Foreign Assistance and the U.S. National Interest

By

Michael H. Armacost

[The following is a reprint of an address by Michael H. Armacost, Under Secretary for Political Affairs, before the Regional Foreign Policy Conference, Kansas City, Missouri, September 11, 1985, and has been published by the Department of State as *Current Policy No. 739.*]

I am delighted to be with you today, and I congratulate you on one of the largest international seminars of its kind ever held in Kansas City. Today, I would like to talk about foreign assistance--an essential and effective tool of American foreign policy.

In these days of budget stringency, you may consider my choice of topic evidence more of "uncommon valor" rather than of good sense. And it is said that fools rush in where angels fear to tread. But, as a well-known commentator is fond of saying, I want to tell you the "rest of the story."

Many well-informed and well-intentioned Americans question the purpose, the size, the extent, or the character of our foreign assistance programs. Perhaps the full importance of our programs is not clearly understood, nor the modest cost we pay to achieve important benefits generally known. I would assert quite unequivocally that, dollar for dollar, our foreign assistance program is a low-cost, high-return means of advancing our national interests abroad.

FOREIGN ASSISTANCE AND THE AMERICAN PUBLIC

This judgment is not necessarily reflected, mind you, in some of the letters we receive at the Department of State regarding America's foreign assistance programs. Let me share an example or two to give you a flavor of the attitudes that many people hold toward foreign aid.

- "We have to work five months out of every year just to pay our taxes. Are we going to bankrupt the United States so we can support the world?"

- "Why does our country lend millions of dollars to foreign countries at 2.5%-3% interest, yet I have to pay 13% for a VA mortgage on my house?"

- "If I don't pay my debts the stores cut off my credit. But with developing countries, we just keep shoveling the money down the drain."

- "We can't do it all ourselves."

These concerns are legitimate concerns; they are genuine concerns. Yet, we feel they also derive from certain misconceptions, even certain myths, about our foreign assistance programs that are deserving of attention. Let me, therefore, make a few remarks about them.

SOME MYTHS ABOUT FOREIGN AID

First, there is the idea that foreign aid is a huge program that constitutes a significant drain on the Federal budget. In a December 1984 Roper poll, 61% of a representative sample of adult Americans said we were spending "too much" on foreign assistance. And no wonder, when other surveys show that many Americans believe foreign assistance spending amounts to as much as 40% of the Federal budget.

The facts suggest otherwise. During the height of the Marshall Plan days in the late 1940s and early 1950s, foreign economic assistance absorbed roughly 11% of the Federal budget. Today the economic component of our foreign assistance--development assistance, economic support funds (ESF), Food for Peace program (P.L. 480), and the Peace Corps--comprises a total of about $12 billion. That works out to less than 1% of the Federal budget or less than one penny of a tax dollar going to assist America's friends and allies around the world.

I would add that the U.S. share of worldwide assistance of all types is shrinking. In the 1950s, America provided over half of all global assistance. In 1983, while still providing the largest absolute amount of aid, our relative share had fallen to less than 40%. Other OECD [Organization for Economic Cooperation and Development] countries--i.e., other industrial democracies--now provide sizable amounts of assistance, and their rates of increase exceed our own. For example, between 1979 and 1981, Japanese foreign assistance doubled; and between 1982 and 1986, its plans call for doubling their program again. And the Nordic countries, among others, allocate a substantially larger share of their GNP [gross national product] in aid to developing countries than we do.

A second misconception is that foreign aid--whatever the benefits it may confer on others--represents a massive outflow of dollars from the United States. The truth is that 70% of the money appropriated for bilateral foreign assistance is spent in the United States, not abroad. American firms supply commodities, equipment, consulting services, and other expertise to foreign assistance projects, which are then exported.

Of possible interest to this audience, in FY [fiscal year] 1984, the U.S. Agency for International Development (AID) paid some $17.2 million to suppliers of goods and services in Missouri and Kansas. Likewise, the Food for Peace program contributes to the prosperity of the U.S. agricultural sector; last year in Missouri and Kansas, the Food for Peace program spent $158.9 million. Additional sums were spent in support of our security assistance programs.

A third misconception--one with strong emotional appeal--is that aid is a giveaway. We do make grants, of course, and we extend soft loans to some developing countries on easy terms at low-interest rates with extended grace and payback periods. But we do so not out of some misguided sense of altruism but to advance some very specific foreign policy purposes. The sale of American grain at low interest is a case in point. One of every five acres of American farmland produces food for export to the developing world. These sales at favorable interest rates are hastening the development of countries that may someday rank among our best customers. Indeed, already, some of our best customers are developing countries.

Twenty or thirty years ago, Taiwan was struggling to feed its people and was receiving substantial American economic assistance. In 1950, Taiwan's per capita income was less than $100 a year. By 1980, it was $2,200--and Taiwan had become a major purchaser of American grain and other products at market prices and is now our seventh largest trading partner. So I think you can see a hard interest which is served, over time, in generating markets through funds at concessional rates.

A fourth misleading suggestion is that the Third World does not pay its debts. A third of our official economic assistance has been extended on a loan or credit basis. These loans are being repaid with interest. Third World countries know they must make their payments to preserve their credit ratings. It is, thus, not surprising that, overall, the repayment record has been quite admirable, with defaults of all loans extended amounting to only a fraction of 1% since 1946. Commercial banks would envy such a record.

A fifth common misconception is that America carries virtually the whole foreign aid burden itself. People often ask why America's friends and allies don't carry their fair share of helping other countries around the world.

Again, the facts may surprise you. Japan has become the second largest donor of bilateral and multilateral official development assistance worldwide. Japan contributes sizeable amounts of aid, not only in its own area but also in Africa, Latin America, the Middle East, and Oceania. It also continues to improve the concessionality of its terms; to diversify the geographic scope of its programs; and to concentrate much of its assistance in countries of strategic consequence to us.

Our European allies are also substantial partners in foreign assistance burdensharing. European military aid to key African countries often helps to offset the destabilizing efforts of the Soviets and their allies.

Moreover, with strong support from the United States, the World Bank and the regional development banks have persuaded donors to pool and coordinate resources for concessional aid for economic development to the poorest nations. For example, the International Development Association (IDA)--the soft loan window of the World Bank which loans to the poorest countries--has contributed over $20 billion to the developing world, with nearly $10 billion more committed to projects and awaiting disbursement.

As IDA has expanded, our share has dropped from an initial 42% of a $1 billion program in 1961-64 to 25% of a $9 billion program for 1984-86. Thus, each $1 of U.S. contributions generates $4 of assistance to the poorest countries in the world. In the International Bank for Reconstruction and Development (IBRD), or World Bank, a U.S. contribution of $1 can produce more than $65 of assistance to recipient countries. So, the burden has been substantially picked up around the world, not only by the Europeans and Japanese in their bilateral programs but also because we have restructured our contributions to the international banks in such a way as to diminish our share while evoking larger contributions from others.

The same is also true in the United Nations. The United Nations is more than political debates in the General Assembly; the UN system is a major provider of important economic and food assistance around the globe. Through it, aid donors provide some $2.5 billion for economic and social development, only one-fourth of which is donated by the United States. The United States and other countries also contribute to UN refugee and humanitarian programs and to peacekeeping operations.

Burdensharing for humanitarian aid requires flexible and prompt means to respond to human crises. Here, we Americans excel. Our food programs, disaster relief mechanisms, and flexibility to mobilize resources gives us a capability to respond to human tragedy which is simply unmatched. Witness our response to African hunger. We may carry more than our fair share of the humanitarian relief burden. But generosity in the face of need is an American tradition. The efforts of the Federal Government are supplemented--often exceeded--by private Americans. In 1983, American citizens privately contributed $1.3 billion to developing countries. That was roughly half of total Western private giving. American private giving was made more effective, however, because others gave as well.

Security Assistance. Another damaging myth about our foreign assistance program is that it is skewed heavily in favor of military programs at the expense of development assistance.

There is a direct connection between the success of our defense programs and our foreign assistance effort. To protect American security interests in a timely and cost-effective fashion, we do depend on the cooperation of many countries all around the world. A number of these countries are poor and can meet neither their defense requirements nor their development needs solely from their own resources. Our foreign assistance programs help them, with modest help on the side, to address their security problems through their own efforts. If the President didn't have this tool, then the network of cooperation that underpins our global security effort would be seriously undermined. Indeed, in his most recent State of the Union Address, President Reagan noted that, dollar for dollar, security assistance contributes as much to global security as our defense budget itself.

A few examples will demonstrate my point. When war broke out in the Middle East in 1973, we needed Portugal's cooperation to send emergency assistance. Our C-5A cargo planes had to refuel on the way to Israel, and the only place they could do so was in the Azores. Nor could we protect our interests in the Persian Gulf today without the cooperation of a large number of governments in the area. Our capacity to project our military power in the Pacific and Indian Oceans, likewise, depends heavily on access to key facilities in the Philippines. And we remain attuned to the special needs of countries whose strategic cooperation with us exposes them to great risk--as is the case of Pakistan, which is on the front line of resistance to Soviet aggression in Afghanistan.

I would also underscore a distinction between selling American military equipment to another country at retail prices and transferring real resources from the U.S. Treasury to another country. We don't consider commercial sales as security assistance--though they may certainly advance our strategic interests.

Military assistance refers to our provision to another nation of the necessary funds--frequently in the form of foreign military sales credits--to acquire military capabilities, lending those funds at concessional rates or providing them as a grant. We also provide economic support funds, through which we support the economic stabilization of certain countries of strategic concern to us, though the benefits conferred on other countries are not so much to bolster their military efforts as to strengthen the economies which underpin their security. Tailored properly, ESF is used by recipient nations to help diversify and reform their economies. ESF can also be an essential tool in encouraging the operation of market forces and in dismantling state controls.

At present, the ratio between economic and military assistance is roughly two-thirds to one-third--and, therefore, contrary to the popular impression that most of our foreign aid is military aid. In fact, just the reverse is true. In the case of Central America, to take a specific example, the Kissinger commission stressed the importance of economic as well as military aid programs. In Central America during the last four fiscal years, 78% of our total aid has been economic assistance; military assistance accounted for only 22%.

Development Assistance and Economic Growth. Thus far, I have spoken primarily about immediate political and security issues. But one of the greatest threats our children will face is international instability caused by the tragedy of endemic poverty and lack of economic opportunity which exists in much of the Third World. Generous impulses have always been basic in this country. So, no one, I suspect, would begrudge U.S. humanitarian foreign assistance to respond to situations such as the drought in Africa. Nor will you be surprised to learn that American official development assistance is about three times the amount of comparable Soviet programs.

At the same time, I would add that, although the United States recognizes a need to respond to the relief requirements of countries in East Africa, for example, it is not satisfactory for us to be simply responding to relief requirements without addressing underlying problems. Therefore, we have established, in the last year or so, an economic policy initiative for Africa, in which we have put money for the explicit purpose of supporting those governments which are demonstrating a willingness and ability to come to terms with their agricultural productivity problems.

This is also to underscore our experience that foreign assistance is not the principal means of financing development; trade is. On the one side of the coin, developing countries earn more foreign exchange through trade with the United States than through the assistance they receive from all donor countries combined. In 1984, for example, the United States purchased approximately 60% of all the manufactured exports of developing countries, which was worth about $60 billion. This represented almost three times the total amount of foreign aid received by all developing countries that year.

On the other side of the coin, the economic growth of developing countries contributes to our own prosperity. American corporations that profit from exports or foreign investments depend on the stable conditions and economic growth in the Third World that foreign assistance promotes. As developing countries prosper and modernize, our trade with them increases, creating new job opportunities for our labor force. Developing countries already purchase over 50% of all U.S. exports. Thus, for example, when the major Latin American economies faced deterioration in the early 1980s, U.S. exports to that region were cut back $16.3 billion between 1981 and 1983.

We also recognize that foreign assistance compared to equity investment is relatively small. Therefore, the Reagan Administration has directed its efforts at the negotiation of investment treaties and other means of reminding developing countries that if they are to finance their development successfully, they must find means of providing the conditions necessary for inviting equity investment rather than relying upon the official contributions or official transfers from us and other governments.

FOREIGN ASSISTANCE AND CURRENT U.S. PRIORITIES

So far, I have tried to address how foreign assistance advances our national interests and tried to tell the "rest of the story" regarding several popular misconceptions about America's foreign assistance efforts. Now let me outline the five priority areas where most of our official bilateral assistance resources are directed.

- First is the achievement of a lasting peace in the Middle East. Israel and Egypt are our principal partners in this quest and, by far, the largest recipients of our foreign assistance. Together, they receive well over 40% of our foreign aid. Our economic and military assistance programs also support Jordan and other moderate Arab nations in their roles in the peace process.

We provide extraordinary assistance to Israel in support of a comprehensive Israeli economic program designed to correct fundamental imbalances in the Israeli economy. Without such a disciplined reform program, additional U.S. assistance could tend to perpetuate rather than to ameliorate Israel's economic problems. The Israeli Government has made considerable progress in developing an adjustment program, which it is now implementing.

- A second priority is to secure and maintain access to military bases that are important to free world security. About one-fifth of our assistance goes for this purpose, and the countries that are the primary recipients include Spain, Portugal, Greece, Turkey, and the Philippines. Base rights and access both help to ensure international security.

- Third, we support our friends who face Soviet or other communist military threats. Korea, Thailand, and Pakistan receive about one-twelfth of our assistance.

Regional stability and our own security depend on the prevention of North Korean aggression against South Korea. Our assistance helps South Korea improve the capabilities of its combat forces, many of which are stationed with our own forces along the DMZ [demilitarized zone] opposite a formidable North Korean opponent which has forward-positioned troops within 50 miles of Seoul.

Thailand faces serious security challenges as a result of Soviet-supported Vietnamese aggression in neighboring Cambodia. Our security assistance to Thailand supports the government's efforts to improve social and economic conditions in the Thai-Cambodian border areas where thousands of refugees have taken refuge. Our military assistance supports the modernization of Thailand's defense forces to deter further Vietnamese aggression.

Our six-year assistance program in Pakistan helps the government there to face the pressure of the Soviet military presence in Afghanistan and the intimidation that occurs almost daily through the incursion of Soviet or Afghan planes across Pakistan's border. Our assistance program supports Pakistan's economy and development and strengthens its defense through the provision of military equipment and training.

- Our fourth priority is economic development and the relief of human misery. In Africa, for example, our economic assistance has nearly doubled since 1981. Our assistance programs attack the basic economic causes of poverty and are directed at dismantling statist policies so that market forces can unleash individual enterprise and improve productivity.

- Finally, we seek to help our friends in Central America build democracy while weathering the economic and political crises aggravated by subversive pressures from Nicaragua. To that end, our foreign assistance to Central America comes predominantly as economic development.

In Central America, our friends are significantly stronger than they were a year or more ago. The economies of El Salvador, Honduras, Costa Rica, and Guatemala are improving. Democratic institutions in the region are being given a needed chance. For example, in May of last year, Panamanians went to the polls and elected a president for the first time in 16 years. The process of dialogue and reconciliation Salvadoran President Duarte has championed in El Salvador stands in marked contrast to the Sandinista government's intransigent refusal to talk with the opposition in Nicaragua.

CONCLUSION

I hope this brief description about our foreign assistance efforts may have given a better sense of the priorities which guide these programs and, perhaps, dispelled some misimpressions about their extent and character. I hope you will consider the objectives we are seeking to be worthy ones. I also hope there is a heightened awareness of the importance we attach to having this tool of foreign policy to advance our interests overseas. We believe America's foreign assistance programs enhance regional security, promote economic development, encourage the growth of democratic institutions, stimulate commercial relations with the Third World, and alleviate human suffering. They help our friends and allies help us while helping themselves.

In short, we believe the benefits of our foreign assistance programs are disproportionate to their cost. We think we get a good return on each dollar. Perhaps most importantly, our foreign assistance programs give us the opportunity to be creative and helpful in shaping the kind of world

we hopefully all want to see: a world in which prosperity is growing, a world in which freedom and human opportunities are expanding, and a world in which we are making our contributions to safeguarding peace.