the basis of continuing U.S. use of the Azores base proved important in funding continuing initiatives to foster United States–Portugal relations (figure 2.2).

121. Ibid., I-7.

122. Frederick F. Simmons, Juan J. Buttari, and Lawrence S. Graham, *Portugal: Program and Management Impact Evaluation* (Washington, D.C.: USAID, 1983), III-6.

123. Ibid.

Figure 2.2. Total Obligations to Portugal of USAID and Its Predecessor Agency, 1975–1991



Source: U.S. Overseas Loans and Grants, "Detailed Foreign Assistance Data," retrieved January 23, 2012.

The Phaseout Process

The USAID Mission in Portugal was established with a limited time horizon and was almost completely phased out by 1984, with an additional staff member from the USAID housing office remaining until 1985. Because U.S. development efforts in Portugal consisted primarily of budget support for projects that had already been planned by the Portuguese government and were implemented almost completely by Portuguese nationals, projects could continue to be funded after the USAID mission was phased out. Afterward, the United States maintained funding for specific projects along with a diminishing stream of payments to the Portuguese government in return for continuing U.S. rights to the Azores military base.

Legacy Institutions

As justification for the USAID mission waned, senior Portuguese officials from the Portuguese Finance and Foreign ministries worked with senior USAID and State Department officials to create the Luso-American Foundation (Fundação Luso-Americana para o Desenvolvimento, FLAD) as a way to continue the relationship between the United States and Portugal. FLAD was created using a portion of the payments made to the Portuguese government for use of the Azores military base. Although the appropriations for the foundation from the American government were built into the payments for the base, the Portuguese government was responsible for its creation. From 1985 through 1991, money went into building up the newly formed FLAD's endowment, which reached \$112 million (in 1991 dollars) by 1992. The endowment was then invested in the money markets, and the operating and program budgets for FLAD came from returns on the capital. In 1991, the agreement for continued use of the Azores base was renegotiated, ending payments in favor of access to technology, military hardware, trade cooperation, and military skills training.

When FLAD became operational in 1985, Don Finburg, the former USAID mission director in Portugal, became its first president. The purpose of FLAD was to promote development in five sectors: education, technology, culture, science, and commerce.¹²⁴ FLAD extended funding to nearly 13,500 projects, with the intent of fostering ties between U.S. and Portuguese organizations. Most of the foundation's current activities focus on graduate-level exchanges, particularly in applied technologies and research in the material and health sciences.

FLAD is a private agency operating under Portuguese law. U.S. influence in FLAD decreased over the years, and in 1988, legislation was passed that restructured the foundation to grant it more autonomy. As such, FLAD is an example of an agency that allowed for U.S. influence to continue following an end to assistance, and diminish thereafter as needed. However, while American influence in FLAD has waned, American ambassadors to Portugal have still had a significant say in its structure. For instance, on American insistence, a financial oversight committee was established to monitor its funding (box 2.4).

Box 2.4. Endowments and Protecting Donor Intent: The Case of FLAD and WikiLeaks

Recently, information released through WikiLeaks reveals friction between the United States and Portugal regarding the Luso-American Foundation (Fundação Luso-Americana para o Desenvolvimento, FLAD). Despite the U.S. ambassador's objections, the foundation's Board of Directors approved unrealistic budgets in 2008 and 2009. Grants have been awarded to "boondoggles," including a conference in South Africa with no apparent relevance to the United States or bilateral relations. The U.S. ambassador to Portugal at the time expressed frustration with FLAD management, suggesting that it was "unable and unwilling to face economic reality." He pointed to FLAD's leadership, which had been in place since 1988, and alienation from the U.S. Embassy as "both a cause and a symptom of the disease." While FLAD's leadership has acknowledged the need for immediate reforms, very few changes have actually been proposed or implemented.

This case highlights a common challenge posed by endowments, namely, the danger of neglecting donor intent. Endowments that outlive their founders can also stray from the original vision behind their establishment. Unprotected donor intent not only detracts from the goals of the affected institution's founders, but it can also scare away other potential efforts. In the context of U.S. assistance transitions, endowments established by the U.S. government that suffer from neglected donor intent are likely to make the U.S. government averse to future proposals. Although preserving donor intent is almost never fully guaranteed, a few measures can help ensure maximum preservation. For instance, setting a limited timeframe (e.g., a sinking fund) grants an endowment a specific work plan and restricts multiple changes in leadership that might derail the endowment from its intended goals. Successful endowments require the participation of trusted partners that are familiar and comfortable with the endowment's original vision. Planning in advance, well before an assistance transition is completed, is therefore necessary in order to identify these partners.

Sources: Ambassador Thomas Stephenson, "Portugal: Problems at the Luso-American Foundation," e-mail message to secretary of state, accessed via Wikileaks, <http://wikileaks.org/cable/2008/12/08LISBON2780.html#>; Jeffrey J. Cain, "An Introduction to Donor Intent," Philanthropy Roundtable, http://www.philanthropyroundtable.org/topic/donor_intent/an_introduction_to_donor_intent.

124. Martin et al., *USAID Graduation*, 29.

In any case, FLAD can provide lessons for how to plan for future legacy institutions in middle-income countries where U.S. assistance will end in the near future. The first lesson is that a clear objective for a foundation akin to FLAD should be defined at the outset. Such an objective serves as a benchmark and shapes subsequent policies. Furthermore, the structure and mechanisms of governance within the foundation need to be defined beforehand. In general, all transition planning should take place early on, allowing for ample time to readjust and reassess policies.

In addition to FLAD, other, less structured programs have facilitated a continuing relationship between Portugal and the United States. In the late 1970s and early 1980s, the Portuguese government focused on building human capital at the highest level, and thus it sponsored Portuguese nationals to attend graduate schools in the United States, focusing particularly on the applied and social sciences, which had been neglected under the authoritarian regimes. In order to build the capacity of the newly democratic government, the United States encouraged Portuguese citizens to get graduate degrees at American universities. The Fulbright Program and other similar scholarship and exchange initiatives have therefore become important components of continuing U.S.-Portuguese relations.

Lessons Learned

The objectives of U.S. economic assistance to Portugal changed over time. Following the counter-coup and the reduction of the Communist threat, the target of U.S. assistance shifted toward the strengthening of existing democratic institutions so as to foster greater integration with other Western European countries. In general, USAID's projects did not necessarily have major political overtones. The USAID mission director at the time focused heavily on the economic development and technical assistance aspects of the projects that were being implemented.¹²⁵ Portuguese ownership of projects and outcomes, along with a markedly small U.S. presence, made the transition of U.S. assistance out of Portugal much easier.

Initial budget assistance was extended to projects that were either already under way or had been planned by the Portuguese government. The intent in tying assistance to existing project plans was to expedite the disbursement of aid with minimal U.S. involvement in project implementation, leaving it largely to Portuguese engineers, with inspection by USAID technical experts.

To maintain the appearance of a small U.S. presence in Portugal and Portuguese ownership of projects, the USAID mission was only lightly staffed with Americans. The size of the USAID mission increased over time, with Portuguese employees generally outnumbering their American counterparts. Although this approach helped with the transition, it also proved to have disadvantages. During the later stages of projects, the small staff of Americans with the technical skills to carry out the projects proved to be inadequate for full implementation of the projects.

Tunisia

Background

The United States has a long-standing relationship with Tunisia. U.S. economic and technical assistance was first given under a 1957 bilateral agreement signed shortly after the establishment of the

125. According to an interviewee with knowledge of the mission's development.

Tunisian Republic.¹²⁶ In 1961, Tunisia became the first Arab country to request and receive Peace Corps volunteers for technical assistance in agriculture, architecture, education, health, and rural and urban community development. USAID managed a successful program for 35 years, completing more than 230 projects in a variety of sectors and providing nearly one-sixth of Tunisia's income from 1957 to 1984.¹²⁷ Tunisia's economic advances led to the end of USAID funding in 1994.

Since the initial 1957 bilateral assistance agreement, the United States has generally viewed its economic and military aid to Tunisia as an investment in regional stability and Western-leaning policies.¹²⁸

U.S. Assistance to Tunisia

Though predecessor agencies had begun working in Tunisia as early as 1957, operations under the auspices of USAID began in 1961. According to one diplomat, the U.S. government decided that year that Tunisia possessed the sufficient infrastructure, economic potential, and political will to “serve as a model for other developing countries.”¹²⁹ Early USAID projects focused on improving and promoting the general welfare of the Tunisian population by means of technical training in agriculture and public health, while later projects primarily targeted the private sector and housing and urban development problems.¹³⁰ In keeping with the American foreign policy goal of promoting free markets abroad, USAID and the Tunisian government tried in the late 1980s to restructure and reinforce the country's financial sectors and markets and reduce subsidies.¹³¹

The Phaseout Process

The closure of the USAID Mission in Tunisia was formally announced in 1993 as part of a decision to close 21 missions worldwide, a decision based partly on budget considerations and restructuring within the agency. Furthermore, research from an exercise in “engagement/disengagement” showed that Tunisia could sustain development achievements. Per capita income, infant mortality, and fertility rates were some of the factors used in considering whether a country was ready for assistance to end, though these reasons were not presented in the official announcement.¹³²

Within Tunisia itself, economic growth was projected at 6.1 percent for 1994, and this growth was expected to create 60,000 new jobs across the country. From 1993 to 1994, the national budget was expected to increase 11.4 percent with efforts to decrease state debt and government spending.¹³³ Additionally, efforts to privatize businesses and industries in Tunisia had brought in

126. Bureau of Near Eastern Affairs, U.S. State Department, “Background Note: Tunisia,” <http://www.state.gov/r/pa/ei/bgn/5439.htm#profile>.

127. Christopher Alexander, *Tunisia: Stability and Reform in the Modern Maghreb* (New York: Routledge, 2010), 97.

128. *Ibid.*, 97–98.

129. David Newsom, “The U.S. and North Africa: Lessons from the Past and Future Directions,” *Vital Speeches of the Day* 38, no. 6 (1972), Academic Search Premier, EBSCOhost, 164.

130. Edward P. Djerejian, “North African Countries: U.S. Relations and Assistance,” *U.S. Department of State Dispatch* 4, no. 21 (1993): 377, Academic Search Premier, EBSCOhost.

131. USAID, *Tunisia: The Development Strategy 1992–1996*, 7.

132. Jeffrey Swedberg, “Indicators for Sustainable USAID Program Graduation: Examples of Thailand and Tunisia (1993–2004),” USAID, Washington, 2004, 2.

133. “1994 State Budget,” *Presidents & Prime Ministers* 3, no. 2 (1994): 31.

\$310 million since 1992, and these funds were continuing to be used mostly for investment in the restructuring of other public companies throughout the country.¹³⁴

Before the 1993 transition announcement, USAID's staff in Tunisia had identified the need to reassess the type of assistance being provided in that country. As Tunisia neared middle-income status in 1988, USAID laid out a plan to collect and analyze data pertaining to the transition away from aid and toward a bilateral partnership.¹³⁵ Although the USAID Mission in Tunisia was drawing to a close by 1994, according to a former official in USAID's Bureau for Science and Technology, "it was impossible to phase it out" due to earmarks in Congress for the program to continue.¹³⁶

Moreover, the United States considered its presence in Tunisia necessary from a political standpoint. As a result, the closure of the program was "more of a gradual phase-down with a terminal grant for [technical assistance] and training" rather than an effort to follow a foundation or development center model.¹³⁷ The assistant administrator for USAID's Asia and Near East Bureau at the time devised a plan for regional development.¹³⁸

In the case of USAID's Food for Peace program, operations were scaled back through a "phase-down" and eventual "phaseout." Tunisia's improved economic status and potential to export wheat and olive oil contributed to USAID's decision to phase down its assistance. Moreover, the Tunisian government had conformed to USAID policy objectives by increasing local participation in the management and funding of developmental and nutritional activities. Although such "phase-over" initiatives on the part of the Tunisian government throughout the late 1970s would have merited a continuation of technical support to address long-term development challenges,¹³⁹ budgetary constraints led USAID to give the Tunisia phase-over effort a low priority.¹⁴⁰ USAID and the Tunisian government established a post-development assistance relationship that included long-term institutional links, regional research, improved ties with the private sector, and the promotion of technology transfer.¹⁴¹

Legacy Institutions

Before the announcement and official closing of the USAID Mission in Tunisia, a number of United States–Tunisia partnerships were established. The first of those partnerships was a 1989 agreement to avoid double taxation for American companies that conducted business in Tunisia,

134. "Accelerated Privatization," *Presidents & Prime Ministers* 5, no. 6 (1996): 10.

135. USAID, "USAID–Tunisia FY 1988 Action Plan," March 1987.

136. U.S. Foreign Assistance Oral History Program, "Interview with Bradshaw Langmaid," Excerpts from the U.S. Foreign Assistance Oral History Program, July 14, 1998.

137. *Ibid.*

138. U.S. Foreign Assistance Oral History Program, "Interview with Joseph C. Wheeler," excerpts from the U.S. Foreign Assistance Oral History Program, June 17, 1998.

139. "Phase-over" is defined by Raymond A. Hoehle as the process whereby the recipient country applies its newly established capability to become self-reliant to address its long-term nutrition and development problems, representing the end of its dependence on external grant assistance. Raymond A. Hoehle, "Establishing a Phase-Over Policy for PL 480 Title II Programs," USAID Bureau for Food for Peace and Voluntary Assistance, 1983, 11, 32–33.

140. *Ibid.*, 11, 32–33.

141. *Ibid.*, 34.

in order to stimulate private investment in Tunisia.¹⁴² One year later, a bilateral investment treaty was established to encourage economic cooperation between the two countries.¹⁴³

In 2002, the two countries established the Trade and Investment Framework Agreement and the binational United States–Tunisia Council on Trade and Investment. In 2011, discussions about an investment partnership were renewed under this framework.¹⁴⁴ The State Department’s Middle East Partnership Initiative established its Tunisian offices in 2004. Additionally, Tunisia’s civil society and economic development continue to receive U.S. support under the bilateral Economic Support Funds program. Militarily, the two countries work together through the U.S.–Tunisian Joint Military Commission. In March 2011, a bill was presented to the U.S. Congress (Bill S. 618, the Egyptian-American Enterprise Fund Act) that seeks to create further joint U.S.–Tunisian projects. As of this writing, the bill is in committee and has been placed on the legislative calendar.¹⁴⁵

U.S. assistance to Tunisia was resumed in 2011 in the wake of President Ben Ali’s ouster, with the Obama administration designating approximately \$10 million in USAID-administered funding to provide transition support for Tunisia.¹⁴⁶ USAID’s Office of Transition Initiatives, which was allotted \$2 million, established a new program in Tunisia to provide technical support and materials to civil society organizations.

Lessons Learned

Since the end of official U.S. assistance in 1994, Tunisia has seen mixed results in its development progress. Its GDP has steadily increased with the help of investments and exports, and its economy has become diversified, making it less susceptible to regional challenges. Its inflation rate has either decreased or remained stable, and it has reached various trade agreements with Egypt, Jordan, Morocco, Turkey, and the European Union.¹⁴⁷

In a 1993 statement before the House Foreign Affairs Committee, an official from the State Department’s Bureau of Near East Affairs noted that one of the characteristics of the United States–Tunisia relationship was the use of policy studies, pilot projects, and innovative investments, allowing “both sides to evaluate and accept or discard elements of each activity in developing future programs.”¹⁴⁸

142. U.S. Department of State, “Background Note: Tunisia.”

143. *Tunisia Bilateral Investment Treaty*, 102nd Congress, Senate Treaty doc. 102-6 (May 15, 1990).

144. Office of the U.S. Trade Representative, “United States and Tunisia Re-launch Bilateral Trade and Investment Talks in Support of Tunisia’s Democratic Transition,” press release, October 2011, <http://www.ustr.gov/about-us/press-office/press-releases/2011/october/united-states-and-tunisia-re-launch-bilateral-trad>.

145. *Egyptian-American Enterprise Fund Act: A Bill to Promote the Strengthening of the Private Sector in Egypt and Tunisia*, S. 618, 112th Congress, March 17, 2011, <http://www.govtrack.us/congress/bill.xpd?bill=s112-618>.

146. Alexis Arieff, “Political Transition in Tunisia,” Congressional Research Service, 2011, <http://www.fas.org/sgp/crs/row/RS21666.pdf>.

147. Organization for Economic Cooperation and Development, “Tunisia,” in *African Economic Outlook* (Paris: Organization for Economic Cooperation and Development, 2008).

148. USAID, “USAID’s Housing and Urban Programs in Tunisia: 1966–1997,” August 1997, http://pdf.usaid.gov/pdf_docs/PNACB579.pdf.

Political governance and freedom of expression have continued to be restricted in Tunisia.¹⁴⁹ Until very recently, its politics were dominated by one party and the government maintained strict restraints on the media and press. Some analysts attribute the high level of youth unemployment, frustrations with political corruption, and lack of freedoms as the main causes behind the recent unrest in Tunisia.¹⁵⁰ Indicators for the closure of the USAID Tunisia mission in 1994 were based largely on economic and health factors, with less emphasis placed on political participation and freedoms. Recent events in Tunisia and the broader region are perhaps an indication that donors should strongly consider giving priority to democratic governance in their development assistance strategies.¹⁵¹

149. Organization for Economic Cooperation and Development, "Tunisia," in *African Economic Outlook* (Paris: Organization for Economic Cooperation and Development, 2007).

150. "Q&A: Tunisia Crisis," BBC News, January 19, 2011, <http://www.bbc.co.uk/news/world-africa-12157599>.

151. Daniel Kaufmann, "Tunisia, Egypt and Beyond: Fewer Predictions, More Data and Aid Reform Needed," paper given at Brookings Institution, Washington, February 2, 2011, <http://www.brookings.edu/research/opinions/2011/02/02-egypt-development-kaufmann?rssid=middle+east+youth>.

3

SELECTED OPPORTUNITIES FOR 2013 AND BEYOND BRAZIL, INDIA, RUSSIA, AND PANAMA

This chapter examines four middle-income countries with which the United States should reposition its relationship in the coming years: Brazil, India, Russia, and Panama. These countries were selected for their regional and historical variety, but in the case of the first three, also for their geostrategic importance for U.S. interests. The fourth case study, Panama, was chosen to provide a different perspective and to highlight a country where U.S. assistance is set to end in 2012. Brazil, India, and Russia are members of the Group of Twenty and have annual gross domestic products (GDPs) in the trillions of dollars; Panama, while much smaller, possesses one of the fastest-growing economies in its region.

For all four cases, an overview is provided of each country's bilateral relationship with the United States, as well as a summary of U.S. assistance to that country and its legacy of successes. Most of each following section, however, concentrates on a variety of "focus sectors" in which the United States and these middle-income countries can begin intensifying their cooperation toward a post-foreign assistance partnership.

The authors of this report visited these four countries and spoke with U.S. and country government personnel (including diplomatic and development staff), representatives of multilateral institutions, private-sector actors, and representatives of nongovernmental organizations (NGOs) and foundations, as well as other individuals with a role to play in moving the bilateral relationship forward. Scores of interviews were also conducted in Washington, in addition to country-specific working group discussions that brought together Americans, Brazilians, Indians, Russians, and Panamanians. Over the course of all these conversations, a multitude of differing recommendations and ideas were offered, but almost no one expressed the desire for the United States to continue its assistance relationship with these countries. Instead, the interviewees spoke of partnerships with the United States in science and technology, civil society, triangular cooperation, education, and a variety of other fields.

The near unanimity of these interlocutors against traditional U.S. assistance to these countries is a strong indication of the expanding set of interests that the United States shares with middle-income countries, interests that are being inadequately served by the bilateral relationships in their present form. It also reflects the increasing difficulty of justifying U.S. government funding to these countries and the approaching political decision that will ultimately end such assistance. The U.S. government and its development agencies should therefore recognize this opportunity and prepare to make the transition from providing assistance to engaging in deeper trade and cooperation partnerships with middle-income countries.

Brazil

In the last several years, Brazil has been one of the most dynamic countries on the global stage, both politically and economically.¹ Having more than weathered the global recession, Brazil is poised to consolidate the position of leadership that it has carved out for itself through sustained strong economic performance. With a GDP greater than \$2 trillion, the South American giant recently surpassed the United Kingdom as the world's sixth-largest economy.² Just a decade ago, Brazil's GDP was about one-quarter of today's figure.³ This rapid but stable growth has been accompanied by growing Brazilian assertiveness in world affairs as well.

One of the clearest indicators of Brazil's newfound assertiveness is the country's development agenda, which emphasizes South–South cooperation. In fact, Brazilian officials often speak of solidarity with developing countries; and to an extent, Brazil sees and brands itself as the leader of the Global South.⁴ In line with this outlook, Brazil is pursuing development projects in both Latin America and Africa, including in its sister Portuguese-speaking countries such as Mozambique. Brazil's national development bank, Banco Nacional de Desenvolvimento Econômico e Social (BNDES), which was established with U.S. assistance in the 1950s, is one of the largest of its kind in the world and lent \$80 billion in 2011 to finance projects domestically and throughout the world, with a loan portfolio “more than three times that of the World Bank.”⁵ The Brazilian Agency for Cooperation (Agência Brasileira de Cooperação, ABC), the Brazilian equivalent of the U.S. Agency for International Development (USAID), is engaged primarily in technical assistance projects in Latin America and Africa and coordinates internal Brazilian agencies and actors with the country's foreign policy and development interests.⁶

Brazil's lofty aspirations, however, are not matched by its willingness to share the burdens of the international system to the extent expected of a leading global player. To date, Brazil has been selective about the challenges it is willing to take on, and there is little indication that it will be more willing to tackle challenges outside its immediate interests. In other words, Brazil is not on the verge of supplanting traditional U.S. allies such as the United Kingdom, and with respect to U.S. partners in the Western Hemisphere, Brazil remains a somewhat distant third to Canada and Mexico. Indeed, President Barack Obama has not voiced explicit support for Brazil in its calls for a permanent seat in the UN Security Council (whereas he has publicly backed India's bid).⁷ Nevertheless, there is a clear opportunity to develop the United States–Brazil partnership in a way that is mutually beneficial (and realistic in scope), even if the two countries' interests are not *completely* in

1. The Brazil portion of this report owes a great deal to project adviser Johanna Mendelson Forman.

2. Philip Inman, “Brazil's Economy Overtakes U.K. to Become World's Sixth Largest,” *Guardian*, March 6, 2012, <http://www.guardian.co.uk/business/2012/mar/06/brazil-economy-worlds-sixth-largest>.

3. World Bank, “Public Data: Gross Domestic Product, Brazil,” http://www.google.com/publicdata/explore?ds=d5bncppjof8f9_&met_y=ny_gdp_mktp_cd&idim=country:BRA&dl=en&hl=en&q=brazil+gdp.

4. Interviews with Brazilian government officials, November 2011.

5. Rachel Glickhouse, “Big Spender: Brazil's International Lending Ventures,” *Americas Society*, April 9, 2012, <http://www.as-coa.org/article.php?id=4082&nav=res&pid=16>.

6. Sarah-Lea John de Sousa, “Brazil as an Emerging Actor in International Development Cooperation: A Good Partner for European Donors?” Briefing Paper, German Development Institute, May 2010, [http://www.die-gdi.de/CMS-Homepage/openwebcms3.nsf/\(ynDK_contentByKey\)/ANES-83EH29/\\$FILE/BP%205.2010.pdf](http://www.die-gdi.de/CMS-Homepage/openwebcms3.nsf/(ynDK_contentByKey)/ANES-83EH29/$FILE/BP%205.2010.pdf).

7. “Obama Praises Brazil but Falls Short of Backing Bid for UN Security Council,” *MercoPress*, March 20, 2011, <http://en.mercoPress.com/2011/03/20/obama-praises-brazil-but-falls-short-of-backing-bid-for-un-security-council>.

line. An intensified effort by the United States to broaden its relations with Brazil would generally complement its priorities globally.

The present is a key moment in relations between the United States and Brazil, two countries that have often not seen eye to eye on many issues. Currently, however, U.S. and Brazilian national interests are largely aligned in a number of ways. Leaders in both countries view their counterparts with respect, after a few tenuous moments in the United States–Brazil relationship during portions of Luiz Inácio Lula da Silva’s presidency and earlier. Despite the recent warming, however, this relationship is still far from realizing its full potential, and the United States can take various concrete measures to strengthen this bond and further its foreign policy goals while expanding trade. The United States–Brazil relationship is moving in a positive direction, but it is incumbent on both parties to sustain this movement in the long term. At the moment, the United States lacks the ability to fully facilitate this process, because the instruments at its disposal are inadequate and inappropriate for the changing nature of United States–Brazil relations.

A stronger relationship with Brazil is vital for the United States because Brazil’s influence can be leveraged for ends consistent with U.S. interests abroad. In fact, Brazil currently shows a stronger inclination to work with U.S. allies rather than rivals, which was not the case just a few years ago. The Brazil–China relationship, which had concerned U.S. policymakers earlier, seems to have cooled as Brazil has been left unimpressed by a flood of cheap Chinese imports.⁸ Furthermore, Brazil had adopted a friendly stance toward Iran, with Lula hosting Iranian president Mahmoud Ahmadinejad on a tour of Latin America that also included warm receptions from presidents Hugo Chávez of Venezuela and Evo Morales of Bolivia.⁹ Brazil under President Dilma Rousseff, conversely, has chosen not to coddle Ahmadinejad, and the latter’s return visit to the continent notably skipped Brazil.¹⁰ The current administration in Brazil is generally tougher on human rights violators than its predecessors and therefore less receptive to repressive regimes.¹¹

As a member of the BRICS partnership (i.e., Brazil, Russia, India, China, and South Africa), Brazil has sought to swing its weight to a greater degree, not only in its own backyard but further afield as well, and its burgeoning confidence is reflected in the increasingly vocal stance that its government is taking on global issues. Under Lula, Brazil aggressively expanded its diplomatic reach, opening 17 embassies in Africa and 20 more elsewhere.¹² Lula himself undertook 10 trips to Africa during his two-term presidency, including 3 to Mozambique, with which Brazil shares a Portuguese colonial legacy.¹³ Yet Brazil’s forays into spheres outside the Lusophone world are notable as well. In Haiti, Brazil reaffirmed its commitment to multilateral institutions such as the United Nations, where it heads the Peacebuilding Commission’s Guinea-Bissau country-specific

8. Interview with a U.S. diplomat in Brazil, November 7, 2011.

9. Chris Kraul and Borzou Daragahi, “Lula Takes Risk in Welcoming Ahmadienjad to Brazil,” *Los Angeles Times*, November 23, 2009, <http://articles.latimes.com/2009/nov/23/world/la-fg-brazil-iran23-2009nov23>.

10. William Neuman and Simon Romero, “Increasingly Isolated, Iranian Leader Set to Visit Allies in Latin America,” *New York Times*, January 6, 2012, <http://www.nytimes.com/2012/01/07/world/middleeast/iranian-leader-set-to-visit-allies-in-latin-america.html?pagewanted=all>.

11. Interview with a U.S. diplomat in Brazil, November 7, 2011.

12. World Bank, “Bridging the Atlantic, Brazil and Sub-Saharan Africa: South-South Partnering for Growth,” December 2011, 41, <http://siteresources.worldbank.org/AFRICAEXT/Resources/africa-brazil-bridging-final.pdf>; Peter J. Meyer, “Brazil–U.S. Relations,” U.S. Congressional Research Service, November 22, 2011, 14, <http://www.fas.org/sgp/crs/row/RL33456.pdf>.

13. World Bank, “Bridging the Atlantic,” 41.

configuration, one of six such configurations.¹⁴ Most notably, as the main military contributor to the UN Stabilization Mission in Haiti, Brazil is leading international peacekeeping efforts on the island.¹⁵ That Brazil is spearheading the military component of a peacekeeping mission in the United States' backyard speaks volumes about both the two countries' mutual interests in regional stability and the future potential for their cooperation on this front. Brazil's commitment to and investment in the United Nations is particularly useful for the United States, which contributes far fewer troops to UN mediation efforts.

Although Brazil shares much with the other BRICS countries—namely, a steadily growing economy, global assertiveness, and a rising middle class—it is perhaps closer to the United States than any other BRICS country. Brazilian society shares several key characteristics with its American counterpart: Both countries are large democracies, are home to multiethnic immigrant populations, and have federal systems in which individual states and regions can vary widely from one another. This cultural bond with the United States is not shared by most other comparable countries, such as Russia and China, whose domestic and foreign policies contrast markedly with American ones. The commonalities between Brazilian and American societies offer a further advantage that the respective governments can leverage in building a stronger partnership. That both countries are democratic affords them a natural political relationship; leveraging this innate connection toward a more open trading system is perhaps the next hurdle in bilateral cooperation.

The nature of U.S.-Brazil relations over the years has partly been a product of the personalities in the leaderships of both countries. Under Lula, who many feared would steer Brazil to the far left, there were both ups and downs in the two countries' relationship. But in the current Brazilian government, both the president and the foreign minister have pursued a foreign policy that has largely been favorable to U.S. interests. President Rousseff has proven to be an even stauncher pragmatist than Lula. Her foreign minister, Antonio Patriota, was educated in the United States, served as Brazil's ambassador in Washington, and is more in tune with the American perspective than his predecessors. This alignment of key personalities offers a window of opportunity for the United States to gain a better footing with Brazil on issues important to both countries.

Both the Obama and the George W. Bush administrations have made Brazil a priority; President Rousseff's April 2012 visit to Washington was the fourth presidential-level meeting between the two countries in the last five years. President Obama visited Brazil in March 2011 and emphasized Brazil's economic and social progress as well as the need for a deeper partnership between the two countries.¹⁶

Over the last decade, Brazil has made massive and unprecedented strides in poverty reduction, through a combination of successful social policies and strong economic performance. In addition to the country's burgeoning middle class, which has benefited from its economic miracle, the poorest Brazilians have also seen a marked improvement in their lot. Between 2003 and 2010

14. United Nations General Assembly, Peacebuilding Commission, "Guinea-Bissau Added to Agenda of Peacebuilding Commission; Brazil Elected Chair of Country-Specific Configuration," December 19, 2007, <http://www.un.org/News/Press/docs/2007/pbc26.doc.htm>.

15. United Nations, "UN Mission's Summary Detailed by Country," March 31, 2012, http://www.un.org/en/peacekeeping/contributors/2012/March12_3.pdf.

16. Jesse Lee, "Together We Can Advance Our Common Prosperity," White House Blog, March, 21, 2012, <http://www.whitehouse.gov/blog/2011/03/21/together-we-can-advance-our-common-prosperity-president-speaks-people-brazil>.

alone, 28 million Brazilians climbed out of poverty.¹⁷ The Lula administration drew global acclaim for its successful implementation of measures such as Projeto Fome Zero (against malnutrition) and its subsidiary program, Bolsa Família (to curb extreme poverty), and these policies are continuing under the Rousseff administration.¹⁸

The success of this social programming by the Brazilian government can offer valuable insights to any country, including the United States. Brazil's positive results in reducing poverty and implementing urban relief programs are part of the series of areas in which Brazil's experiences can benefit the United States. Furthermore, Brazil's own progress in poverty reduction offers a model that may be replicated in other country contexts (and perhaps this replication can be pursued as a development project between the United States and Brazil, through triangular cooperation).

U.S. Assistance to Brazil

USAID has operated a mission in Brazil since 1962 and has pursued development activities in a wide variety of sectors. Over time, however, the scope of USAID's activities in Brazil has decreased, and in recent years, the USAID Mission in Brazil has focused solely on energy, health, environmental affairs, and youth issues.¹⁹ U.S. assistance to Brazil has resulted in a number of notable legacies, not least of all the establishment of the Brazilian Agricultural Research Corporation (Embrapa). USAID played a central role in helping Brazil make strides in agriculture and was a key player in helping Embrapa get on its feet, investing in Embrapa in its early years and providing extensive assistance in terms of human and physical capital.²⁰ Embrapa's significance for Brazil and for global food security is described later in this section.

Yet U.S. assistance for setting up key Brazilian institutions began even before USAID had a presence in the country. For instance, as mentioned above, the Brazilian government received support and training from its American counterpart in establishing BNDES. USAID also helped create graduate and postgraduate programs at a number of Brazilian universities, including the business administration courses at the University of São Paulo and the Getúlio Vargas Foundation.²¹

The current USAID program in Brazil is very small in proportion to the size of Brazil's economy and has been slated for closure on several occasions; the fact that the majority of funding for the program, at least in recent years, has come from congressional earmarks strongly indicates that U.S. assistance for Brazil is not driven by development realities.²² As the United States phases out its assistance to Brazil, it has the opportunity to lay the foundation for a deeper bilateral relationship with Brazil, *before* the USAID Mission closes. The \$17.2 million in U.S. government money allocated for Brazil in 2012, largely for environmental and health projects, is not suited for the

17. "Almost 40 Million Brazilians Climbed to Middle Class in the Last Eight Years," MercoPress, June 28, 2011, <http://en.mercopress.com/2011/06/28/almost-40-million-brazilians-climbed-to-middle-class-in-the-last-eight-years>.

18. Ibid.

19. U.S. Agency for International Development, "USAID-Brazil," <http://brazil.usaid.gov/en/node/4>.

20. Isadora Ferreira, "From Famine to Feast in Brazil," *Frontlines* (USAID), November–December 2011, http://www.usaid.gov/press/frontlines/fl_nov11/FL_nov11_50_BRAZIL.html.

21. USAID official in Brazil, e-mail to author, May 8, 2012.

22. U.S. Agency for International Development, "Phase-Out Plan: Brazil," PD-ACB-972, November 1973, on file with the author.

partnership that the United States and Brazil need to advance their mutual interests.²³ Instead of bilateral aid, the United States should maintain its legacy in Brazil through other mechanisms that allow the countries to pursue cooperative interests, with the support of the private sectors of both countries. USAID's current presence in Brazil, however, gives the United States the opportunity to pivot its relationship with Brazil; although the USAID Mission is relatively small in scale, it should be involved in launching other binational initiatives; for example, consider the projects suggested in box 3.1.

Box 3.1. Brazil's Upcoming Mega-Events

Brazil has been the focus of much national and international scrutiny surrounding two upcoming mega-events—the 2014 World Cup and the 2016 Olympic Games. Both are massive undertakings, and major questions have been asked about Brazil's outdated and inadequate infrastructure, not to mention threatening to expose rampant corruption, government incompetence, and social problems. There is still much to be done to expand capacity in airports, build roads, and develop the ability to host hundreds of thousands of visitors throughout the country.

However, global events such as these offer an ideal chance for a country like Brazil to overhaul its creaking infrastructure and develop something that will benefit the country more broadly (e.g., greater public knowledge of English). There is also a clear opportunity for U.S. firms to invest more and help Brazil develop the infrastructure it needs. American private-sector investment in these massive undertakings will likewise expand cooperation within the context of the United States–Brazil bilateral relationship. There is a role for U.S. government institutions to play here as well; the Overseas Private Investment Corporation, the Export-Import Bank, and other nontraditional agencies can help by facilitating the involvement of American investors and by making Brazilian infrastructure development goals a reality.

Focus Sectors for Bilateral Cooperation

Building Civil Society and a Culture of Philanthropy. Among the key differences between the United States and Brazil is that the former is home to a much more robust civil society. The network of nongovernmental institutions in the United States is pervasive and largely self-sustaining, but this is not the case in most countries, including Brazil. While there are many NGOs in Brazil, the same culture that surrounds and makes them successful in the United States does not exist in Brazil, though the trend is improving.²⁴ With its extensive and unique experience in this area, the United States can be a major partner in fostering the growth of civil society in Brazil, and Brazilians both within and outside the government acknowledge that American technical assistance on this subject would be much more useful than any transfer of funds through foreign aid.

Though the concept of fostering civil society is a very broad one, there are two specific ways in which the United States can be of true assistance to Brazil. The

first is to support the development of independent Brazilian think tanks in the American mold. Currently, there are only a few think tanks in Brazil, and these tend to be affiliated with the major political parties—in contrast to U.S. think tanks, which generally espouse nonpartisanship.²⁵ A

23. U.S. Department of State, "Congressional Budget Justification, Foreign Assistance, Summary Tables," Fiscal Year 2012, <http://www.state.gov/documents/organization/158269.pdf>.

24. Interviews with Brazilian NGO representatives, November 2011.

25. Interview with representatives of a major Brazilian think tank, November 10, 2011.

series of formal linkages between Brazilian think tanks and their U.S. counterparts could be part of a U.S.-Brazil cooperative effort on professionalizing and furthering think tank activity in Brazil.

For Brazilian think tanks to flourish, the country's general public needs to gain a better understanding of these organizations' role and purpose in society. In Brazil, the culture of giving to NGOs, including think tanks, is weak at best.²⁶ This raises a second issue whereby U.S.-Brazil cooperation could strongly benefit civil society in Brazil. Although there are now many wealthy Brazilians and Brazilian corporations have an abundance of money, the architecture of philanthropy is not present in Brazil. Funding NGOs and supporting other nonprofit initiatives are not yet the norm for the Brazilian private sector, and Brazilian corporations lack the systematic incentives that their American counterparts enjoy.²⁷ One major advantage for the private sector in the United States is a tax code that incentivizes philanthropic behavior; reforming the Brazilian tax code so it offers similar inducements would engender an incipient culture of philanthropy in that country as well.

Promoting Science and Technology. The level of innovation in Brazil, as in the broader region, has traditionally been low (however, as mentioned above, Brazil excels in agricultural innovation). Although this fact may not be obviously distressing, it does become a cause for concern when comparing Brazil's poor track record on innovation with that of South Korea, a highly innovative economy whose model of growth from poverty to prosperity Brazil is attempting to emulate. With respect to investing in innovation as a portion of GDP, Brazil trails most emerging countries.

However, there is evidence that this trend is changing for the better. The number of new patents filed and granted, a common indicator of the level of innovation, grew consistently in Brazil between 2001 and 2010.²⁸ In another sign of progress, the Brazilian government has come to recognize the importance of boosting domestic innovation. In May 2012, Brazil hosted "(Brazil) Innovation," a conference on global innovation with a focus on the BRICS.²⁹ This conference was part of a broader regional acknowledgment of weak innovation in Latin America, whose companies "invest only 0.5 percent of gross revenues in research and development."³⁰ The United States can help Brazil become a more innovative economy, and there has already been progress on this front. In late April 2012, Secretary of State Hillary Clinton announced the Accelerating Market-Driven Partnerships initiative, a public-private partnership to catalyze innovation on development challenges globally, but with an initial pilot focusing on sustainability in Brazil.³¹

The Brazilian government has also acknowledged that the country's students have fallen behind in technical fields. To address this gap and boost homegrown technical expertise, the government launched the Science Without Borders Program, an ambitious undertaking administered by the Institute of International Education. Through Science Without Borders, the government has committed itself to fund 75,000 scholarships for Brazilian students to spend one year studying at universities abroad, including many American ones. An additional 25,000 scholarships will be

26. Interview with the leader of a prominent Brazilian NGO, November 7, 2011.

27. Interview with Brazilian NGO representatives, November 2011.

28. "The Many Facets of Innovation in Brazil," Thomson Reuters, March 6, 2012, http://thomsonreuters.com/content/news_ideas/articles/science/the-many-facets-of-innovation-in-brazil.

29. Brazil hosted this conference in conjunction with *The Economist*.

30. "(Brazil) Innovation: A Revolution for the 21st Century," Conference Announcement for May 10, 2012, *The Economist*, <http://latinamerica.economist.com/event/brazil-innovation-2012/253>.

31. U.S. Department of State, "Secretary Clinton Announces Launch of New Partnership to Drive Investment in Innovation," April 27, 2012, <http://www.state.gov/r/pa/prs/ps/2012/04/188848.htm>.

funded by the private sector, bringing the total to 100,000 by 2014, and the program also funds opportunities for researchers from the United States to pursue projects in Brazil.³²

The private sector's contribution to this program is one of the positive indications coming from Brazil that the sector is stepping up and starting to fulfill the duties required of it in an emerging economy like Brazil's. Its willingness to contribute to Science Without Borders reflects the private sector's acknowledgment of serious gaps in the Brazilian workforce, shortages that have not been addressed by the traditional Brazilian education system. The new model of public-private partnerships is promising for Brazil, and holds potential for application in other areas as well (see the recommendation in chapter 4 on public-private partnerships for more information on their applicability in assistance transitions).

Meanwhile, the Obama administration is pursuing a similar course, launching its own academic exchange program, called 100,000 Strong in the Americas. Under this initiative, 100,000 American students will study in the Latin American and Caribbean countries by 2020, and the same number of students from those countries will study in the United States.³³

Brazil also holds a reputation for poor protection of intellectual property (IP) rights. This is not necessarily for want of IP protection laws, but rather because of a lack of consistent enforcement. The Brazilian government's lax (and sometimes indifferent) attitude toward IP protection has been motivated in part by the desire to help domestic firms compete with foreign ones, but this approach shortsightedly deters some potential investors that would benefit Brazil's long-term economic growth. Just as in the case of innovation, however, the consensus is that Brazil is gradually improving its enforcement of IP protection laws and has made notable progress in the last few years.³⁴ The government's increasing privatization of major industries and a smoother process for registering new businesses have encouraged both Brazilian and foreign entrepreneurs.

The United States recognizes the progress made by Brazil in this lengthy reform process and can provide technical assistance in continuing these efforts. The advantages to the Brazilian economy of better IP enforcement are obvious, but U.S. firms will benefit as well from a safer and more predictable business climate.

Promoting English and Portuguese. Among the factors that prevent Brazilians and Americans from understanding one another's societies is language. There is relatively limited knowledge of Portuguese among Americans, even among scholars of Latin America, most of whom tend to be more (if not exclusively) proficient in Spanish. Likewise, the level of knowledge of English remains low in Brazil, where the majority of Brazilians lack basic conversational abilities in English.

According to 2008 U.S. census data, 661,000 Americans speak Portuguese or Portuguese Creole in their homes, representing just over 0.2 percent of the U.S. population.³⁵ In Brazil, English is not generally spoken either, and one study ranked Brazil's English-language competency at below

32. Institute of International Education, "Brazil's Science without Borders Program: About the Program," <http://www.iie.org/en/Programs/Brazil-Science-Without-Borders/About>.

33. Phillip Kurata (U.S. Department of State), "U.S., Brazil Expand and Deepen Cooperation," April 9, 2012, <http://brazil.usembassy.gov/usbrexpand.html>.

34. Kaitlin Mara, "WTO Review Finds Brazil Progressing on Trade Policy, IP Rights Protection," *Intellectual Property Watch*, March 11, 2009, <http://www.ip-watch.org/2009/03/11/wto-review-finds-brazil-progressing-on-trade-policy-ip-rights-protection/>.

35. U.S. Census Bureau, "Table 52: Population by Selected Ancestry Group and Region: 2008," in *Statistical Abstract of the United States: 2011*, <http://www.census.gov/compendia/statab/2011/tables/11s0053.pdf>.

average, at 3.84 on a 10-point scale.³⁶ This deficiency in English skills also pervades the service sector, which will be put to the test with the upcoming mega-events and the hundreds of thousands of foreign visitors that each will bring to Brazil (as described in box 3.1). Therefore, in addition to the shortcomings in infrastructure that threaten the success of these events, Brazil also lacks the necessary human capacity to adequately accommodate visitors in such volumes. The United States thus has much to offer Brazil in terms of improving its citizens' English-language skills.

Conversely, Brazil, with its newfound assertiveness, is pushing Portuguese as a language with significance beyond the traditional Lusophone world. Perhaps its most important market for exporting Portuguese is the United States, to enable Americans to communicate effectively with Brazilians in all sorts of joint business and other endeavors. Thus there are great opportunities for both the United States and Brazil to encourage the growth of their respective languages in each other's country.

Collaborating on Agriculture and Global Food Security. For all its shortcomings in innovation overall, Brazil is a global leader in agricultural innovation. The government-affiliated Embrapa has been one of the country's greatest successes in combating poverty and advancing agribusiness as a massively successful Brazilian industry. The domestic benefits of such advancement in agriculture are clear, but Brazil's production of food, which exceeds its consumption of it, has implications for global food security as well.

Brazil's foreign assistance activities reflect this potential to leverage its agricultural expertise in encouraging global food security. Through its General Coordination of International Actions against Hunger program (Coordenação-Geral de Ações Internacionais de Combate à Fome, CG-FOME), Brazil is attempting to apply to the developing world its experience in combating hunger through Fome Zero, providing international humanitarian assistance in the form of emergency food security.³⁷ Thus, CGFOME has formed partnerships³⁷ with other international donors, such as the World Bank, the UN Food and Agriculture Organization, the UN World Food Program, and USAID's Food for Peace.

For the United States and other rich countries, food security is a priority development goal vis-à-vis the poorest countries. And thus Brazil, as an emerging development player looking to spread its clout, along with the United States and others, can play a sizable role in making global food security a reality. Brazilian innovation in tropical agriculture also offers models for potential replication in other countries, especially those with a climate similar to Brazil's.³⁸ In the case of triangular cooperation with the United States, this is an area where Brazilian expertise is unique.

Pursuing Stronger Energy Links. Brazil, one of the world's true energy giants, is a major actor in both the energy consumption and production markets. As a result, energy plays a central role in U.S. cooperation with Brazil—but there is even greater potential in this field for repurposing the bilateral relationship. Brazil is a leading force in various kinds of energy production (and consumption), including ethanol, oil, natural gas, hydropower, and other alternative forms of energy.

36. Dennis Barker, "The Language Problem: A New Report Card Gives Brazil Below-Average Grades for Business English," *Sourcing Brazil*, <http://www.globalenglish.com/files/news/SourcingBrazil.pdf>.

37. Carlos Aurélio Pimenta de Faria and Clarisse Goulart Paradis, "Humanism and Solidarity in Brazilian Foreign Policy under Lula (2003–2010): Theory and Practice," World International Studies Committee, August 2011.

38. "Brazil's Foreign-aid Programme: Speak Softly and Carry a Blank Cheque," *The Economist*, July 15, 2010, <http://www.economist.com/node/16592455>.

By gradually liberalizing some of its governmental regulations over these industries, Brazil has significantly improved its position in the global energy market.

Discoveries of enormous reserves of oil off the southern coast of Brazil a few years ago only heightened interest in Brazil's continued energy potential.³⁹ Reaching and extracting this oil will be an enormous undertaking, and, in the Brazilian context, unparalleled in costs and complexity.⁴⁰ How this oil discovery and its consequences affect Brazil will be an important question for the near future. Brazil's national oil company, Petrobras, is projected to become one of the world's largest corporations; it is already growing steadily, and will further benefit from Brazil's newfound oil reserves.⁴¹ Having recently become a net exporter of oil, Brazil is poised to become a global competitor in the oil sector, a fact that has not escaped American companies (and those of rival countries) looking to tap into that market.

Biofuels are the specific area of energy where Brazil truly excels. After the United States, Brazil is the world's largest producer of ethanol, thanks to its ample resources of sugarcane. Unlike the United States, however, Brazil has used its biofuels to convert most of its vehicles into flex-fuel ones that run on both gasoline and ethanol, a cheaper and cleaner system. With the global biofuels market expected to grow steadily, the country will remain in the vanguard of this growth for the foreseeable future.⁴² Its success in finding practical and widespread utilization of biofuels has not escaped U.S. attention; during his 2010 visit to Brazil, Obama emphasized the importance of biofuels to United States–Brazil cooperation on energy.⁴³ More recently, the expiration of the U.S. tariff on Brazilian ethanol in December 2011 means that after decades of high tariffs, Brazil can freely export ethanol to the United States.⁴⁴

Building on the success of its domestic biofuels program, Brazil now exports its expertise through bilateral South-South cooperation initiatives, with a particular interest in Lusophone African countries. In the last decade, Brazil signed cooperation agreements to study and support the introduction of bioenergy and biofuels with Guinea, Mozambique, Zambia, and the eight member countries of the Economic Community of West African States (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo). Brazilian companies, in partnership with BNDES, support ethanol projects in Nigeria, Benin, Ghana, Mozambique, Angola, and Tanzania. The Africa-Brazil Agriculture Innovative Marketplace, launched in May 2010, promotes investment in bioenergy and agricultural research and development and knowledge sharing between Africa and Brazil. In Angola, the Brazilian construction giant Odebrecht signed an agreement with the state-owned oil company and another Angolan firm to establish the Bioenergy Company of Angola. In 2008, Embrapa opened an office in Accra to facilitate technical assistance in Ghana's ethanol

39. Terry Macalister, "Surprise Discovery Off Coast of Brazil May Confound the Oil and Gas Doom-Mongers," *Guardian*, April 15, 2008, <http://www.guardian.co.uk/business/2008/apr/16/oil.brazil>.

40. Interview with a former senior Brazilian government adviser, November 8, 2011.

41. Susan Caminiti, "Oil Discovery to Shape Future for Petrobras and Brazil," *Company Profiles, NYSE Magazine*, n.d., <http://www.nysemagazine.com/petrobras>.

42. Peter Byrne, "Brazil's Biofuel Boom: Mark McHugh," *Energy Report*, April 12, 2012, <http://www.theenergyreport.com/pub/na/13077>.

43. Office of the Press Secretary, White House, "Joint Statement by President Rousseff and President Obama," March 19, 2011, press release, <http://www.whitehouse.gov/the-press-office/2011/03/19/joint-statement-president-rousseff-and-president-obama>.

44. "Brazilian Brew: America Opens Up to Brazilian Ethanol," *The Economist*, January 7, 2012, <http://www.economist.com/node/21542431>.

industry; and with substantial Brazilian investment, ethanol is set to become Ghana's fourth-biggest export.⁴⁵

Brazil's bilateral overtures in the energy sector are also of interest to the United States, particularly with respect to Cuba, where Brazil plans to redevelop the sugar industry. This undertaking, which involves the participation of Odebrecht, will also use some of the sugarcane for ethanol production.⁴⁶ Brazil's involvement in Cuba could be significant for U.S. foreign policy; even though Brazil does not directly push autocratic countries like Cuba to reform, it makes no secret of its interest in seeing democracy take hold on the island. More important for the United States, if change does come to Cuba in the near future, Brazil can serve as a natural partner for cooperation in helping with the transition.

Enhancing the Trade Relationship. Trade relations between the United States and Brazil are positive, but they still do not reflect the extent to which the two countries, as compatible democracies and successful large economies, can engage with one another. Given Brazil's growing economic clout, the United States–Brazil trade dynamic should more closely resemble the trade relationship between the United States and its North American neighbors. In 2011, the United States traded nearly \$600 billion worth of goods with Canada and about \$460 billion with Mexico, compared with just \$74.3 billion with Brazil.⁴⁷ A broader set of bilateral trade agreements is needed, and a large gap in this relationship is the lack of a free trade agreement. President Rouseff's April 2012 visit to Washington unfortunately did not signal tangible progress on this front.

The United States also lacks a tax treaty with Brazil, and having one would eliminate some of the threat of double taxation that currently hinders some commerce between the two countries. Such an agreement with Brazil would not only be productive for bilateral trade interests, but would also be particularly desirable given the friendly nature of the United States–Brazil relationship. It is remarkable that the United States lacks a tax treaty with Brazil when it has for years had agreements with Venezuela and Russia, countries with a decidedly cooler relationship with the United States.⁴⁸

Deepening the bilateral trade relationship is not just a U.S. responsibility, and Brazil needs to bear an equal portion of the burden. The current deficiency in United States–Brazil trade is accounted for significantly by the protectionism that has consistently governed Brazil's economic policy. Protectionist measures adopted by Brazil include an increase in tariffs on imported cars produced outside Mercosur and Mexico, along with policies that privilege Brazilian firms over foreign ones; Petrobras, for instance, enjoys favorable access to oilfields, while foreign competi-

45. Chief Economist Complex, African Development Bank Group, "Brazil's Economic Engagement with Africa," *Africa Economic Brief* 2, issue 5 (May 11, 2011), http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Brazil's_Economic_Engagement_with_Africa_rev.pdf.

46. Jeff Franks, "Brazil Leader Arrives in Cuba to Talk Trade, Ties," Reuters Africa, January 30, 2012, <http://af.reuters.com/article/energyOilNews/idAFL2E8CUCWA20120130?sp=true>.

47. U.S. Census Bureau, "Trade in Goods with Canada," <http://www.census.gov/foreign-trade/balance/c1220.html>; U.S. Census Bureau, "Trade in Goods with Mexico," <http://www.census.gov/foreign-trade/balance/c2010.html>; U.S. Census Bureau, "Trade in Goods with Brazil," <http://www.census.gov/foreign-trade/balance/c3510.html>.

48. Neil Aragones, "President's Trip to Brazil Emphasizes Need for Tax Treaty," LexisNexis Communities' Tax Law Community, June 9, 2011, <http://www.lexisnexis.com/community/taxlaw/blogs/lexistaxstaffanalyses/archive/2011/06/09/president-obama-emphasizes-need-for-bilateral-tax-treaty-with-brazil.aspx>.

tors are forced to vie as “junior partners.”⁴⁹ Overall, Brazil needs to become a more modern trade partner with the United States, especially because it wishes to be treated as an equal partner in other spheres.

There are already mechanisms in place to help carry the United States–Brazil economic relationship in the right direction, and leveraging these institutions will be very important. The Brazil-U.S. Business Council, founded in 1976, acts as a convener for the two countries’ private sector, and within the council, the U.S.-Brazil CEO Forum provides opportunities for high-level conversations on bilateral trade and investment affairs.⁵⁰

The American Chamber of Commerce in Brazil (AmCham-Brazil) offers another point of access for American public- and private-sector actors looking to expand their presence in Brazil. Approximately 5,000 American, Brazilian, and multinational business from more than 40 countries make AmCham-Brazil the world’s largest American chamber outside the United States.⁵¹ Combined with ample opportunities in the Brazilian private sector, U.S.–Brazilian cooperation outside a government-to-government model holds growing potential.

Collaborating on Peacekeeping and Disaster Response. As described above, Brazil is a steadfast proponent of multilateral institutions, and it is actively lobbying to gain increased influence in the United Nations and the World Bank. This commitment to the international community can be significant in light of the fact that traditional peacekeeping initiatives are not a significant component of U.S. military policy. Brazil, as a friendly nation if not full ally of the United States, can help shoulder some of the burdens of international conflict mediation, including in Haiti, where instability has direct implications for the United States.

As part of their April 2012 meeting in Washington, presidents Rousseff and Obama also discussed the potential for bilateral cooperation in disaster response. This plan includes a role for both countries’ militaries and forming a “hemisphere-wide disaster response coordination mechanism” under the auspices of the Organization of American States.⁵² By keeping broader regional stability as a central goal of the two countries’ foreign policies, the United States and Brazil can complement one another’s platforms in the Western Hemisphere. And through a division of labor whereby Brazil heads peacekeeping and disaster response while the United States takes care of trade security, bilateral relations can grow through regional collaboration.

Rethinking the Environment Priority. It is clear that there needs to be some sort of mechanism for shifting the United States–Brazil relationship vis-à-vis the environment toward a broader set of interests. In recent years, much of USAID’s funding for Brazil has been allocated toward environmental projects, but given the environmental realities in Brazil, this emphasis is neither productive nor reflective of the true nature of the United States–Brazil bilateral relationship.

49. “Protectionism in Brazil: A Self-Made Siege,” *The Economist*, September 24, 2011, <http://www.economist.com/node/21530144>.

50. U.S. Chamber of Commerce, “Brazil-U.S. Business Council: Advocacy,” <http://www.brazilcouncil.org/initiatives>.

51. Brazil Industries Coalition (BIC), “Non-Government in Brazil,” <http://www.bic-us.org/partners/non-government-in-brazil>.

52. Office of the Press Secretary, White House, “Fact Sheet: U.S.-Brazil Defense Cooperation,” press release, April 9, 2012, <http://www.whitehouse.gov/the-press-office/2012/04/09/fact-sheet-us-brazil-defense-cooperation>.

Giving money to Brazil for environmental purposes, such as protection of the rain forest, is already difficult to justify. Sooner or later, this will become very hard to sell to the U.S. public and Congress, particularly because a string of center-left parties have governed Brazil and made curtailing deforestation a key issue. Therefore, the threat to the rain forest that existed two decades ago has been to a large degree addressed.⁵³ The NGOs that contributed to this reversing of trends should be commended for their efforts, because they sparked worldwide concern over this issue and catalyzed governments into action. However, it seems that some of these same NGOs now find themselves with less purpose and are fighting for their own survival.⁵⁴ Currently, USAID's funding for Brazil includes congressional earmarks for environmental protection, which are passed annually and channeled to a few NGOs. Meanwhile, Norway has been the first and most committed supporter of the Amazon Fund; in 2008, the Norwegian government pledged up to \$1 billion for the rain forest by 2015.⁵⁵ All this makes the few millions channeled through USAID seem not only paltry but also extraneous, and the money spent thus appears more reflective of domestic interest group politics than actual U.S. foreign policy goals.

Liberalizing Travel Restrictions. For all their cultural similarities, Brazilian and American societies remain somewhat ignorant of each other, though this trend appears to be changing slowly. Americans, who have had relatively little exposure to Brazil, would benefit from a program that fostered extended exchanges for professional and academic purposes. Among Brazilians, there is growing interest in the United States, and many Brazilians finally have the means to travel abroad. Brazil's economic climb has meant great strides not just in the reduction of extreme poverty but also in the rapid expansion of the Brazilian middle class. With more disposable income in hand, Brazilians have been making their presence known worldwide—and making a sizable economic impact; Brazilians, per capita, not only outspend tourists of all other nationalities,⁵⁶ but they also spent nearly \$6 billion in the United States in 2010 alone, more than triple the figure from just six years earlier.⁵⁷

Despite the extensive interest in travel to the United States among Brazilians—not to mention the obvious economic boon this interest offers the United States—the regime whereby Brazilians acquire U.S. visas still requires convoluted, lengthy, and costly processing (though improvements have been made in recent months).⁵⁸ It is unclear how many potential Brazilian visitors to the United States are deterred by this, but a less restrictive approach to visas would have immediate and long-term benefits. There is clearly appetite among both Brazilians and Americans to learn more about each other's country, but the mechanisms to allow easy access back and forth do not exist to a sufficient degree. The presidential meeting in April 2012 marked a step in the right direc-

53. Interviews with Brazilian NGO representatives, November 2011.

54. Interview with a multilateral bank representative in Brazil who is very familiar with the issue, November 9, 2011.

55. Ministry of the Environment of Norway, "Norway and the Amazon Fund," December 15, 2011, <http://www.regjeringen.no/en/dep/md/Selected-topics/climate/the-government-of-norways-international/norway-amazon-fund.html?id=593978>.

56. Laura Bonilla, "Brazil Tourists on Spending Spree," Agence France-Presse, January 7, 2012, http://www.google.com/hostednews/afp/article/ALEqM5h7DdcvMgxOzhSODg_PsWQA89-5dA.

57. Office of Travel and Tourism Industries, International Trade Administration, U.S. Department of Commerce, "2010 Market Profile: Brazil," May 2011, http://www.tinet.ita.doc.gov/outreachpages/download_data_table/2010_Brazil_Market_Profile.pdf.

58. Tim Rogers, "Let Them In: How Brazilians Could Help the U.S. Economy," *Time World*, June 3, 2011, <http://www.time.com/time/world/article/0,8599,2075717,00.html>.

tion, as presidents Obama and Rousseff discussed ways to expedite Brazil's entry into the Visa Waiver Program; in the meantime, to address the already-huge demand among Brazilians for U.S. visas, the State Department plans to open two new consulates in Brazil.⁵⁹

Pursuing Development Cooperation. Brazil is also a U.S. partner in triangular cooperation, with the two countries collaborating on a number of development projects. In addition to joint efforts in the Caribbean, the two countries pursue triangular cooperation in Africa. For instance, ABC and USAID recently signed a plan for cooperation in agriculture- and health-sector development in Mozambique.⁶⁰ This is not the first U.S.-Brazilian endeavor in Mozambique, however, as USAID and Embrapa already had a cooperative program in place.⁶¹ Earlier, the United States had also signed a tripartite agreement with Brazil and the government of Guinea-Bissau to improve legislative capacity in the latter country.

In comparison with that of Russia and even India, Brazil's enthusiasm for triangular cooperation is the highest among the three. Triangular cooperation with Brazil is one way for the United States to assist Brazil in becoming a full-fledged donor country in its own right, because it allows U.S. expertise to be passed on to Brazilians on the ground. Nevertheless, an important caveat applies regarding triangular cooperation: It may be an easy default to fall back on, but it cannot define the United States–Brazil relationship (box 3.2).

To begin with, traditional assistance, in the form of grants from the Brazilian government, is very small. For instance, ABC operated on a budget of about \$30 million for 2010 (compare to USAID's operating budget of \$1.65 billion for the same year).⁶² The potential for development cooperation with Brazil in third countries is also limited by two other factors. First, the regional possibilities are restricted, at least for the moment. Brazil's aggressive outreach toward Africa makes that continent a priority in its view, and there is less possibility for engagement in Asia, where Brazil has less sway. As far as South America is concerned, cooperative development work between the United States and Brazil is relatively unlikely for the time being. As the regional leader, Brazil considers South America within its own sovereignty, as far as outside intervention is concerned. Although the United States has carried out development work in that region and continues to do so today, Brazil is not very receptive to the idea of a U.S. label on activities there in which Brazil is involved.⁶³

Yet Brazil's view of South America as its own backyard is not necessarily inimical to U.S. interests. Brazil's unique status in the region means that it brings the rest of South America with it, whether economically or politically.⁶⁴ From a U.S. foreign policy perspective, having good relations with Brazil can open doors to other countries in the neighborhood. The current presence in the region of governments hostile to U.S. interests adds a dimension of national interest to the importance of cultivating a strong United States–Brazil relationship.

59. Vicki Needham, "US, Brazil Leaders Push Expansion of Visa Waiver Program," *The Hill*, April 9, 2012, <http://thehill.com/blogs/on-the-money/1005-trade/220645-us-brazil-presidents-push-expansion-of-visa-waiver-program>.

60. U.S. Agency for International Development, "Brazil, the U.S. and Mozambique Sign Agreement for Trilateral Cooperation," <http://brazil.usaid.gov/en/node/1368>.

61. P. Adriana Hayes, "In Development, Three Heads Are Better Than One," *Frontlines*, March–April 2012, http://www.usaid.gov/press/frontlines/fl_mar12/FL_mar12_LAC_TRILATERAL.html.

62. "Brazil's Foreign-Aid Programme: Speak Softly and Carry a Blank Cheque," *The Economist*, July 15, 2010, <http://www.economist.com/node/16592455>.

63. Interview with U.S. diplomats in Brazil, November 2011.

64. Interview with a U.S. diplomat in Brazil, November 8, 2011.

Box 3.2. Triangular Cooperation: A Limited Instrument of Engagement?

With the emergence of new donors in the development landscape, there is increasing buzz surrounding triangular cooperation, or the process whereby two donor countries coordinate their development work in a third country. Within such an arrangement, one donor can provide funding while the other supplies the technical expertise and/or human resources required for a given project. An ideal model of triangular cooperation allows each partner to leverage its comparative advantage in development. Although it has yet to embrace it wholesale, the United States has increasingly probed triangular cooperation. USAID is pursuing joint projects in Africa, with Brazil and India as partners (as described here in the main text and later in this report).

Within the U.S. development community, there is a strong tendency to view triangular cooperation as a default type of cooperation that would be of interest for expanding bilateral relations with middle-income countries. Triangular cooperation certainly offers a concrete option for broadening cooperation activities, but its potential is limited.

Donor coordination is an extremely difficult undertaking, as evidenced by the United States' experience with "traditional donor" members of the Development Assistance Committee of the Organization for Economic Cooperation and Development. Many middle-income countries do not follow the conventional rules of development, such as those agreed upon in the Paris Declaration on Aid Effectiveness. Triangular cooperation should therefore be viewed as part of the multifaceted relationships between the United States and middle-income countries, and not as the crux of those relationships. This approach to development cooperation should be complemented by the U.S. government's application of its long and successful legacy of foreign assistance to help middle-income countries become more effective and responsible donors. In light of its limitations, therefore, triangular cooperation may be the "fool's gold" of cooperation interests, not because it is unproductive but because it draws an inordinate amount of energy and focus at the expense of more productive areas of engagement.

A second factor that hinders United States–Brazil development cooperation is the latter country's limited ambition in promoting democracy and governance. Despite its aversion to working with autocratic regimes that abuse human rights, the current Brazilian government has disavowed foreign policy interventions that could be interpreted as "imperialistic."⁶⁵ Brazil tends to shy away from conditionality in its development policy, whereas the United States is much more active in the encouragement of democracy and governance worldwide through development. Triangular cooperation on democracy and governance, which has significant potential from the U.S. perspective, is essentially a nonstarter for Brazil.

Brazil's emergence as a development player is indicative of the country's efforts to come to terms with its newfound influence on the global stage. Not only is Brazil still unsure of what its development policy should accomplish, it has yet to formulate that policy. Interviews with multiple development actors within the Brazilian government revealed that cross-agency cooperation is unsatisfactory and a sentiment that the various agencies, or at least their activities, will be brought together and coordinated under an undisclosed umbrella institution.⁶⁶ It is quite possible that Brazil's outlook on and approach to international development will change as the country grapples with its identity and goals.

65. Interviews with development officials in the Brazilian government, November 2011.

66. Ibid.

To assist Brazil's transition to the role of a donor country, USAID has implemented a staff exchange program with ABC, whereby an ABC employee is ensconced within the USAID Mission in Brasília.⁶⁷ Staff exchanges of this sort are wise but unfortunately limited in scope. USAID's impact on Brazil's ability to become an effective international development actor would benefit from a more ambitious exchange mechanism, whereby ABC employees could work at USAID headquarters in Washington. Furthermore, experienced USAID staff members should be sent to work within ABC, in an advisory capacity. Development actors in the U.S. government should channel more of their efforts toward helping Brazil become a better donor.

India

India is perhaps the most complex country for repositioning U.S. bilateral relations, but it also offers tremendous opportunity. An emerging world power, India seeks to take on a more active role in world affairs and to assert itself as an independent, equal player with other large economies. To this end, it has made much progress in expanding its footprint on regional issues, such as development in Afghanistan, and in extending its reach to new regions, including Africa. This external assertiveness and activity has been accompanied by transformations on the home front as well. The World Bank's 2007 reclassification of India as a lower-middle-income country was a reflection of the great strides that the Indian government made in the past two decades in lifting hundreds of millions out of extreme poverty.⁶⁸

The growing significance of India has not gone unnoticed by the U.S. government. During his 2010 visit to India, President Obama labeled the United States–India relationship as “a defining partnership of the 21st century.”⁶⁹ The administration's backing for India as a global actor has been concrete, with Obama speaking out in explicit support of India's campaign for a permanent seat on the UN Security Council.⁷⁰ Indeed, the United States and India share a set of commonalities that both governments recognize, but that have yet to realize their potential in a strategically repurposed United States–India relationship. Not least of all, the two biggest democracies in the world share the English language, which is a significant factor in terms of the ability to connect societies.⁷¹ Furthermore, the threat of terrorism is a major national security concern for both countries. India is faced not only with the reality of extremists in neighboring Pakistan but also with domestic terrorism. Cooperation on security is thus natural for the United States and India.

67. U.S. Department of State, “Memorandum of Understanding between the Brazilian Cooperation Agency (ABC) and USAID on the Implementation of a Professional Exchange Program,” February 10, 2011, <http://www.state.gov/documents/organization/158842.pdf>.

68. Rukmini Shrinivasan, “World's Poor Move with India into Middle-Income Bracket,” *Times of India*, December 26, 2010, http://articles.timesofindia.indiatimes.com/2010-12-26/india/28239798_1_capita-income-middle-income-status-poverty-figures.

69. Scott Horsley and Renee Montagne, “In India, Obama Pushes Trade, Security Issues,” National Public Radio, November 8, 2010, <http://www.npr.org/templates/story/story.php?storyId=131155480>.

70. Scott Wilson and Emily Wax, “Obama Endorses India for UN Security Council Seat,” *Washington Post*, November 8, 2010, <http://www.washingtonpost.com/wp-dyn/content/article/2010/11/08/AR2010110807129.html>.

71. The significance of a common language for bilateral relations can perhaps be best seen in cases where it is *lacking*; in the case of U.S. relations with Russia and Brazil, the lack of English comprehension in those countries has made the building of nongovernmental connections a more difficult process.

U.S. foreign assistance to India currently matches neither the scale of India nor the advanced nature of the two countries' relationship. The United States' range of interests vis-à-vis India has expanded rapidly in the last decade, and traditional assistance is no longer appropriate. In a December 2011 speech in New Delhi, USAID administrator Rajiv Shah emphasized that the United States "no longer think[s] of India as a country that needs assistance. . . . So we aspire to shift from a traditional relationship of donor and recipient to one that is really about peers standing together."⁷² Indian officials are also careful to characterize the United States–India relationship as a balanced partnership and bristle at the notion of India as dependent on foreign aid.⁷³ The Indian government can certainly call on numbers that back up its assertiveness, including rapid economic growth in the last decade. From 2005 to 2010, India registered a total GDP growth of 109 percent, considerably lower than China's growth of more than 160 percent, but far more than the United States' (15.9 percent) and that of the countries that belong to the European Union.⁷⁴ As in China, the middle class has boomed in India and proven that it has staying power and sustained long-term growth potential (box 3.3).⁷⁵

Although India has come a long way, it still suffers from tremendous shortcomings in several critical areas. India is of such immense proportions that notable successes in areas such as the growth of a middle class or a skyrocketing GDP are often overshadowed by the scale of its social problems. As far as extreme poverty is concerned, India is home to more impoverished people than all of sub-Saharan Africa; the more than 450 million Indians who live on less than \$1.25 a day (the World Bank's definition of poverty) present an enormous constraint on their government.⁷⁶ In addition, many Indians still live in rural areas where tradition continues to outweigh modernity and where communities have yet to benefit from the country's overall relative prosperity. The caste system is still pervasive, and India's population includes a staggering quarter-billion illiterate people.⁷⁷ With problems on this scale, it is natural to argue that there is still much development work to be done in India and that the United States should not draw down its foreign assistance there.

Yet with a GDP of \$1.8 trillion (a rapidly growing figure), India no longer benefits from the transfer of funds from the U.S. government—as one U.S. official in India put it, "India's problems are too big to throw money at."⁷⁸ Rather, India's problems can be much more effectively addressed through specialized technical assistance. Essentially, the evolving nature of United States–India relations makes incongruous the continued U.S. government funding for social services delivery in India. The main obstacles to adequate provision of social services to India's 1 billion-plus popula-

72. Embassy of the United States in New Delhi, "Remarks by Dr. Rajiv Shah, USAID administrator at Indian Agricultural Research Institute," December 20, 2011, <http://newdelhi.usembassy.gov/sr122211a.html>.

73. Interview with officials of the Indian Ministry of External Affairs, January 18, 2012.

74. These are World Bank data.

75. Kenneth Rapoza, "Within a Generation, China's Middle Class Four Times Larger Than America's," *Forbes*, September 5, 2011, <http://www.forbes.com/sites/kenrapoza/2011/09/05/within-a-generation-china-middle-class-four-times-larger-than-americas/>.

76. Heather Timmons, "India's Anti-Poverty Programs Are Big but Troubled," *New York Times*, May 18, 2011, http://www.nytimes.com/2011/05/19/world/asia/19india.html?_r=1.

77. Sunjoy Joshi, "Impulses: Trends That Will Shape India's World," PowerPoint, presented at the Atlantic Council, Washington, December 2, 2011.

78. The \$1.8 trillion amount is at the official exchange rate. The quotation is from an interview with a U.S. diplomat in India, January 17, 2012.

Box 3.3. Assistance as Influence?

Much of the resistance to these transitions comes from segments of the State Department and Capitol Hill, due to misconceptions about what foreign assistance means for the U.S. foreign policy agenda in the middle-income country context. A common notion among State Department officials is that a U.S. foreign assistance presence in a country, such as through a USAID mission, “buys” the U.S. a higher level of influence than it actually does. While assistance may curry favor for the U.S. among certain governments, it is unrealistic to view foreign assistance as a force of influence with respect to emerging powers. Most middle-income countries’ economies are not affected significantly by foreign assistance, especially not from bilateral aid from the United States. Consequently, those countries feel little to no pressure to temper their policy outlook in a way more amicable to U.S. interests. Trillion-dollar economies like Brazil and India are not swayed to alter their foreign policy calculus and to side with the United States on key foreign policy issues simply because the U.S. government earmarks a relatively small amount of development funding for them every year. Given the way U.S. interests with middle-income countries have been evolving and the size of U.S. assistance to those countries, the argument for assistance as influence is becoming weaker.

This is of course not to say that the United States has no means at its disposal to influence favorable policies among middle-income countries. On the contrary, there are a series of ways (trade, people-to-people exchanges, energy cooperation) through which the United States can have influence in these countries or improve bilateral relationships. That being said, the sooner the diplomatic community and parts of the U.S. Congress shift their mindset to a more realistic perspective on the potential of foreign aid, the sooner the United States can pursue more effective ways to remain engaged with middle-income countries and advance its interests.

The development community, conversely, feels conflicted about the process but generally understands and agrees. Most development practitioners on the ground, such as USAID employees in missions, have already moved on in their thinking. Among the wide range of individuals interviewed for this report, covering the gamut of development actors, nearly no one expressed the sentiment that these transitions should not happen. There was less unanimity over the particulars of the phaseouts in middle-income countries, but that the transitions need to take place soon was very rarely in dispute. This only highlights the fact that the decision to end foreign assistance to a country is often forced by budgetary and political considerations in Washington, with the development policymakers and practitioners having significantly less say in the matter. Given the inherent unpredictability of these forced decisions, it is incumbent upon the U.S. government’s development agencies to be prepared for transitions in countries where aid is having minimal impact and failing to adequately address U.S. interests there.

tion (including 550 million under the age of 25) are infrastructure, logistics, and corruption, and India is capable of financing much of its own development at this point.⁷⁹

However, there is an evident disconnect between the Indian government’s self-perception and its actual capabilities. Whereas some government officials would like to rank India as an equal partner to the United States and other Western powers, India still lags far behind its assumed peers in terms of human development indicators and actual global influence (if not assertiveness). This can actually pose a challenge for United States–Indian cooperation, as the Indian government insists on being considered an equal partner in joint efforts and eschews a U.S. imprimatur

79. Oliver Staley and Andrew MacAski, “Obama Leads U.S. Universities to India as Yale, Duke Build Ties,” Bloomberg, November 5, 2010, <http://www.bloomberg.com/news/2010-11-05/universities-tag-along-with-obama-to-india-to-set-up-ties-like-yale-duke.html>.

on such collaboration.⁸⁰ U.S. officials working with the Ministry of External Affairs in India cite that agency as a “bottleneck” that limits the extent to which the United States can cooperate with India, at least on a government-to-government basis. They are significantly more optimistic about the Indian economy outside the context of the federal government, foreseeing a worst-case annual growth rate of 7 percent.⁸¹

Similar to the dynamic in Brazil, India has a large divide between the central government and the states, some with sizable economies of their own (e.g., the poor state of Uttar Pradesh is home to 200 million people) and extremely influential governors.⁸² Therefore, even if the government in New Delhi is in gridlock, progress can still occur at the state level, and U.S. organizations and companies can form partnerships with individual states and institutions. Part of the goal of transitioning away from U.S. assistance to middle-income countries is to form bilateral links in various sectors of society, beyond a government-driven (and government-funded) relationship.

U.S. Assistance to India

At the outset, the USAID program in India focused much of its attention on the development of infrastructure and the agricultural sector, because some analysts believed that infrastructure development could create conditions conducive to private-sector capital formation.⁸³ The Indo–U.S. Technical Cooperation Agreement of 1952 marked the beginning of a broad-based assistance program. Under this agreement and supplemental agreements extending to 1970, the United States provided economic and technical assistance to more than 150 agriculture, industry, transportation, education, and health projects in India. In education, USAID helped advance the Indian Institutes of Technology by, for example, bringing professors from top American universities to the institute in Kanpur.⁸⁴

As the country became self-sufficient in food production and expanded its industrial capability and infrastructure, the focus of USAID’s programs shifted to science and technology transfer and to economic liberalization, and also to global issues of population growth, HIV/AIDS and other infectious diseases, and the status of women.⁸⁵ More recent programs have placed a greater emphasis on clean energy and climate change adaptation, environmental sustainability, food security (e.g., through the Green Revolution; see box 3.4), and private-sector development.

Focus Sectors for Bilateral Cooperation

Scaling Up Frugal Innovation. Although it is common knowledge that India excels in science and technology, it is also worth noting that India does this particularly well in its own local

80. Interviews with U.S. and Indian government officials, January 2012.

81. Interview with U.S. diplomats in India, January 17, 2012.

82. William Antholis, “The World’s Fourth-Largest Democracy Votes: Uttar Pradesh, India,” Brookings Institution UP Front Blog, March 7, 2012, http://www.brookings.edu/opinions/2012/0307_uttar_pradesh_election_antholis.aspx.

83. Anne O. Krueger and Vernon W. Ruttan, “Assistance to Korea,” in *Aid and Development*, edited by Anne O. Krueger et al. (Baltimore: Johns Hopkins University Press, 1989), 14–17.

84. Robert O. Blake, “Celebrating the Legacy of U.S.-India Education Cooperation,” *DipNote: U.S. Department of State Official Blog*, June 16, 2010, http://blogs.state.gov/index.php/site/entry/us_india_education_cooperation.

85. USAID, “USAID India.”

Box 3.4. India's Green Revolution: A Legacy of U.S. Assistance to India

The Green Revolution that took place in India during the 1960s and helped establish India as one of the world's largest agriculture producers received multipronged support from the United States, including from USAID and the Ford Foundation and Rockefeller Foundation. Norman Borlaug, the "father of the Green Revolution," had seen his methods lead to great success in boosting wheat production in Mexico. Soon, requests for replication of this success poured in from nations on the brink of famine—like India.

The development of a national Indian research system by the Rockefeller Foundation along with USAID investments played a big part in distributing Borlaug's high-yielding wheat variety in India. The educational partnership facilitated the transfer of knowledge and information in the form of U.S. specialists teaching in the Indian agriculture universities. Fertilizer cooperatives and facilities were also established with U.S. financing, and the personnel involved with the fertilizer industry were trained at U.S. facilities. The fertilizer cooperative project and facility construction are cited as being some "of the most effective projects ever undertaken by USAID."

Sources: "Great USAID Projects in History: IFFCO," ACIDI/VOCA, <http://www.acdivoca.org/site/ID/Feature-Great-USAID-Projects-in-History-IFFCO>; Uma Lele and Arthur Goldsmith, "The Development of National Agricultural Research Capacity: India's Experience with the Rockefeller Foundation and Its Significance for Africa," *Economic Development and Cultural Change* 37, no. 2 (January 1989): 305–343, <http://www.jstor.org/stable/1153832>.

context. Indian innovators are remarkably successful in coming up with low-cost, high-impact solutions to some of the problems and needs facing their country. This "frugal innovation" has borne tremendous results in India, but there is great potential to scale up such innovation within India and in other countries as well. Frugal innovation can be a point of cooperation for the United States and India, which can address development challenges together in third countries by replicating there those innovations that have been tried and successfully tested in India. Indeed, much can be learned from the Indian development experience and applied to other contexts, and there is considerable interest from the Indian government to work with the United States in making this trilateral cooperation a reality. Indian corporations, including companies within the Tata Group conglomerate, also invest in these sorts of products,⁸⁶ making the Indian private sector another potential partner in United States–India cooperation on frugal innovation. This is also a role for USAID to play as its mission in India phases out of its current configuration; there should be a concerted effort to broaden and formalize United States–India development cooperation to ensure that such links will thrive (box 3.5).

Promoting Science and Technology. Science and technology is a key area in which India traditionally excels and that can form an integral part of the growing United States–India partnership. Both sides stand to benefit from increased cooperation on promoting science and technology, including creating linkages of U.S. institutions and corporations with their Indian counterparts. Private companies (both Indian and foreign) have also set up research-and-development laboratories in India, from which they seek to tap into this frugal innovation and scale it up commercially. Clearly, there is a precedent for U.S.–Indian collaboration on cutting-edge practices, and in the

86. Rajnish Tiwari and Cornelius Herstatt, *Frugal Innovations for the "Unserved" Customer: An Assessment of India's Attractiveness as a Lead Market for Cost-Effective Products*, Technology and Innovation Management, Working Paper 69 (Hamburg: Hamburg University of Technology, 2012), http://www.global-innovation.net/publications/PDF/Working_Paper_69.pdf.

Box 3.5. An Initiative between FICCI and USAID

In December 2011, USAID undertook a new initiative with the Federation of Indian Chambers of Commerce and Industry (FICCI). USAID administrator Rajiv Shah stated that “USAID and FICCI will collaborate with Indian private sector sponsors and other stakeholders to establish an innovation platform.” Through this alliance, both USAID and FICCI will put forward \$7.5 million and have pledged to jointly raise up to \$50 million by the end of 2012. Focusing on health, food security, climate change, energy, and education, the alliance is meant to encourage innovation by civil society and private-sector actors.

Sources: “USAID, FICCI Form Alliance to Promote Innovation,” *Jagran Post*, December 20, 2011, <http://post.jagran.com/USAID-FICCI-form-alliance-to-promote-innovation-1324381117>; “USAID and FICCI Announce Millennium Alliance,” Federation of Indian Chambers of Commerce and Industry, December 20, 2011, <http://www.ficci.com/pressrelease/846/press-ficci-dec20-USAID.pdf>.

modern context, the overseas Indian community plays a powerful role. For instance, Silicon Valley and Bangalore (sometimes dubbed “the Silicon Valley of India”) are inextricably tied thanks to the information technology companies that thrive in both places.⁸⁷

The State Department has noted that science and technology “form[s] the basis of United States–India economic growth and strengthen[s] [the] strategic partnership.”⁸⁸ This science and technology partnership is bolstered in a variety of different ways, including endowments, knowledge sharing, joint projects, and personnel and corporate connections. Through mechanisms such as the Indo-U.S. Science and Technology Forum, the U.S.-India Innovation Exchange, the Science and Technology Endowment Fund, and the Civil Space Working Group, the two countries already cooperate and collaborate considerably, and this is another avenue through which ties can be broadened and deepened.⁸⁹ The former program alone has enabled nearly 10,000 scientists from both countries to work together. The formal processes of interaction have set a precedent for U.S.-Indian collaboration on cutting-edge practices, and the overseas Indian community plays a powerful role in this partnership as well.

Enhancing the Trade Relationship. The United States and India, as two giant democracies and economic powers, currently enjoy a healthy trade relationship, but the volume of trade between the two countries is far from its potential, and a series of policy shifts can make a significant impact even in the short run. Nevertheless, U.S.-Indian bilateral trade has been improving steadily over the years (tripling from 2001 to 2009 alone), after decades of relatively little back-and-forth due to Cold War–era disagreements.⁹⁰ It is in the best interests of both nations to not only remain actively engaged with one another but to also boost the trade relationship as their number-one bilateral economic priority.

87. Jonathan Siskin, “Silicon Valley of India: Bangalore,” *International Business Times*, August 25, 2009, <http://www.ibtimes.com/contents/20090825/silicon-valley-india-bangalore.htm>.

88. U.S. Department of State, “U.S.–India Science, Technology and Innovation Cooperation,” July 19, 2011, <http://www.state.gov/r/pa/prs/ps/2011/07/168740.htm>.

89. “United States–India Science and Technology Endowment Fund: Commercializing Technologies for Societal Impact,” Indo-US Science and Technology Forum, <http://www.indousstf.org/US-India-Endowment-Board1.html>.

90. Neena Shenai, “India, the United States, and High-Tech Trade,” *The American* (American Enterprise Institute), March 14, 2010, <http://www.american.com/archive/2010/march/india-the-united-states-and-high-tech-trade>.

Currently, India's economic strength is not quite matched by its trade relations, but its trade performance is projected to skyrocket in the next several decades. According to one study, by 2050 India will have replaced the United States as the world's second-biggest trading nation, leapfrogging numerous other countries as well in the process.⁹¹ U.S. companies stand to benefit greatly from India's growing willingness and ability to trade, and the U.S. government would therefore be wise to make sure that its policies allow its constituents to capitalize on India's potential.

A number of obstacles still stand in the way of a more fruitful United States–India trade relationship, and the impediments to bilateral trade come from both countries. From the U.S. side, several pieces of legislation and entrenched foreign policy are keeping U.S. companies from fully investing in India and their Indian counterparts from accessing the U.S. market. Unhappily, the U.S. government has not prioritized an approach to India that would create enough certainty for investors in both countries, in order to significantly open the gates to further investment and trade between these two natural partners. The limited scope of bilateral trade is reflected in the disappointing results of the 2008 United States–India civil nuclear deal, which allowed the sale of nuclear reactors and fuel to India. Since the fanfare around that agreement, due to disagreement over liability issues, there has been very little momentum on the part of American companies to take advantage of the opening, whereas firms from other countries have profited.⁹²

Likewise, the Indian government could take concrete steps to create a better environment for U.S. firms to operate in India, given that the present one hampers imports through excessive fees and inadequate transparency. A recent report from the Office of the U.S. Trade Representative shows that in addition to the lack of transparency in its economic policymaking, the Indian government continues to take a protectionist stance on certain domestic industries, effectively freezing out potential foreign investors.⁹³

India also has a poor reputation with respect to the protection of intellectual property rights. Understandably, this laxity toward intellectual property is unattractive to American companies and other potential investors in India. By enforcing regulations consistently and thereby safeguarding intellectual property rights, the Indian government can do much toward building trust on the U.S.-Indian economic front.

From the perspective of expanding U.S. trade, India holds untold potential, some of which is gradually being unlocked. India's potential to benefit the American economy is indeed not lost on the U.S. government, with Nancy Powell, the new U.S. ambassador to India, stating that “the business of the U.S. mission in India is business.”⁹⁴ Yet to date, overtures from the U.S. government have only had limited success in opening up India as a market for U.S. investment and trade. India is still on a long road toward becoming a fully functioning free market economy and has many kinks to work out along the way. The U.S. government can facilitate this process by elevating the trade partnership with India to a leading economic priority, and keeping it there beyond the

91. Patrick Allen, “U.S. to Lose Second Place in World Trade to India: Citi,” CNBC, June 23, 2011, http://www.cnbc.com/id/43506564/US_to_Lose_Second_Place_in_World_Trade_to_India_Citi.

92. Simon Denyer and Rama Lakshmi, “U.S.–India Nuclear Deal Drifts Dangerously,” *Washington Post*, July 15, 2011, http://www.washingtonpost.com/world/asia-pacific/us-india-nuclear-deal-drifts-dangerously/2011/07/07/gIQAJTbeGI_story.html.

93. “U.S. Exporters Face Trade Barriers in India,” *Indian Express*, April 3, 2012, <http://www.indianexpress.com/news/us-exporters-face-trade-barriers-in-india/932036/0>.

94. Amol Sharma, “U.S. Envoy Seeks Lift in Trade with India,” *Wall Street Journal*, April 27, 2012, <http://online.wsj.com/article/SB10001424052702304723304577369402605003514.html>.

short term. With the bilateral trade relationship not yet at full capacity, there is a potential for job creation through better trade relations, a point endorsed by President Obama himself.⁹⁵ A trade-based bilateral relationship is doubly advantageous because it capitalizes on the U.S. and Indian business communities' abilities to generate employment, thereby contributing not just to poverty alleviation but also, in a more sustainable manner, to the economic prosperity of both countries.

Bilateral United States–India trade should match the scale of U.S. trade with another powerful Asian economy, South Korea, and there are positive indicators that the trade relationship is headed in that direction. With respect to trade in goods, the United States trades almost twice as much with South Korea (over \$100 billion in 2011) as it does with India (less than \$58 billion). However, the average growth in bilateral trade during the last decade has favored the United States–India relationship; from 2002 to 2011, trade in goods between the United States and India grew at an average rate of 16.3 percent per year, compared with 6.4 percent for United States–South Korea trade.⁹⁶ Both the U.S. and Indian governments should dismantle the remaining barriers to a trade relationship befitting the world's two largest democracies. India has trade agreements in place with China, Chile, Japan, South Korea, Mercosur, the Association of Southeast Asian Nations, and various African countries, and it is in the negotiating phase with the European Union. The United States represents the last large economy with which India has no formal agreement. Pursuing this in order to create certainty for investors is a vitally important endeavor that the two governments must prioritize.

Building Civil Society and a Culture of Philanthropy. The culture of philanthropy, and the architecture in place to support giving, is particularly strong in the United States, and this can be a unique American export to places where such a culture does not exist, including India. Despite the preponderance of high-net-worth Indians (including at least 55 billionaires), the level of philanthropy in India is nowhere near that in the United States.⁹⁷ This large deficiency is accounted for by a few factors, among them a paucity of local precedents and the lack of a system that encourages philanthropy. In the United States, the tax code offers very strong benefits for giving, but in many other countries, particularly rising middle-income ones, these institutional incentives do not (yet) exist. Rather than transferring funds, the United States can be of assistance to India by opening up American expertise on how to establish an environment conducive to philanthropy in India.

Leveraging the Overseas Indian Community and Remittances. Although there is an indefinite list of sectors and topics for a deeper United States–India partnership, one thread runs through them all. The overseas Indian community, particularly the large population of Indians residing in the United States, is a major actor in the United States–India relationship, and it will thus be a critical aspect of every future joint effort undertaken by the two countries. A significant portion of the extensive Indian Diaspora is based in the United States (by some estimates, up to 1 percent of the U.S. population is of Indian origin), and many of these Indians divide their time be-

95. Scott Wilson, "In Mumbai, Obama Announces Plans to Boost U.S. Trade with India," *Washington Post*, November 6, 2010, <http://www.washingtonpost.com/wp-dyn/content/article/2010/11/06/AR2010110601111.htm>.

96. U.S. Census Bureau, "Trade in Goods with India," <http://www.census.gov/foreign-trade/balance/c5330.html>; U.S. Census Bureau, "Trade in Goods with Korea, South," <http://www.census.gov/foreign-trade/balance/c5800.html>.

97. Naazneen Karmali, "The World's Billionaires 2011: The India Story," *Forbes*, <http://www.forbes.com/sites/naazneenkarmali/2011/03/10/the-worlds-billionaires-2011the-india-story/>.

tween the United States and India.⁹⁸ The linkages that they have created between the two countries pervade the bilateral relationship in both the public and private sectors.

Nonresident Indians (NRIs), as members of the Indian Diaspora are called, have much to offer India, through both human capital and tangible resources. A large number of NRIs have returned to pursue economic opportunities in India, particularly with the global recession limiting opportunities in the West. NRIs also send back enormous sums of money to India, which receives more remittances than any other country in the world. In 2010, India received \$55 billion in remittances, compared with \$5.3 billion for Russia, \$4 billion for Brazil, and just \$406 million for Panama.⁹⁹ India's remittances far exceed the official development assistance that it receives (which amounted to over \$2.8 billion in 2010) but nonetheless reflect only a portion of the vast contributions that overseas Indians can make to Indian society.¹⁰⁰ The United States-based Indian community is particularly primed to make a bigger impact, with United States-to-India remittances alone reaching \$3.2 billion in 2009.¹⁰¹

NRIs are already undertaking many productive initiatives in India, but a strong desire to do more is a common sentiment. Many are put off by the difficulties posed by the Indian government and the reputation for uncertainty that India has for potential investors.¹⁰² As part of its strategy for transforming assistance to India, the U.S. government should strengthen and amplify its work with the overseas Indian community, and collaborate through joint efforts in India. The State Department has begun engaging NRIs in the United States through its Bureau of South and Central Asian Affairs, and this outreach is a positive approach that should be scaled up (box 3.6).¹⁰³

Pursuing Development Cooperation. India has been involved in development activities abroad for decades, though not until this year did the government establish the Indian Agency for Partnership in Development, thereby creating an official hierarchy for coordinating development work.¹⁰⁴ All of India's development activities fall under the umbrella of the Ministry of External Affairs,¹⁰⁵ and only a small fraction of Indian assistance is disbursed "as outright cash grants."¹⁰⁶ The Ministry of Finance, meanwhile, "plays a secondary role that includes oversight of soft loans via the country's export credit agency."¹⁰⁷ The Indian Technical and Economic Cooperation, which

98. "Indian-Origin People Close to Being One in 100 Americans," *Economic Times*, April 3, 2012, http://articles.economictimes.indiatimes.com/2012-04-03/news/31281621_1_indian-americans-population-numbers.

99. World Bank, *Migration and Remittances Factbook 2011* (Washington, D.C.: World Bank, 2010), <http://data.worldbank.org/data-catalog/migration-and-remittances>.

100. Organization for Economic Cooperation and Development, "India," <http://www.oecd.org/dataoecd/62/30/1877912.gif>.

101. Congressional Budget Office, "Migrants' Remittances and Related Economic Flows," February 2011, http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1803&context=key_workplace.

102. Interview with an India scholar, April 2012.

103. "Indian-Americans a Partner in Improved U.S.-India Ties: US State Department," *Times of India*, October 12, 2011, <http://timesofindia.indiatimes.com/nri/us-canada-news/Indian-Americans-a-partner-in-improved-US-India-ties-US-state-department/articleshow/10324048.cms>.

104. Interview with officials of the Indian Ministry of External Affairs, January 18, 2012.

105. Interviews with U.S. and Indian government officials, January 2012.

106. Subhash Agrawal, "Emerging Aid Donors: India," *Norrag*, September 2010, <http://www.norrag.org/issues/article/1331/en/emerging-aid-donors-india.html?PHPSESSID=ea018508137f54ef257a1f17bbe581fe>.

107. Jane Rowlands, "Emerging Donors in International Development Assistance: A Synthesis Report," Norman Paterson School of International Affairs, Carleton University, January 2008, http://web.idrc.ca/uploads/user-S/12447280141Synthesis_Report.pdf.

Box 3.6. Inherently Governmental Functions and the American Interest

When countries are poised to transition from U.S. foreign assistance, certain functions that took place under a government aid transfer mechanism may have to be carried on through other, nongovernmental channels (e.g., foundations, sinking funds, partner nongovernmental organizations, university-to university links). In general, there is ambiguity about when an interest is so vital that it inherently needs to be coordinated or funded by the government. The government should be aware of cooperation interests—such as exchanges, science and technology, higher education, and leveraging overseas communities—but it does not necessarily have to control, coordinate, or ultimately fund these functions. The government can in most cases change its role to that of a catalyst, and help convene these functions, especially at the outset. In the case of the United States–India relationship, it would be more effective for the U.S. government to spend \$5 million to \$10 million of highly catalytic money than to maintain a traditional foreign assistance presence costing over \$100 million annually. The same can be said for the United States’ relationship with Brazil, even if in that situation the savings would be more modest.

But what is an inherently government function, and what is not? Are there certain U.S. interests that can be entrusted to entities outside the government? The answer depends on the context, namely the geostrategic importance to the United States of the country in question. In middle-income countries like Colombia and Mexico, for instance, there is a long-standing national security interest for the United States, and the U.S. government will continue to provide direct assistance there through non-USAID programs such as the Mérida Initiative and the Central American Regional Security Initiative. For example, whereas drug trafficking and violence in Colombia and Mexico present tangible threats to the United States, there is no direct U.S. security interest to justify assistance for that reason in the cases of Brazil and India.

was founded in 1964 and is housed in the Ministry of External Affairs, has been providing assistance to a large number of countries through training exchanges, offering insight to the developing world in areas of Indian expertise, such as agriculture. India also operates bilateral assistance projects in its region, including in Afghanistan, Bhutan, and Nepal, as well as in Africa.¹⁰⁸ Perhaps India’s most significant contributions to regional stability, vis-à-vis U.S. interests, are its development efforts in Afghanistan, where India has many interests and a significant role to play.

There is also potential for the United States and India to cooperate on other development projects, and there has already been some collaboration in Africa. In late 2010, U.S. president Obama and Indian prime minister Manmohan Singh announced a United States–India partnership around an “Evergreen Revolution.” Building on the U.S. legacy in helping India and other countries experience the Green Revolution in agricultural production, this partnership is meant to adapt Indian agricultural innovation and know-how to the African context. Specifically, “ten India-sourced agriculture technologies will be customized for deployment in at least three regions of Africa.”¹⁰⁹

India may also benefit U.S. interests in supporting the growth of democracy in third countries, and the two could certainly collaborate more on this issue. However, as is the case with Brazil, the potential of United States–India triangular cooperation should be taken with a grain of salt. Despite some successes, India’s development program is still at an early stage, and it is structured

108. Ibid.

109. U.S. Agency for International Development, “A Partnership for an Evergreen Revolution,” http://www.usaid.gov/indiatrip/evergreen_revolution.pdf.

rather differently from the U.S. model. The United States and India will continue their trilateral cooperation and may even expand its scope, but with respect to repurposing the bilateral relationship, the U.S. government should not become overly reliant on triangular cooperation. The United States has more to gain in the long term, and India is likely to benefit more, from a scenario whereby the United States focuses on helping India become a more strategic donor country. Although India is a member of the community of donor countries, the speed with which its economy is growing will change its government's thinking on foreign aid in the years to come.¹¹⁰ With the recent establishment of a formal development cooperation office by the Indian government and continuing deliberations as to what Indian assistance will ultimately look like, now is the time for the United States to engage India as it determines the nature of its assistance efforts.

Russia

The United States' relationship with Russia is a complicated story, rife with opportunities and false starts.¹¹¹ Bilateral relations in recent years cannot be considered particularly amicable, but there is certainly ample potential to expand cooperation in a variety of ways. Russia continues to be a recipient of U.S. assistance, even though it boasts a top-10 GDP and is one of the world's most assertive countries, pursuing a foreign policy that consistently pits it against U.S. interests. Although the scope of U.S. assistance to Russia is small, this aid is difficult to justify given Russia's economic and political clout. Policymakers in Washington have taken note, and it is likely only a matter of time before traditional assistance to Russia ends; in the meantime, however, the U.S. government should avail itself of limited available assistance funds and prepare for the transition.

Engaging Russia at any level is a difficult undertaking for the United States. However, an official U.S. assistance program, despite its contributions to Russian society over the years, no longer gives leverage for engaging Russia on questions of foreign policy. Instead, the U.S. government would accomplish more by helping Russia become a more responsible global actor, furthering the globalization of the Russian mind, and supporting Russia's own development assistance program.

Russia's autocratic tendencies and, at times, explicitly hostile orientation toward U.S. interests are an inherent conflict in the United States–Russia relationship and cloud the bilateral trade and cooperation agenda, a complication that does not apply to the cases of Brazil, India, and Panama. The United States needs to balance its cooperation interests (e.g., expanded trade and technical exchanges) vis-à-vis Russia against questions of human rights and democracy and other unresolved issues that go against American values. Whereas other sectors of cooperation can be funded by private sources, the U.S. government should continue funding useful programs for democracy and governance in Russia, at least in the medium term. It should also consider other ways to continue its democracy and governance work in Russia without maintaining a USAID mission there (box 3.7).

Since the fall of the Soviet Union in 1991, strengthening the United States–Russia bilateral relationship has been a priority of U.S. foreign policy from administration to administration, irrespective of political party. Successive U.S. administrations have had to maintain the delicate balance between “advocating [for] democratization” and ensuring Russian cooperation on

110. Interview with an Indian diplomat in Washington, January 11, 2012.

111. This section is by and large the product of contributing author Ilona Teleki.

Box 3.7. The Democracy and Governance Exception

Democracy and governance is an area in which the U.S. government is spending assistance money in middle-income countries. It is important to be careful when defining what sorts of development activities fall under this sphere. Generally, this kind of work includes promotion of religious freedom, rights of ethnic minorities, anticorruption and transparency efforts (including free and fair elections), political pluralism, and independent media. In a subset of middle-income countries—such as Russia, Ukraine, and China—there is significant pushback against these kinds of efforts. At the same time, it is difficult to justify maintaining a full USAID mission or some other sizable U.S. government assistance presence, but U.S. goals for democracy and governance need to be supported through other channels. Private sources of philanthropy can play a role, with a long-term view of democratic reform in autocratic societies. The National Endowment for Democracy and its network of affiliated institutions (including the International Republican Institute and the National Democratic Institute) are already pursuing such efforts, and their activities should be encouraged and expanded where possible. Limited U.S. government development resources could be wisely spent on these initiatives, often in partnership with other funders.

security and other issues.¹¹² Both Republicans and Democrats have sought to integrate Russia into the transatlantic community of nations, with modest results and frequent setbacks.

One of the key vehicles of this integration in the post-Cold War period has been development assistance. When the USSR was dissolved and Russia became a distinct nation-state, the United States offered assistance for a transition to democracy and a free market economy. When U.S. assistance to Russia and the Soviet-successor Newly Independent States first began in 1992, few in the U.S. government envisioned that the United States would remain actively engaged for a significant period of time, certainly not for the two decades that have since passed.

U.S. Assistance to Russia

The events of the late 1980s in the Soviet Union “raised the issue of providing U.S. humanitarian, economic, and other aid . . . to help effect a transition to democracy and free markets in the region.”¹¹³ At the same time, the George H. W. Bush administration, together with many members of the U.S. Congress, was hesitant to provide foreign aid to a former rival superpower. After the attempted coup in 1991, some members of Congress began to discuss foreign assistance to the Soviet Union to encourage economic and political change, and also to dismantle nuclear weapons. U.S. foreign assistance to Russia was endorsed in the Freedom Support Act of 1992, which was passed by Congress and signed into law by President Bush that same year (box 3.8).

From 1992 through September 2001, Russia received \$8.9 billion in total assistance from the United States.¹¹⁴ By 2002, partly as a result of the September 11, 2001, terrorist attacks, two-thirds

112. Jim Nichol, “Democracy in Russia: Trends and Implications for U.S. Interests,” Congressional Research Service, August 29, 2006, <http://www.fas.org/sgp/crs/row/RL32662.pdf>.

113. Curt Tarnoff, “U.S. Assistance to the Former Soviet Union 1991–2001: A History of Administration and Congressional Action,” Congressional Research Service, RL30148, January 15, 2002, 1–2.

114. Curt Tarnoff, “U.S. Bilateral Assistance to Russia: 1992–2002,” Congressional Research Service, January 16, 2003, 2–3.

Box 3.8. Nunn-Lugar Cooperative Threat Reduction

The Nunn-Lugar Cooperative Threat Reduction (CTR) program was established in 1991 by Senators Sam Nunn (D-Ga.) and Richard Lugar (R-Ind.) to prevent the proliferation of nuclear, chemical, and biological weapons in a number of former Soviet countries, most notably Russia. With U.S. financial assistance, this program has helped Russia deactivate more than 7,500 nuclear warheads and destroy hundreds of other weapons. CTR, despite its high costs, is generally viewed as a successful investment in U.S. security. The U.S. government, through the Department of Defense, generally spends between approximately \$400 million and \$500 million each year on CTR, and the program accounts for the bulk of the United States' assistance to Russia. Although CTR is an expensive undertaking and likely no longer merits half a billion dollars in annual spending, it operates under a different logic than traditional U.S. assistance, such as USAID programming.

Source: U.S. Defense Threat Reduction Agency, "Fiscal Year 2013 Budget Estimates, Cooperative Threat Reduction Program," February 2012, http://comptroller.defense.gov/defbudget/fy2013/budget_justification/pdfs/01_Operation_and_Maintenance/O_M_VOL_1_PARTS/O_M_VOL_1_BASE_PARTS/CTR_OP-5.pdf.

of U.S. assistance to Russia was dedicated to security programs.¹¹⁵ Since 2003, the United States has also supported programs in democratic reform, economic- and social-sector reform, security, regional stability and law enforcement, and other areas.¹¹⁶ Meanwhile, technical assistance to central governments for laying the institutional foundations for reform was replaced with more local or lower-level initiatives. As some governments in the Newly Independent States resisted reform efforts, the United States shifted its approach and began funding actors and programs at the grassroots level.¹¹⁷

Although other U.S. government agencies and offices have also carried out programs in Russia, USAID, working with the U.S. Department of State, has been the main implementer of U.S. assistance since 1992. In that time, USAID has supported projects in the health, governance, rule of law, child welfare, civil society, and community development sectors implemented by Russian and international organizations.¹¹⁸ From 2002 to 2006, as Russia's economic situation improved, assistance to Russia decreased, as table 3.1 shows—and in fact, "some parts of the USAID portfolio began shifting from 'assistance' to 'cooperation' and later to . . . 'partnership.'"¹¹⁹

115. *Ibid.*, 3.

116. U.S. Department of State, "Country Assessments and Performance Measures: Russia," January 2004, <http://www.state.gov/p/eur/rls/rpt/37668.htm>. It must be noted that individual country assessments and appropriations foreign assistance figures are available from the Coordinator's Office for Assistance to Europe and Eurasia at the U.S. Department of State beginning only in fiscal year 2003.

117. Bureau of European and Eurasian Affairs, U.S. Department of State, "U.S. Government Assistance to and Cooperative Activities with Eurasia Report," January 2003, <http://www.state.gov/p/eur/rls/rpt/23600.htm>.

118. USAID Russia, "Frequently Asked Questions," <http://russia.usaid.gov/about/faq/>.

119. Denis Korepanov and Julia Komagaeva, "Russia as an International Development Aid Partner: Assistance Efforts in Global Health" in *Russia's Emerging Global Health Leadership*, edited by Judyth Twigg (Washington, D.C.: Center for Strategic and International Studies, April 2012), 17.

Table 3.1. Declining U.S. Assistance to Russia, 2003–2012

| Fiscal Year | U.S. Foreign Operations Appropriated Assistance to Russia (millions of dollars) |
|-------------|---|
| 2003 | 188.5 |
| 2004 | 100.5 |
| 2005 | 110.9 |
| 2006 | 92.1 |
| 2007 | 82.4 |
| 2008 | 81.2 |
| 2009 | 70.2 |
| 2010 | 71.5 |
| 2011 | 66.1 |
| 2012 | 62.9 |
| 2013 | 52.0 (requested) |

Sources: U.S. Department of State, “Bureau of European and Eurasian Affairs Reports,” <http://www.state.gov/p/eur/rls/rpt/>; Foreign Assistance Dashboard, <http://www.foreignassistance.gov>. During the last decade, USAID’s assistance to Russia has been decreasing steadily. In late 2011, USAID developed a new strategy on Russia, narrowing the scope of its work to democracy, human rights, and health and limiting the number of objectives, especially given declining resources. Interview with USAID officials in Moscow, October 2011.

New ways are needed to engage Russia, including both its government and society, to promote a stronger bilateral relationship.¹²⁰ As the United States gradually draws down its assistance to Russia, it will be important to continue working toward the goal of having Russia as a stable and reliable partner in the international arena, and there are a number of ways the United States can engage Russia in a productive partnership, both through existing mechanisms and focus sectors for increased bilateral cooperation.

In addition to a traditional assistance program, the United States and Russia are also connected through dozens of mechanisms set up over time, and two notable efforts are highlighted here. These linkages are not guarantees of cooperation, but they do provide avenues for potential collaboration, not to mention opportunities to preserve the legacy of U.S. assistance to Russia.

First, the Freedom Support Act authorized numerous activities, including public–private partnerships—known as enterprise funds—to support the development of free market economies in the former Soviet states. Led by boards of private-sector leaders, these enterprise funds gave public monies to both invest in and to fund development activities. Congress authorized a total of \$1.2 billion to establish the enterprise funds, and by 2007, their aggregate capital had gained \$200 million in total.¹²¹

120. Janine R. Wedel, “U.S. Foreign Aid and Foreign Policy: Building Strong Relationships and Doing it Right!” *International Studies Perspectives* 6 (2005): 35–50, http://janinewedel.info/foreignaid-doingitright_IntStudPersp.pdf.

121. “Enterprise Funds in Central and Eastern Europe and Central Asia 1990–2007,” Enterprise Funds Association, http://www.seedact.com/files/pdf/enterprise_funds_at_a_glance.pdf.

Second, one of the most successful enterprise funds was the U.S.-Russia Investment Fund (TUSRIF), established in 1995 to foster a healthy investment climate in Russia and to support the growth of private enterprise in the country. Approximately \$329 million was made available to TUSRIF. As the fund began to liquidate its assets in 2004, it was agreed that \$150 million would be used to establish the U.S.-Russia Foundation for Economic Advancement and the Rule of Law (USRF), “to support the long-term economic development of Russia’s market economy.” As the legacy foundation of TUSRIF, the USRF seeks to build strong United States–Russia ties through its activities. In 2010, its first full year of operations, the USRF spent \$4 million on 31 projects, which was matched with \$2.1 million from its Russian partners.

As successful as the USRF’s grant programs have been, the USRF board has been firm that it will not work on democracy-related programs in the country. However, the remaining liquidated assets should be used to balance the work of the USRF to further support and engage Russia’s democracy sector. A portion of the liquidated assets of TUSRIF should also be used to support capacity-building programs for civil society. The United States should consider investing in a sinking fund to support Russian civil society in working toward an enabling environment, meaning strengthening the nation’s corporate and privately funded philanthropic culture over the next 10 to 20 years. This sinking fund should be housed in an existing grant-making institution with experience in raising matching funds from private donors. The initiative should run training programs on NGO management, fund-raising, and development, as well as design course curricula for university departments to offer certification programs and courses on civil society. The reform of state institutions will occur only when strong societal groups are able to place pressure on them.¹²² Therefore, a U.S. legacy institution such as this sinking fund should have a long-term commitment to the development and stability of nonstate actors.

The most recent attempt to solidify a strong United States–Russia partnership has been the U.S.-Russia Bilateral Presidential Commission (BPC), which was established in 2009, during the first year of the Obama administration. The current Obama-Putin BPC has 19 working groups for various areas of cooperation, including counterterrorism, energy, civil society, business development, and economic relations.

However, the BPC is just one in a long line of bilateral commissions seeking to strengthen relations with Russia, and it shares the same problem as the commissions that came before it: impermanence.¹²³ Further, critics state that the BPC lacks “a large community in either country that cares about furthering the bilateral relationship,” which poses a large challenge to solidifying the partnership.¹²⁴

The BPC is not a panacea, and the United States must remain cognizant that cooperation is not the goal in and of itself. If the BPC continues, the United States should not allow Russia to be

122. See Michael McFaul, “How and Why the U.S. Should Aid Russia,” PONARS Policy Memo 46, November 1998, http://www.gwu.edu/~ieresgwu/assets/docs/ponars/pm_0046.pdf.

123. The Gore-Chernomyrdin Commission sought to promote U.S.-Russian cooperation in the areas of energy, space exploration, trade, business, defense, health, science, technology, agriculture, and the environment; James F. Collins and Matthew Rojansky, “An Enduring Approach to U.S.-Russian Cooperation,” *Carnegie Endowment for International Peace Policy Outlook*, July 27, 2011.

124. “U.S.-Russian Relations and the Bilateral Presidential Commission,” event at Carnegie Endowment for International Peace, Moscow, March 4, 2011, <http://carnegieendowment.org/2011/03/04/u.s.-russian-relations-and-bilateral-presidential-commission/2j8>.

selective about the issues that it wishes to coordinate on, ignoring the rest. Tougher issues—such as corruption, human rights, and democratic reforms—must also receive full attention under the BPC.

Focus Sectors for Bilateral Cooperation

Building Civil Society and a Culture of Philanthropy. Over time, middle-income countries evolve to encourage private charitable giving, and attending to the health of a self-sustaining environment must be part of the U.S. assistance transition strategy vis-à-vis Russia. An organization should be established to professionalize NGOs and train them in securing donations; the organization should also pursue tax code reform, helping to create a philanthropic culture among corporations.

A portion of TUSRIF's liquidated assets should be utilized to provide “anchor” opportunities for reformers in the transatlantic community. Some money might be allocated so that Russia could participate in already-established transatlantic networks such as the German Marshall Fund of the United States or other institutions with a transatlantic mission. These monies should be provided in the form of a sinking fund with the express goal of including Russian participants in a wide variety of transatlantic activities and should be leveraged by private, Russian government, and official European donors.

The United States should also work toward institutionalizing a formal association of NGOs in Russia and continuing to professionalize the country's civil society. USAID has helped to keep some of the best and most highly respected NGOs in operation and has also been responsible for creating an NGO community among nonprofits. However, there is fear that when USAID leaves the country, this network will disappear, as USAID has a better capacity to work with Russian organizations than does the U.S. Embassy in Moscow. As a legacy, USAID could leave behind a formal association of NGOs and a small sinking fund to support some NGOs over a 10-year period.

Enhancing the Trade Relationship. The United States' trade with Russia does not reflect the size of the two countries' economies, but there are positive indications for growth. A future United States–Russia relationship should replace some of the current assistance programming with more productive trade ties, beyond the less than \$43 billion of bilateral trade in goods in 2011.¹²⁵

With its impending entry into the World Trade Organization (WTO), Russia is set to become a more integrated actor in the global economy. The rules of membership that accompany Russia's WTO accession also bode well for American trade interests with respect to Russia, which will need to adopt better trade practices. However, the U.S. government also bears responsibility for ensuring that trade with Russia takes off. The Jackson-Vanik Amendment, which denies Russia permanent normal trade relations with the United States, is a hindrance for many American companies seeking to invest in Russia.¹²⁶ That Russia is on the verge of WTO membership further highlights this amendment's status as a relic of the Cold War and an impediment to the bilateral trade relationship. Unless Congress chooses to normalize trade relations with Russia, the United States and its companies do not stand to benefit from Russia's WTO accession in a meaningful way.

125. U.S. Census Bureau, “Trade in Goods with Russia,” <http://www.census.gov/foreign-trade/balance/c4621.html>.

126. Andrew C. Kuchins, “Vladimir Putin's Return as Russian President,” Center for Strategic and International Studies, May 4, 2012, <http://csis.org/publication/vladimir-putins-return-russian-president>.

Promoting Science and Technology. Science and technology hold a strong legacy as part of the historical United States–Russia relationship and continue to constitute an area for collaboration, bolstering bilateral ties. Tremendous amounts of effort and money have been invested in this issue, beyond just the high-level working group on science under the auspices of the BPC. A number of initiatives have been undertaken under public and private oversight to encourage collaboration and knowledge sharing in these sectors, with positive results. For instance, the U.S. Civilian Research and Development Foundation has explored extensive education and joint research opportunities in Russia, while American universities conduct regular exchanges and research projects with their Russian counterparts.¹²⁷ The U.S. government also supports science and technology cooperation with Russia through the National Science Foundation, the National Institutes of Health, the Department of Energy, and the Department of Defense.¹²⁸

The United States should continue to pursue cooperation with Russia on science and technology, but it should be requiring increased participation and funding from the private sectors of both countries. There is ongoing corporate and government interest on the part of Russia to engage with American companies and individuals on initiatives in science and technology, which is perhaps one of few areas of genuine mutual respect within the complicated United States–Russia relationship.

Collaborating on Health. Health has always been an area for building goodwill between the United States and Russia, and its status has been largely unaffected by the downward turn in bilateral relations over the past decade.¹²⁹ Outside evaluations of the USAID Russia Mission’s health programs have attributed the broad support given to working on health issues in Russia to the fact that USAID’s programs have focused on international best practices and have been culturally sensitive, taking into consideration and working within “the existing network of institutions.”¹³⁰ USAID’s work has also complemented the efforts of the Russian government and partner organizations, including large international organizations such as the World Health Organization and the U.S. Centers for Disease Control and Prevention.¹³¹

USAID has been working on tuberculosis (TB) control interventions in Russia since 1998.¹³² According to an independent assessment, USAID’s prevention programs, case improvement management, and support have “resulted in the revision of TB control policies and reporting,” trained approximately 3,000 laboratory technicians, helped to start treatment for patients, and increased TB screenings across the country.¹³³

However, U.S. assistance to Russia in the area of health should no longer be a function of the U.S. government. Both countries have expertise to offer each other, but such exchanges of exper-

127. “Supporting Science Cooperation and Development in Russia,” CRDF Global, http://www.crdglobal.org/docs/fact-sheets/supporting-russia_factsheet_062111.pdf.

128. Caroline Wagner, Irene Brahmakulam, D. J. Peterson, Linda Staheli, and Anny Wong, “U.S. Government Funding for Science and Technology Cooperation with Russia,” RAND Science and Technology Policy Institute, <http://www.dtic.mil/cgi-bin/GetTRDoc?AD=ADA404452>.

129. “Evaluation of USAID Support to Tuberculosis Control in the Russian Federation,” PATH, October 19–30, 2009, http://pdf.usaid.gov/pdf_docs/PDACP956.pdf.

130. Alexander Telyukov and Mary Paterson, “Assessment of USAID’s Child Welfare Programs in Russia,” Terra P Group, March 2009, 9-10, http://pdf.usaid.gov/pdf_docs/PDACN457.pdf.

131. Ibid.

132. “Evaluation of USAID Support to Tuberculosis Control,” 14.

133. Ibid., 15.

tise should be facilitated and funded by nongovernmental entities, such as private philanthropic organizations, foundations, and universities.

Health is nevertheless an area for potential collaboration between the United States and Russia outside their own borders, and it is the focus of one of the working groups under the BPC. Indeed, there has already been some bilateral cooperative effort in this sector. For instance, in January 2011, the U.S. Department of Health and Human Services and the Russian Ministry of Health and Social Development signed an agreement to work together toward eradicating polio worldwide; USAID is also a party to this “Protocol of Intent.”¹³⁴ The initiative builds on previous United States–Russia health cooperation in third countries, including programs combating HIV/AIDS in Africa and a joint antimalaria campaign.¹³⁵ These sorts of bilateral activities concerning health care offer an apolitical opportunity for United States–Russia cooperation that may eventually pay dividends on the political front as well.

Helping Russia Become a Better Donor. Russia has established a sizable foreign assistance budget of its own, which has been substantially increasing over the years, leading to the establishment of its own aid agency. As a result of these developments, Russia is no longer a “high-needs” recipient of U.S. economic assistance, and overall U.S. assistance to Russia is on the decline. At the same time, Russia is the only country belonging to the Group of Eight that is not also a member of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD).

For decades, the Soviet Union was the second-largest bilateral donor in the world, spending \$26 billion in foreign aid in 1986 alone.¹³⁶ When Vladimir Putin came to power in 2000, he sought to strengthen Russia’s “position in the international arena in part by increasing its participation in international organizations.”¹³⁷ A Russian government strategy paper written in 2007 set an annual target of \$400 million to \$500 million in foreign assistance with the intention to create a specialized government aid agency.¹³⁸ In 2010, Russia gave \$472 million in aid, down from \$785 million in 2009, when it was trying to mitigate the effects of the global financial crisis in its immediate neighborhood.¹³⁹ Most of Russia’s assistance is channeled through multilateral institutions, including the World Bank and the United Nations.

After Russia’s increased commitment to official development assistance following the 2006 Group of Eight Summit, USAID began “consultations and discussions on Russia’s re-emergence as an assistance provider with various Russian ministries.”¹⁴⁰ The United States should cooperate with Russia on foreign assistance on a strategic basis, and transferring USAID’s knowledge and experience in this area is an excellent avenue for partnership. USAID should also work to support Russia in becoming a member of the OECD and DAC. This would require very little money and would be best done directly through USAID.

134. U.S. Department of Health and Human Services, “U.S. and Russia Sign Protocol on Global Polio Eradication,” January 27, 2011, <http://www.globalhealth.gov/news-and-events/archive-news/2011/20110127-usa.html>.

135. U.S. Department of State, “Health,” <http://www.state.gov/p/eur/ci/rs/usrussiabilat/c37335.htm>.

136. See Claire Provost, “The Rebirth of Russian Aid,” *Guardian*, May 25, 2011, <http://www.guardian.co.uk/global-development/2011/may/25/russia-foreign-aid-report-influence-image>.

137. Korepanov and Komogaeva, “Russia,” 7.

138. Provost, “Rebirth.”

139. See Korepanov and Komogaeva, “Russia”; and Provost, “Rebirth.”

140. Komogaeva and Koropanov, “Russia,” 18.

The State Department should position a development counselor within the U.S. Embassy in Moscow when the USAID Russia Mission is reduced in size. This development counselor would be able to represent ongoing U.S. development interests in Russia without the cost and political complications of maintaining a full-scale traditional assistance presence. U.S. development cooperation with Russia should be undertaken within a limited framework that does not conflict with U.S. foreign policy goals. For instance, the United States should not participate in or encourage Russian programs that support autocratic regimes or undermine global democracy and governance.

As bilateral efforts have been impermanent across all U.S. administrations, engagement would work best through international forums—the Group of Eight and Group of Twenty, for example. The United States should continue to utilize these forums to exert pressure on Russia in the areas where traditional foreign assistance has not been successful, including corruption and democratic standards. As a member of these international groups, and as an aspirant to membership in others, Russia is more likely to change internally to meet the membership requirements of such groups.¹⁴¹

Panama

In comparison with Brazil, Russia, and India, Panama is an outlier for a number of reasons, some more obvious than others. Of course, there is a gulf in size between Panama and these other countries, applying to everything from population to GDP to global influence. There are also qualitative differences between Panama and the others, especially when it comes to relations with the United States. Unlike with the other three countries, the United States historically has had a long cooperative relationship with Panama, and while U.S. influence in the other societies is indirect and diluted, there is still a clear American imprint on Panamanian society. This is important to the question of repositioning relations with middle-income countries because the legacy of U.S. cooperation with Panama affects the U.S. government’s assistance transition strategy for Panama. As is elaborated in this section, the linkages created through many decades of United States–Panama ties are strong enough to bear the bulk of the continuing bilateral relationship, though strategic strengthening and the creation of new vehicles would result in even greater progress.

Another major difference in this comparison is that the USAID Mission in Panama City is actually closing (on September 30, 2012), whereas in Brazil, Russia, and India there has only been a gradual winding down, with no firm end dates announced. In Panama, it may be late in the game to establish a legacy institution through USAID, as was done in countries like Costa Rica and Portugal.¹⁴² However, this is not to say that putting together some type of binational commission is out of the question entirely. The approach to such an endeavor will require significant initiative from the Panamanian government and will need to reflect the United States’ and Panama’s interests vis-à-vis one another.

The situation in the broader region around Panama has changed fundamentally in comparison with the geopolitical context even a decade ago. For many years, the United States maintained a large military presence in Panama in order to guarantee the security of the Canal Zone. However,

141. See McFaul, “How and Why the U.S. Should Aid Russia.”

142. Carol Elron, “Welcome to Our Website,” USAID Panama, 2011, http://www.usaid.gov/pa/Information/Documents/Message%20from%20the%20Acting%20Mission%20Director_FINAL.July%206,%202011.pdf.

there is no longer any perceived legitimate concern for U.S. interests in that area, and no state or entity poses a danger vis-à-vis the canal closing. Chinese and Venezuelan machinations on Panama are minimal and not a source of concern for either Panamanian or U.S. government officials.¹⁴³ Nor do these countries' activities have any notable detrimental impact on American corporations or on trade traffic through the canal in general. There is likewise no perceived threat to the state or the canal from the south, from where the Revolutionary Armed Forces of Colombia (FARC) have spilled over into Panama. Thanks partly to successful United States-backed policies and initiatives, FARC is no longer the menace it once was. While FARC continues to maintain a presence in the ungovernable Darién region of Panama, the group's influence has recently been curbed significantly by a government crackdown.¹⁴⁴ Furthermore, unlike in Colombia, where it has actual political aspirations to topple the government, FARC limits itself to drug trafficking in Panama and thus has no designs against the stability of the state itself.

Essentially, Panama and other Latin American countries find themselves forced to compete for U.S. government attention with regions that dominate the U.S. foreign policy agenda. North Africa, the Middle East, and Asia are the current global "hot spots," and there is no indication that this will change in the foreseeable future. As a result, U.S. policymaking energy is directed overwhelmingly to those regions, and the Americas, which have relatively little security issues for the United States, have been relegated as a lesser priority. New U.S. government-funded projects in Latin America are unlikely outside those countries whose problems entail direct threats to American security (e.g., Mexico and Colombia). In those Latin American countries with less to offer to American security interests, such as Panama, it will be extremely difficult to convince Congress to fund initiatives.

Therefore, the ball is in Panama's court with respect to creating some kind of binational commission with the United States to help represent the two countries' interests beyond foreign assistance. Unless the Panamanian government shows the initiative, allocates the necessary money, and engages potential private-sector funders, the U.S. government will be very loath to open its coffers for a project such as this.

Despite this lack of strategic prominence, Panama's historical and regional connections with the United States are a great advantage for the postassistance bilateral relationship. In many ways, Panama already turns to the United States "by default" as a natural partner, and the two possess a very strong business and policy relationship (box 3.9).¹⁴⁵

U.S. Assistance to Panama

Since the 1940s, the United States has provided assistance to Panama worth upward of \$1 billion.¹⁴⁶ USAID began its work in Panama in the 1960s, but then halted operations during the Noriega years. After democracy was restored to Panama in 1989, USAID resumed its activities, which will continue through the end of the fiscal year. Currently, USAID-Panama has a (final) budget of \$18.2 million and focuses on a few sectors of assistance: youth, environment, and judicial reform.¹⁴⁷

143. Interviews with Panamanian and U.S. government officials in Panama, March 2012.

144. Ibid.

145. Interview with U.S. government officials in Panama, March 12, 2012.

146. USAID Panama, "Background," <http://www.usaid.gov/pa/modules/background2.html>.

147. U.S. Department of State, "Congressional Budget Justification, Foreign Assistance, Summary Tables," Fiscal Year 2012, <http://www.state.gov/documents/organization/158269.pdf>.

Box 3.9. Purchasing Engagement

For long-term strategic purposes, the United States actively seeks to maintain engagement with a number of countries, especially in regional hot spots. For instance, the United States will not easily withdraw assistance from places such as Pakistan, even against public opinion, because the direction that country takes is of fundamental importance to much broader U.S. foreign policy goals. Nor will the United States disengage completely from countries such as Russia, which do not need U.S. assistance but are influential enough actors that the United States cannot afford to ignore. However, not all countries are equally prominent on the U.S. foreign policy radar. In fact, upon ending assistance to them, the United States is unlikely to continue bilateral engagement at the same level as before. These countries, for which continued engagement with the United States is in their interests, will have to in essence “pay” for this engagement and take the initiative to remain as relevant to Washington. Many Latin American and Eastern European countries fall under this category, because these regions themselves, from a U.S. foreign policy perspective, have taken a backseat in priority to North Africa, the Middle East, and Asia.

Countries that find themselves outside areas of immediate strategic interest to the U.S. government can draw upon the experience of other countries that succeeded in maintaining strong bilateral engagement with the United States after the end of U.S. foreign assistance. South Korea, Portugal, and Taiwan are just a few countries whose governments made the long-term strategic policy decision to invest heavily in their relationships with the United States. By making an early and thorough commitment, those governments mustered the necessary resources to fund the bilateral mechanisms that have continued formal engagement with the United States, including outside a government-to-government dynamic. Among the quartet of countries examined in this report, Panama ranks among those countries that will have to campaign for attention from the United States at a time when other regions are drawing most of the focus. Panama can draw on the past experiences of other countries, or even look to current examples; for example, through its Science Without Borders program, the Brazilian government is using its own funds, bolstered by contributions from the private sector, to send 100,000 students to American and other foreign universities. If Panama and other middle-income countries transitioning out of U.S. assistance were to make similar commitments, they could maintain bilateral engagement with the United States even when the U.S. government is unwilling or unable to invest in doing so.

Panama experienced strong economic growth in the 2000s, with improved fiscal accounts, economic stability, the expansion of the canal, rising activity in the services sector, and increased global trade. Real GDP grew consistently, with growth peaking at 11.2 percent, and subsequently increased the per capita GDP purchasing power parity by nearly \$3,000.¹⁴⁸ GDP growth decreased in 2009 as global economic conditions worsened, but Panama has continued to maintain some of the best growth rates in Latin America.¹⁴⁹ From 1989 to 2010, the proportion of Panamanians living under \$2 per day decreased from 20.1 to 5.1 percent.¹⁵⁰

The upcoming USAID transition from Panama is a reflection of this steady progress. Officials at the U.S. Embassy and the USAID Mission in Panama describe the decision to close the mission,

148. U.S. Agency for International Development, *Panama: Economic Performance Assessment* (Washington, D.C.: U.S. Government Printing Office, 2009), http://www.countrycompass.com/_docs/assessments/Panama_Economic_Performance_Assessment.pdf.

149. *Ibid.*, 4.

150. “Poverty Gap at \$2 a Day (PPP) (%)” DataMarket, <http://datamarket.com/data/set/15nj/poverty-gap-at-2-a-day-ppp#!display=line&ds=15nj!ho6=34>.

which was announced in February 2011, as “logical” and relatively straightforward. According to them, the decision was met with neither surprise nor resistance from the Panamanian government, which sees the end of U.S. assistance as a point of pride.

However, the U.S. government is not cutting all ties with Panama’s development abruptly; some projects are gradually being scaled down, and others are being prepared for new ownership. For instance, in the wake of USAID’s departure, the U.S. Embassy in Panama will carry on development projects involving at-risk youth and improving English, with the support of the Central American Regional Security Initiative.¹⁵¹

Focus Sectors for Bilateral Cooperation

Combating Corruption and Improving Governance. Though Panama is undergoing an economic transformation, it is beset by the same problem that continues to plague the other focus countries in this report: corruption. Both Panamanians and Americans working with Panama in some capacity acknowledge that corruption is endemic to Panamanian society, and that perhaps the country’s economic success has papered over this deep-seated problem.¹⁵² The current administration in Panama has done little to dispel this image of the country.

Corruption, therefore, also affects governance in Panama; while ostensibly a full democracy, Panama has shown some antidemocratic signs since the ouster of the dictator Manuel Noriega in 1989. Cronyism, crackdowns on journalists, and the suppression of opposition voices are common occurrences in Panama.¹⁵³

A business-friendly but transparent Panama is ideal for U.S. interests, as American companies are more likely to operate in an environment of accountability and stability. Furthermore, as a regional hub in the Western Hemisphere, Panama is an important conduit for trade and other international activity that affects the United States. Although there is no apparent threat to Panama, it is in the best interests of the United States that traffic through Panama is in no way hindered by a failure in governance.

The United States can form a partnership with the Panamanian government and civil society sector to help consolidate Panamanian democracy. U.S. officials cite the personality-driven nature of Panamanian politics as a major shortcoming in the country’s governing system.¹⁵⁴ Initiatives started by one administration are often not carried on by the next, even if the programs are successful and popular.¹⁵⁵ This lack of continuity from one government to the next means that projects that have the potential to make an impact with a longer time frame are often denied the possibility.

Promoting English. Like Brazil, Panama would benefit greatly from improved public knowledge of English. Yet unlike Brazil, Panama actually has a legacy of English, thanks to the long-standing presence of American soldiers and civilians in the Canal Zone, in addition to imported

151. Interview with USAID officials in Panama, March 12, 2012.

152. Interviews with U.S. government officials and private-sector representatives in Panama, March 2012.

153. Eric Jackson, “Panama Media under Siege Despite New Regime,” *Global Journalist*, February 18, 2011, <http://www.globaljournalist.org/stories/2011/02/18/panama-media-under-siege-despite-new-regime/>.

154. Interview with U.S. diplomats in Panama, March 12, 2012.

155. Interview with Panamanian government officials, March 13, 2012.

Caribbean laborers in the north. This history of exposure to the language, however, has not succeeded in making English a true second language for Panamanians. Part of this deficiency can be accounted for by the past policies of the Panamanian government. Under the dictatorship of Omar Torrijos, English was banned as a subject in Panamanian public schools (though private schools, which cater to the more affluent, were permitted to offer it).¹⁵⁶ Removing English from the public curriculum effectively denied at least a generation of Panamanians the opportunity to learn English. Today, the Panamanian government acknowledges that Panama is not as bilingual as many like to think it is.¹⁵⁷

Improving and expanding public knowledge of English is critical for Panama to realize its full economic potential. In a country whose economy is dominated by the service sector (upward of 75 percent) and where tourism is a huge industry, English speakers are in high demand.¹⁵⁸ Panamanian government officials and private-sector actors alike have expressed a need for a larger English-speaking workforce, as companies are having trouble hiring enough qualified employees in a booming jobs market.¹⁵⁹

Although there is strong demand for learning English among Panamanians, the supply side has to date been comparatively weak. The quality of English education continues to be poor in Panama. A U.S. Embassy official reported that even English teachers in Panama lack the expected proficiency in the language.¹⁶⁰ The embassy, in conjunction with the Latin University of Panama, currently operates the Center for English Language Immersion, which is an effective program but is too small for Panama's broader English-learning needs. Because the need for English is so important to the private sector, English learning is a process that can be taken care of the market, and this will certainly happen eventually. The U.S. and Panamanian governments, however, can still play a role in facilitating this. The U.S. Embassy can have an even greater impact by preparing teachers, either by bringing in English teachers from the United States or by sending Panamanian teachers to the United States for training. Exchanges such as these within the framework of a United States–Panama binational foundation would eventually go a long way toward cementing the bilateral partnership outside a government-to-government dynamic.

Collaborating on Higher Education. Another commonly cited weakness of Panama is the country's education system, beyond the above-mentioned lack of good English instruction. Traditionally, Panamanian society has been stratified according to class, and this divide is reflected in the education system, whereby more affluent Panamanians almost always turn to private schools while their poorer counterparts attend the significantly weaker public schools.¹⁶¹ The shortcomings in education also apply higher up in the system, at the university level. Again, those Panamanians who have the financial resources prefer to send their children abroad for a college education, primarily to American universities. There is an opportunity for the United States to engage with Panama to help improve its education system, and American universities can play a strong role in this effort. Already, Florida State University and the University of Louisville have established satel-

156. Interviews with Panamanian and U.S. government officials in Panama, March 2012.

157. Interview with Panamanian government officials, March 13, 2012.

158. U.S. Department of State, "Background Note: Panama," March 26, 2012, <http://www.state.gov/r/pa/ei/bgn/2030.htm>.

159. Interview with private-sector representatives in Panama, March 13, 2012.

160. Interview with U.S. diplomat in Panama, March 13, 2012.

161. Interviews with Panamanian and U.S. government officials in Panama, March 2012.

lite campuses in Panama, and Johns Hopkins University has an affiliated hospital there as well.¹⁶² Under the auspices of a United States–Panama foundation, more U.S. universities could gain a foothold in Panama and form partnerships with local universities. As two developed countries, Panama and the United States can be of mutual benefit to each other through academic and professional exchanges.

Enhancing the Trade Relationship. During the past decade, the trade relationship between the United States and Panama has been dominated by hopes for passage of the Panama–United States Trade Promotion Agreement. After being negotiated in 2006 and signed the following year, this bilateral free trade agreement was not ratified by the U.S. Congress until October 2011 (Panama’s legislature had approved it more than four years earlier).¹⁶³ The simultaneous ratification of free trade agreements with Colombia and South Korea in October 2011 marked a welcome, if delayed, policy decision by the U.S. government. Better late than never, the Panama–United States Trade Promotion Agreement holds much potential for expanded bilateral trade.

U.S. trade in goods with Panama totaled over \$8.6 billion in 2011, with the vast majority of this accounted for by exports of American products to Panama.¹⁶⁴ Under the Trade Promotion Agreement, U.S. goods are expected to become more competitive in the Panamanian market,¹⁶⁵ thanks to a removal of tariffs across the board, including for nearly 90 percent of “U.S. exports of consumer and industrial products.”¹⁶⁶

Despite decades of U.S.–Panamanian cooperation and the two countries’ geographical proximity, the biggest investor in Panama is currently the United Kingdom.¹⁶⁷ Much of this British economic influence in Panama can be ascribed to Panama’s booming banking sector, where British banks such as HSBC have gained a formidable foothold.¹⁶⁸ With a free trade agreement in place and the bilateral relationship poised to move well beyond assistance, U.S. companies should expand their business in Panama and reestablish themselves as the country’s top investors.

Leveraging the American Expatriate Community. Among the four focus countries of Brazil, Russia, India, and Panama, only Panama is home to a cohesive and well-established community of Americans. Certainly the other three countries have their fair share of American expatriates, but only in Panama is the American community intertwined with the country’s history and concentrated in such great numbers.

Naturally, the large American population in Panama is accounted for to an extent by the former American military presence in the Canal Zone. The U.S. citizenship granted to residents of

162. “Panama-International Programs: About FSU Panama,” Florida State University, http://panama.fsu.edu/index.php?option=com_content&view=article&id=35:about-fsu-panama&catid=22:prospective-students&Itemid=57; “Welcome to Quality Leadership University,” University of Louisville, <http://www.qlu.ac.pa/index.php?lang=en>; “Welcome,” Hospital Punta Pacifica, <http://www.hospitalpuntapacificacom/>.

163. J. F. Hornbeck, “The U.S.–Panama Free Trade Agreement,” Congressional Research Service, October 27, 2011, <http://www.fas.org/sgp/crs/row/RL32540.pdf>.

164. U.S. Census Bureau, “Trade in Goods with Panama,” <http://www.census.gov/foreign-trade/balance/c2250.html>.

165. Interview with private-sector representatives in Panama, March 12, 2012.

166. U.S. Export Assistance Center, “The U.S.–Panama Trade Promotion Agreement (TPA),” <http://export.gov/FTA/panama/index.asp>.

167. British Embassy in Panama City, “New British Ambassador Looking to Raise U.K.’s Presence and Profile in Panama,” n.d., <http://ukinpanama.fco.gov.uk/en/about-us/our-embassy/ambassador>.

168. Interview with private-sector representatives in Panama, March 13, 2012.

the Canal Zone has led to major discrepancies in estimates of American citizens living in Panama today. The U.S. Embassy and the Panamanian government cite widely varying figures for the population of Americans in Panama, because Panama also counts Panamanians who were born in the Canal Zone and are therefore in possession of U.S. citizenship.¹⁶⁹

Another section of the American expatriate community in Panama consists of those Americans who have relocated there for business reasons. This group may be increasing in size as a result of the booming Panamanian economy, which has performed relatively strongly even during the global economic downturn. As multinational corporations and other investors expand their activities there, Panama offers many possibilities for jobs to foreigners, including Americans.

Many Americans also see Panama as an ideal destination for retirement, for many of the reasons that have made neighboring Costa Rica a very popular option for American retirees. A combination of features makes Panama attractive to these expatriates, beyond the obvious climate factor. Panama's central location, the same factor that makes it a successful regional hub, also draws people who wish to settle there; not only does it offer immediate access to regional cities, but it is also relatively close and well-connected by air to the United States itself. Furthermore, Panama boasts higher citizen security than does any country in the broader region, with crime levels and gang problems significantly lower than those of its neighbors (though these problems are, of course, still an issue in Panama).¹⁷⁰ The Panamanian government has also been shrewd in requiring relatively low taxes, which are an additional boon on top of the already low cost of living for American expatriates.¹⁷¹

Panama's American community, whatever its exact size or composition, is a potentially valuable asset to both the United States and Panama as they develop their bilateral relationship. American expatriates in Panama offer a dynamic two-way connection and can be leveraged in any number of sectors of interest, including all those described above. Although the American community in Panama is vibrant and has a long history, it is not yet necessarily a ready-made partner. It is a vocal group and has vested interests of its own; while these interests are not contradictory to the goals of the United States–Panama relationship, both sides need to engage the American expatriate community and convey to it the benefits of a deeper bilateral relationship.

Pursuing Multilateral and Humanitarian Cooperation. Panama can also act as a close partner of the United States for engaging with multilateral institutions and cooperating on regional issues with the broader international community. The Panamanian government is likewise eager to pursue this avenue of cooperation with the United States.¹⁷² At the moment, the United Nations is constructing its Latin America and Caribbean Regional Hub in Panama, and the Panamanian government is funding this project.¹⁷³ Panama is also taking advantage of its geography to position itself as an international humanitarian hub, a project that also includes the World Food Program's fifth regional center. Using a former U.S. military base, among other sites, the Panamanian govern-

169. Interviews with Panamanian and U.S. government officials in Panama, March 2012.

170. Bureau of Diplomatic Security, U.S. Department of State, "Panama 2011 Crime and Safety Report," April 7, 2011, <https://www.osac.gov/Pages/ContentReportDetails.aspx?cid=10788>.

171. Interview with Panamanian government officials, March 13, 2012.

172. Ibid.

173. Office for Project Services, United Nations, "New Green UN Hub to be Constructed in Panama," February 28, 2011, <http://www.unops.org/english/whatwedo/news/Pages/UN-hub-in-Panama.aspx>.

ment is constructing a duty-free humanitarian zone to serve the broader region, for which Panama would act as a nexus for relief efforts and supplies.¹⁷⁴ Humanitarian relief supplies have already passed through Panama on their way to Peru, Bolivia, Nicaragua, and Haiti.¹⁷⁵

Hosting the UN regional headquarters, funding its construction, and turning the country into a humanitarian hub are positive indications that the Panamanian government is taking the initiative in engaging external actors that might not otherwise be so naturally drawn to Panama. As mentioned above, this same strategy of active engagement will be critical for the future of Panama's bilateral trade and cooperation ties with the United States. On these issues of humanitarian and multilateral coordination, United States–Panama cooperation is a mutually beneficial prospect; setting up the regional hubs and making them effectively operational are consistent with both countries' strong interest in stability in the Americas.

Joint efforts on global issues might also take the form of development cooperation between the United States and Panama, though the scope of this is undetermined and likely to be significantly limited in the near future. As a rising middle-income economy, Panama is among the group of countries that both receive and disburse aid. The government of Panama is currently forming its own international cooperation agency, which will coordinate with the country's incoming and outbound assistance partners alike.¹⁷⁶ The United States could play two roles here in Panama's foray into the community of development actors. First, in setting up the Panamanian cooperation agency, the United States can provide expertise and guidance to the Panamanian government. A second possibility could materialize further down the road, when perhaps there will be opportunities for U.S.-Panamanian joint development projects in third countries.

174. Interview with Panamanian government officials, March 13, 2012.

175. World Food Program, "TNT & UPS Support UN Humanitarian Hubs in Panama and Ghana," April 12, 2007, <http://www.wfp.org/news/news-release/tnt-ups-support-un-humanitarian-hubs-panama-and-ghana>.

176. Interview with Panamanian government officials, March 13, 2012.

4

RECOMMENDATIONS

As the United States ends its foreign assistance to more and more middle-income countries, traditional approaches clearly must give way to something different. The conventional approach of “business-as-usual” fund transfers from the 150 Account is not sustainable. And in an increasing number of middle-income countries, U.S. development policymakers and staff need to recognize that the United States is sometimes essentially still “fighting the last war” vis-à-vis development assistance.

Many of these countries are more than capable of funding their own development needs or turning to lenders such as the World Bank and the regional development banks. In other words, U.S. foreign assistance is having a marginal impact at best on the development trajectory of these countries, and continuing to maintain assistance to them has little to no impact on their foreign policy calculus.

The following nine recommendations represent concrete measures that a range of actors within the U.S. government can pursue in shifting the U.S. relationship with middle-income countries leading up to and following the end of assistance. These recommendations take into account the confluence of budgetary pressure and political interest that generally influences decisions to end assistance, as well as the variety of voices that should be included in this process.

Past experiences with assistance transitions show that effective approaches have followed a more committed planning process and have left behind a small legacy, whether through a sinking fund, endowment, or other kind of binational foundation. These past cases also make it clear that there is never a full consensus about the specifics of a transition; nor is there ever a “right” time to end assistance. Transitions, therefore, should be planned as early as possible with the understanding that political demands will often overrule development realities.

■ Immediately Refocus Limited Assistance Resources

In middle-income countries where continued U.S. assistance is neither strategically expedient nor justifiable in development terms, the U.S. Agency for International Development’s (USAID’s) mission budgets have shrunk noticeably over time, though in some cases they continue to hover at perhaps unnecessarily high levels (e.g., at more than \$100 million in India). A strategic policy decision will need to be made regarding whether each country should continue to receive U.S. assistance (further discussion of this decisionmaking process is provided below).

Refocusing resources in preparation for a transition runs counter to the established structure of spending in these assistance programs. Although the limited options presented by the U.S. assistance architecture are inadequate in the middle-income-country context, the U.S. government, through earmarks, continues to fund programs long past their expiration dates. The limited

resources that are still available to USAID missions during the phaseout process, or close to it, should be focused on reworking USAID's in-country strategy, and U.S. government development actors working with and in these countries should take a proactive approach.

Whenever the decision is made to close the USAID mission in a particular country, that mission should stop its current work and use the next 12 months to focus its limited monetary resources on changing its overall approach to prepare for the transition. Continuing to pursue the same programs as before, even in the face of changing realities, will ultimately make the pending transition more precipitous. Planning ahead is the best way to keep long-term U.S. interests a priority, before the resources for securing these interests disappear completely. In addition, funding the same initiatives as if nothing has changed or continuing to provide traditional assistance on a rapidly declining scale advances neither U.S. interests nor the long-term bilateral relationship. Rather, the limited funding at these missions' disposal would be much more wisely spent, as soon as possible, on transitioning to activities and interests that reflect longer-term opportunities for cooperation.

As part of this transition process, USAID missions should identify several million dollars to devote to bolstering corporate philanthropic efforts to professionalize the nongovernmental organization (NGO) sector and create an enabling environment, including investing resources in the entrepreneurial sector. Where appropriate, missions should also fund small initiatives to help recipient countries become better bilateral donors. Some kinds of bilateral cooperation, however, do not require U.S. government funding. Scholarship and exchange programs can be catalyzed by the U.S. government but should be funded by the private sector, philanthropic bodies, diasporas, universities, and other nongovernmental actors.

■ Keep Recipient Countries Informed and Engaged in Transitions

As described above, countries transitioning from U.S. assistance have had varying experiences with the process, ranging from satisfaction and mutual benefit to hasty withdrawal and confusion. The more unfavorable transitions shared a number of common characteristics, including a failure on the part of the U.S. government to telegraph its intentions well in advance. It is of course no secret that, as with any type of foreign aid, U.S. development assistance is never meant to continue indefinitely. At times, however, the U.S. government has failed to effectively convey to recipient governments the ultimate goal of ending assistance within a clear time horizon.¹

When it comes to the life span of U.S. assistance to middle-income countries, steadier and more transparent communication can itself be a form of bilateral cooperation. Knowing well in advance that a USAID mission is going to close by a certain date (or even an approximate one) allows both governments to collaborate on a transition strategy. It also gives the recipient government time to prepare to assume the responsibility for worthwhile development projects that the United States will no longer be able to fund or manage.

1. The United States should also be clear about whether only USAID work will end or U.S. assistance altogether. This distinction was expressed in a 1999 report by USAID's Center for Development Information and Evaluation. Frank D. Martin, John Eriksson, Stephanie McNulty, and Steve Metzger, *USAID Graduation: Recent Experience and Outstanding Issues*, USAID Evaluation Special Study 81 (Washington, D.C.: U.S. Government Printing Office, 1999), http://pdf.usaid.gov/pdf_docs/PNACA926.pdf.

Because these transitions essentially are the result of middle-income countries' impressive economic performance, they should likewise be characterized as success stories for both sides. However, the transitions should be more than congratulatory exercises, and thus should also emphasize the mutual desire to move toward a bilateral relationship more reflective of the countries' stature and interests.

Ideally, to convey the deep significance of the transition, the USAID administrator or the secretary of state should personally make the first public announcement of the transition during a visit to the recipient country. Having an official at the highest level relay this message would help allay concerns that the end of assistance somehow suggests abandonment by the United States instead of a strategic decision to advance to a more permanent, equal bilateral partnership.

■ **Bring Ambassadors on Board and Incentivize Them**

These transitions require significant cooperation from U.S. government actors outside the development architecture. Development, as one of the three pillars of American foreign policy, has been an important instrument for the State Department. U.S. ambassadors in many countries find that development (whether through a USAID mission or some other form of U.S. foreign assistance) offers possibilities for engagement and leverage that traditional diplomacy does not. In the case of rising middle-income countries, however, development represents a much smaller and less influential portion of the U.S. diplomatic tool kit. The U.S. ambassadors in Brazil and India, for instance, cannot rely on U.S. assistance to those countries to result in meaningful leverage with their governments, which are rather indifferent toward the assistance.

Yet even with respect to these countries that hardly benefit from U.S. assistance, many State Department officials and some in-country diplomats still view development as a key foreign policy asset for the United States. Not only is this an exaggeration of the potential of assistance but, naturally, it also hinders the transition process away from assistance.

With respect to countries where U.S. assistance is slated to end in the short term, both the State Department and USAID should work with the incoming ambassador to ensure that he or she is aware of the upcoming transition. Ambassadors in these countries, along with their staffs, should be aware that foreign assistance cannot be the obvious instrument of influence there that it often is in other postings.

Furthermore, if effective transitions away from U.S. assistance are to become a permanent aspect of U.S. foreign assistance policy, the development and diplomacy bureaucracies must incentivize them. As the U.S. assistance presence draws down in middle-income countries, shrinking development programs begin to be seen by U.S. government staff (including Foreign Service officers and USAID employees) as less attractive assignments. Given the strategic significance of shifting U.S. relations with middle-income countries, being part of a successful transition out of U.S. assistance should be rewarded proportionately. Officials at the State Department and USAID should incentivize employees to take these roles; specifically, ambassadors and their staffs should be directly rewarded for overseeing successful transitions and given such incentives as access to additional funds to be spent under their direct discretion.

■ Position Development Counselors and Other Alternative Official Development Footprints

In many middle-income countries, a large U.S. government development presence, such as a US-AID mission, is no longer necessary. However, it is possible that in a few places, even if a transition is needed, U.S. development goals and interests might not *completely* end, or they may one day return to an extent. In these cases, the U.S. embassy can maintain the development link through a development counselor or “attaché.”

Development counselors, housed in the local U.S. embassy, are often used as liaisons for coordinating development cooperation with that country; examples of this include counselors in China and Japan. Currently, Bulgaria is the only country where a USAID mission’s closing was accompanied by the introduction of a development counselor, although this model would find fruitful application in a number of middle-income countries.

The State Department and USAID should look seriously at creating and professionalizing the development counselor position, with a limited time frame of perhaps up to 10 years, as a standard diplomatic procedure. An experienced development counselor, with a small but experienced staff, could effectively represent the more limited U.S. development interests in a middle-income country, without the high costs and political downsides of a formal foreign assistance mission.

Of course, a development counselor is only a limited solution and not necessarily the best way to represent U.S. interests in a particular country. Other sorts of diplomatic attachés should also be introduced, depending on the country context. For instance, investment officers with private-sector and/or World Bank experience can offer support to the kinds of activities that are suited for a maturing bilateral relationship, such as those pursued by the Overseas Private Investment Corporation (OPIC), the Export-Import Bank (Ex-Im Bank), and the U.S. Trade and Development Administration (USTDA).

■ Establish a New Middle-Income-Country Transition Office in USAID

Deciding that a country should undergo transition away from U.S. assistance is not always a straightforward process; nor is the planning of the transition itself. Such decisions should be made within a U.S. government entity that represents the variety of actors with a stake in development. There is no such entity yet, but this decisionmaking power should be entrusted to a new office for middle-income country assistance transitions, perhaps housed in USAID’s Bureau for Policy, Planning, and Learning. Although formally part of USAID, this office should also include representation from the other U.S. government agencies involved in development—the Millennium Challenge Corporation (MCC), OPIC, USTDA, and Ex-Im Bank.

The assistance transition office would have a variety of duties to ensure the optimal completion of U.S. assistance to rising middle-income countries. It would be in charge of approving USAID’s budgets in all transition countries, and thus enforcing the requirement that spending pivot toward the forthcoming postassistance context. In this capacity, it would have ultimate budget control but would also be in charge of identifying partner institutions and carrying out other activities specific to the transition itself. The office could also have a role in providing feedback for

the recommendation of ambassadors and USAID mission directors, rightly rewarding those officials who facilitate effective transitions.

Another major task that the transition office would undertake is to identify the countries that should undergo a transition. As mentioned above, there has never been a U.S. government policy for determining when assistance to a country should end, and formulating one is an unlikely proposition. The transition office, nevertheless, could refer to a notional template of macroeconomic criteria to come up with an annual list of countries for transitions, though it would be understood that the ultimate decision is a political one. Nevertheless, a number of mitigating factors would override economic considerations; the U.S. government is unlikely to withdraw assistance from countries that are sources of trafficking in drugs or persons, or that are U.S. allies threatened by terrorism or some kind of insurgency.

■ Increase Interagency Coordination and the Application of Integrated Country Strategies

As the U.S. government draws down its traditional development presence in middle-income countries (e.g., USAID missions and MCC compacts), a different set of U.S. government institutions and instruments should play a more prominent role, at least for a period during and after an assistance transition. OPIC, Ex-Im Bank, and USTDA are among the actors that bring unique sets of services to the table. These institutions, in combination with a network of binational institutions, can provide considerable initial momentum for accelerating development goals and expanding the United States' trade relationship with middle-income countries. The U.S. government's Partnership for Growth, launched in 2011, is one such positive step in this direction.

USAID, the State Department, and MCC, instead of continuing their usual assistance programs in middle-income countries, should strongly consider significant transfers of assistance funding to the U.S. government's nontraditional development institutions, which should take on larger-than-usual amounts of risk sharing in these countries. USTDA, through its extensive suite of trade-based services, should be a central part of U.S. development policy in countries that will undergo assistance transition. OPIC and Ex-Im Bank need to be prominent actors in these contexts as well, because their activities benefit both U.S. exporters and their recipient markets. Likewise, USAID should expand its Development Credit Authority portfolios in middle-income countries, boosting confidence in the entrepreneurial sector.

Effective assistance transitions require a broad, system-wide approach from the U.S. government. In its First Quadrennial Diplomacy and Development Review, the State Department described "Integrated Country Strategies" that consolidate the strategies of "all U.S. government agencies with programming in country."² Because assistance transitions require the involvement of multiple U.S. government actors (e.g., not just USAID), these transitions should be explicitly incorporated into these Integrated Country Strategies. Furthermore, as multiyear plans, Integrated Country Strategies not only allow the U.S. government to prepare for assistance transitions well in advance but also to telegraph its intentions to the recipient government as well, leading to a smoother experience for both sides.

2. U.S. Department of State and U.S. Agency for International Development, "Leading through Civilian Power: The First Quadrennial Diplomacy and Development Review," 2010, <http://www.state.gov/documents/organization/153108.pdf>.

■ Work with Congress for Endowment Authority in Selected Cases

Effective transitions from assistance to trade and cooperation relationships require advance planning and the notification of all involved parties. The U.S. Congress is one such partner that should be kept apprised of potential transitions. Not only does Congress approve the foreign assistance budget, but it is also the authority on endowments and other mechanisms for maintaining the U.S. assistance legacy in transition countries. Legacy instruments are of course nothing new, but experience has shown that they are not particularly easy to establish. Obtaining congressional authority for endowments and other similar mechanisms is a challenging process that can require much back-and-forth; approaching Congress earlier would increase the likelihood of success.

The State Department and USAID should make clear to Congress that the United States needs to advance its relationships with middle-income countries that have outgrown the purpose and capacity of U.S. assistance, and that the U.S. government's development agencies have a strategy for the oncoming transitions. Indeed, Congress has already begun asking USAID about its progress on focusing U.S. development resources in countries where assistance makes strategic sense. For instance, during USAID administrator Rajiv Shah's March 2012 testimony before the House Committee on Foreign Affairs, Chairman Ileana Ros-Lehtinen questioned him about USAID's commitment to cutting out "unnecessary" programs from its budget, chiding the agency for making only "modest progress" on that front.³

USAID should seek congressional flexibility to acquire blanket authorization to establish endowments in five to seven countries, including Brazil, Russia, and India. Having the authority for a series of endowments, sinking funds, and other forms of legacy instruments at its disposal would give USAID greater space for planning proper transitions. And this authority would help U.S. government officials plan assistance transitions that are aligned with strategic interests, instead of the transition being shaped purely by the limited resources at hand.

■ Engage the Multilateral Development Banks as Partners and Bridge Institutions

Among the U.S. government's (and other traditional bilateral donors') most important partners in ending assistance to middle-income countries are the multilateral development banks (MDBs), whose role in this process has been underexamined. These MDBs include, in addition to the World Bank, the regional development banks—the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank.⁴ Unlike bilateral development agencies, the MDBs are not likely to withdraw from middle-income countries in the medium term; nor are they as open to the possibility of transitioning. This reluctance is due to the way in which the MDBs are financed and how they are governed. Moreover, the MDBs are now flush with resources following recent general capital increases, and thus they are set to play an important part in taking on some of the development responsibilities that bilateral donors are gradually relinquishing.

3. Committee on Foreign Affairs of the U.S. House of Representatives, "The Fiscal Year 2013 Budget: A Review of U.S. Foreign Assistance Amidst Economic Uncertainty," 112th Cong., 1st sess., March 20, 2012.

4. For information on the MDBs, see U.S. Department of the Treasury, "Resource Center: Multilateral Development Banks," <http://www.treasury.gov/resource-center/international/development-banks/Pages/index.aspx>.

Given their declining development resources, bilateral donors might entrust much of their previous development commitments to the MDBs. The United States can do so, and as the largest shareholder in the MDBs, it maintains significant oversight over such development activities. As the U.S. government draws down its assistance to middle-income countries, it should coordinate with the appropriate regional development banks, which can serve as bridge institutions during the transition. Furthermore, the scale of resources and types of services offered by the MDBs are generally more useful for middle-income-country purposes than are traditional bilateral aid agencies' direct fund transfers.

■ **Expand the Role of Public-Private Partnerships as Transition Instruments**

Public-private partnerships (PPPs) are one effective approach for solving development problems, and thus they should be incorporated as prominent transition instruments in U.S. assistance strategy in middle-income countries. PPPs are used to leverage resources, access, and expertise from actors in the private and NGO sectors to address issues ranging from economic growth to building civil society.

Middle-income countries are particularly suited to the application of PPPs. They are often “target-rich” environments, with active and well-developed private and NGO sectors. This abundance of potential partners makes middle-income countries ideal environments for building effective partnerships based on mutual goals and well-aligned missions between partnering organizations. The private sector is the driver of development, providing employment, income, and growth. The U.S. government should take advantage of the flourishing private sectors in middle-income countries by leveraging its limited development funds through PPPs to achieve more catalytic, sustainable, and market-driven development solutions. Identifying potential partners is an important part of moving beyond assistance, and to maximize the role and impact of PPPs during assistance transitions, the U.S. government should bring philanthropic and private-sector actors to the table early in the transition process.

For more detailed information on PPPs, see the November 2011 CSIS report *Seizing the Opportunity in Public-Private Partnerships: Strengthening Capacity at the State Department, USAID, and MCC*.⁵

5. This report is available at http://csis.org/files/publication/111102_Runde_PublicPrivatePartnerships_Web.pdf.

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CONCLUSION

With trillion-dollar deficits, the U.S. government is facing difficult choices in the way it spends its limited foreign assistance funds—money generated by American taxpayers. The good news is that a number of middle-income countries receiving this assistance have had significant success during the past two decades. However, the U.S. government's aid instruments and forms of engagement have not kept up. U.S. assistance to these countries served many purposes in the past, but the government now needs to transition away from traditional assistance relationships in a way that leaves behind a strong legacy and catalytic resources. These countries do not want a 150 Account relationship with the United States; instead, they seek an expanded trade and cooperation partnership that echoes the productive U.S. bilateral relationships with countries like South Korea, Costa Rica, and Lithuania.

In the past, the U.S. government has faced many similar transition opportunities and has applied a variety of strategies. The best cases have involved a thoughtful strategy with a long-term view of the bilateral relationship, emphasizing trade and cooperation interests beyond government-to-government aid transfers. With middle-income countries, the United States has an expanding set of cooperation interests and tremendous trade and investment opportunities. To capitalize on these opportunities, the U.S. government needs to employ a different set of tools, such as the range of functions offered by the Overseas Private Investment Corporation, the U.S. Trade and Development Administration, and the Export-Import Bank, in addition to a series of endowments, sinking funds, and other binational legacy instruments.

The U.S. government should immediately begin planning assistance transitions, shifting existing resources, and thinking through opportunities for cooperation. Taking a clear-eyed view of this potential will require leadership from the secretary of state, the White House, and the USAID administrator, all in partnership with Congress. In January 2011, USAID administrator Rajiv Shah took an important first step by rightly criticizing the “incentives designed to prolong [development] efforts rather than reduce them or enable transitions” from successful countries, and he called for forming “new strategic partnerships with these countries that respect their rise and leverage their technical expertise.”¹ Despite his best intentions, there is little unity of purpose and effort within the U.S. government to follow through on his recommendation, which is fully in line with President Obama's Presidential Policy Directive on Global Development.

Repurposing the U.S. relationship with middle-income countries is not a momentary challenge; over time, the pressure for change will only increase, regardless of the makeup of Congress or who is in the Oval Office. The development and diplomatic communities must come together

1. Rajiv Shah, “The Modern Development Enterprise,” speech at Center for Global Development, Washington, D.C., January 19, 2011, <http://www.usaid.gov/press/speeches/2011/sp110119.html>.

now to anticipate assistance transitions and prepare to conduct them in an agile way, or the political and budgetary process will make decisions for them in ways that are not strategic and will be less likely to enhance the United States' influence and credibility.



ABOUT THE AUTHORS

Daniel F. Runde is the director of the Project on Prosperity and Development at CSIS, where he also holds the William A. Schreyer Chair in Global Analysis and is codirector of the Project on U.S. Leadership in Development. Previously, he was head of the Foundations Unit of the Department of Partnerships and Advisory Service Operations at the International Finance Corporation (IFC), the private-sector arm of the World Bank Group. He positioned IFC as a partner of choice for private and corporate philanthropy, and he was responsible for leading and growing its relations with senior policymakers throughout the U.S. government.

From 2005 to 2007, he was the director of the U.S. Agency for International Development's Office of Global Development Alliances, where he led a partnership initiative by providing training, networks, staff, funds and advice to establish and strengthen alliances. His efforts leveraged \$4.8 billion through 100 direct alliances and 300 others through training and technical assistance. Earlier in his career, he worked for both Citibank and BankBoston in Buenos Aires and started his career with Alex. Brown & Sons in Baltimore.

In September 2010, he was named one of "40 under 40" in international development in Washington by the Devex Group. He has written and spoken extensively on public-private partnership issues at global conferences and symposia. He is actively involved in the philanthropic sector as a member of committees for the Global Philanthropy Forum and the Committee Encouraging Corporate Philanthropy. He is a board member of the Society for International Development, the Peter C. Alderman Foundation, the Alliance for the Family, and on the advisory boards of the United Nations Development Program's Growing Inclusive Markets Initiative. He received a master's in public policy from the John F. Kennedy School of Government at Harvard University and a B.A. from Dartmouth College.

Johanna Mendelson Forman is a senior associate with the Americas Program at CSIS, where she works on renewable energy, the Americas, civil-military relations, and postconflict reconstruction. A former codirector of the Post-Conflict Reconstruction Project, she has written extensively on security-sector reform in conflict states, economic development in postwar societies, the role of the United Nations in peace operations, and energy security. In 2003, she participated in a review of the postconflict reconstruction effort of the Coalition Provisional Authority in Iraq as part of a CSIS team.

She also brings experience in the world of philanthropy, having served as the director of peace, security, and human rights at the UN Foundation. She has held senior positions in the U.S. government at the U.S. Agency for International Development, the Bureau for Humanitarian Response, and the Office of Transition Initiatives. She also served in the World Bank's Post Conflict Unit. She has been a senior fellow with the Association of the United States Army and a guest

scholar at the U.S. Institute of Peace. Most recently, she served as an adviser to the UN Mission in Haiti. She holds adjunct faculty appointments at American University and Georgetown University.

She is a member of the Council on Foreign Relations and serves on the advisory boards of Women in International Security and the Latin American Security Network, RESDAL. She received a J.D. from Washington College of Law at American University, a Ph.D. in Latin American history from Washington University, Saint Louis, and a master's in international affairs, with a certificate in Latin America studies, from Columbia University. She is fluent in Spanish and Portuguese.

Amasia Zargarian is a research associate with the Project on Prosperity and Development at CSIS, where he focuses on the transition of the United States' cooperation with middle-income countries beyond foreign assistance. Before joining CSIS, he spent time working in Nagorno-Karabakh and Germany, in addition to completing internships at the American Enterprise Institute and Stanford University. He is a graduate of Stanford, where he received an M.A. in sociology and a B.A. in international relations and German studies.

Ilona Teleki is adjunct fellow with the CSIS Europe Program. Her main issue areas include inter-ethnic politics, the politics of national identity, and minority-majority relationships in Central and Eastern Europe, as well as Central European relations with the European Union and the United States. She received a master's degree in Slavonic and East European studies from University College London and a second master's degree in communication and conflict resolution from George Mason University with a specialization in Eastern European affairs. She received her B.A. at both George Mason University and the University of Budapest. She also serves as a short-term election monitor with the Organization for Security and Cooperation in Europe and has monitored elections in Romania, Albania, Ukraine, and Kyrgyzstan.

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INTERNATIONAL STUDIES

1800 K Street, NW | Washington, DC 20006
Tel: (202) 887-0200 | Fax: (202) 775-3199
E-mail: books@csis.org | Web: www.csis.org

