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RELATIONS WITH THE THIRD WORLD: VIEWS ON THE NORTH-SOUTH DIALOGUE AND FOOD SECURITY

The United States

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U.S. economic policy toward the Third World derives from U.S. concerns with the global economy as it affects U.S. economic interests and with promoting our national security interests. The developing countries are economically important to the United States and to the other developed countries. In 1970, the developing countries accounted for around 30 percent or $13 billion of U.S. exports. Today, these countries account for 37 percent or some $80 billion. The United States exports more to the developing countries than to Europe and Japan combined. More importantly, the developing countries have the potential for further increases. U.S. investment in the developing countries increased from $19 billion in 1970 to over $50 billion in 1980.

There are many developing countries that are important to the United States by reason of their strategic location, resource endowment, or political leadership. Further, the United States has a humanitarian interest in assisting the poor countries to improve their nutrition, health, education, and housing.

U.S. Economic Objectives Toward the Third World

Statements outlining present U.S. goals and objectives toward the Third World are contained in the President's remarks to the World Affairs Council in Philadelphia (October 1981) and in his opening statement to participants in the International Meeting on Cooperation and Development held in Cancun, Mexico 1 week later. In both these statements the President laid down the U.S. view on how the developed countries can best assist the Third World to achieve economic development and, among other things, food security.

A Cooperative Strategy for Global Growth: Five Principles

1. Stimulating international trade by opening markets with individual countries and among countries;

2. Tailoring development strategies to the specific needs and potential of individual countries and regions;

3. Guiding U.S. assistance toward development of self-sustaining, productive activities, particularly in food and energy;

4. Improving the climate for private capital flows and technology transfer; and

5. Creating a political atmosphere in which practical solutions can move forward ... (without) policies that restrain and interfere with the international market place or foster inflation.

<u>Trade and Access to Markets</u>. U.S. trade policy toward the third world is strongly influenced by both economic and political considerations just as is U.S. trade policy toward the developed countries or the centrally planned economies. The United States has long maintained that its own economic and

political interests and those of Third World countries would best be served by integrating the developing countries into the world trading system.

In accord with this principle, in trade as in other aspects of international economic affairs, the United States has insisted upon the role of the existing international institutions and their "competence" to deal with international economic problems rather than the creation of new institutions to solve economic problems. As the international financial crisis has deepened, U.S. support for the International Financial Institutions (IFIs) seems to have strengthened, for example, Treasury Secretary Regan, quoted in a recent Washington Post article, spoke out in favor of strengthening the hand of the International Monetary Fund in meeting the credit needs of the developing countries.

One means of integrating developing countries into the world trading system has been the granting of preferred access to their exports. The United States continues to adhere to the principle of "differential and more favorable treatment" for the majority of developing countries. This policy of preferential access to the U.S. market by developing countries is implemented through the Generalized System of Preferences (GSP), under which $7.3 billion in developing country exports entered the United States duty free during 1980. This amount includes about $1.2 billion in agricultural products.

Access under GSP is limited by mandatory "competitive needs" tests that protect U.S. industry from excessive competition from third world imports. A competitive needs test is triggered when the dollar value of imports in a tariff category exceeds a certain dollar amount (currently $50.9 million) or when a single country supplies more than 50 percent of an item. Thus, as of 1980, preferences previously accorded to GSP beneficiaries on 29 products worth $510 million were lifted. In addition, there are procedures whereby U.S. interests may petition the Office of the Special Trade Representative to modify the list of eligible products.

The principle of favorable treatment and preferential access is also modified by the notion of "graduation". During the Tokyo Round of multilateral trade negotiations and in the recently concluded GATT ministerial, the United States insisted upon a greater degree of reciprocity in trade relations from the newly industrializing developing countries (NICs).

As the Congress moves in 1984 to consider the extension of GSP, "graduation" and competitive needs will likely become a more important criteria for the inclusion of countries and products receiving preferential treatment.

Private Investment. The U.S. commitment to private investment as a source of capital for development is unflagging even as the debt crisis in the third world deepens. Commercial lending and private investment should be fostered by developed and developing countries alike. Cofinancing of projects by the IFIs and private commercial banks, expanded activity by the International Finance Corporation (IFC), and the Overseas Private Investment Corporation (OPIC) are all viewed as means to increase the flow of capital to the Third World. Investment and tax policies in developed and developing countries alike should not impede private capital flows.

Development Assistance: Food and Energy.

Food. For some time, the major emphasis in our foreign assistance program has been on food and agriculture. Since 1975, more than half of the U.S. foreign economic and technical assistance has been devoted to food and nutrition activities under Section 103 of the Foreign Assistance Act (FAA). In the food and agricultural area, the main emphasis has been on technical assistance in agricultural research, education, and technology, not on resource transfers. Land-grant universities, under Title XII of the FAA, are playing an increasing role in the actual implementation of U.S. agricultural technical assistance programs. Recently, the United States has been insisting, as does the International Monetary Fund (IMF) in its lending, on food policy reform, especially price-policy reform in recipient countries ahead of or in conjunction with the provision of assistance.

Food aid is an important component of U.S. economic assistance.

Energy. As with food, the U.S. bilateral assistance program stresses technical assistance, not resource transfers. Multilateral lending, though not a special facility for energy development, is supported by the United States, provided projects are economically viable and involve the private sector.

Development Strategy--The CBI. A fourth principle, tailoring U.S. development strategy to the needs and potentials of individual countries or regions, is best illustrated by the President's Caribbean Basin Initiative (CBI). The CBI is a good illustration of U.S. policy and program for a number of reasons. First, it indicates how trade, aid, and private investment are supposed to work together to accomplish U.S. policy objectives in the Third World. Second, it illustrates the importance of political and national security considerations in U.S. economic policy toward Third World countries. Third, the difficulties confronted in Congress by the CBI demonstrate rather strikingly the influence that domestic economic interests can have on U.S. foreign economic policy.

The CBI, announced by the President in February, in an address to the Organization of American States, contains three major elements: a set of free-trade provisions (the so-called Free Trade Arrangement, or FTA), measures to encourage investment primarily through tax incentives, investment guarantees, and development assistance.

The Free Trade Arrangement (FTA)

Originally the free trade provisions of the CBI were to extend to Caribbean Basin countries, for a period of 12 years, across-the-board, duty-free treatment for all products with the exception of textiles and apparel. Although the CBI is a program distinct from the GSP, the same or similar modifications that have been made in GSP are included in the CBI. Safeguards, in the form of competitive-needs tests, are available to modify duty-free access when imports cause or threaten to cause serious injury to a U.S. domestic industry and its workers. Rules of origin under the FTA are the same as in the GSP except that the requirement for a minimum percentage of local value added is reduced from 35 to 25 percent. As proposed by the President, sugar would have entered under GSP provisions. Three Basin countries excluded from GSP--the Dominican Republic, Guatemala, and Panama--would be subject to duty-free, absolute quotas.

Possibilities for more favorable treatment of textiles, apparel, and meats were originally discussed but are not included in the CBI.

Measures to Encourage Investment

The CBI seeks congressional authorization to grant incentives to U.S. investors in the region. Specifically, the administration is seeking incentives in the form of a tax credit of up to 10 percent of the amount of fixed-asset investment in Caribbean countries. The tax credit would be granted for a 5-year period, and the credit would permit U.S. firms to reduce their net tax liability in the United States. The CBI would also enable the Export-Import Bank to extend guarantees for short-term credit between U.S. banks, exporters, and local commercial banks in the region.

The CBI also encompasses measures to strengthen the private sector's ability to exploit CBI created opportunities. One aspect of this would take the form of task forces to design private sector development strategies for each country, and which combine the resources of private, public, and voluntary organizations. These efforts to strengthen the private sector would include support for: regional trading companies, assistance in complying with U.S. health and sanitary regulations, improving transportation links, and training workers in appropriate skills.

Development Assistance

The administration requested $350 million in supplemental Economic Support Funds (ESF) in FY 1982 primarily for El Salvador, Costa Rica, and Jamaica. In addition, beginning in FY 1983 and continuing for a 3- to 4-year period, the United States would provide an annual $250 million increase in aid to help countries "revive agricultural and industrial production and create employment."

The Free Trade Arrangement of the CBI raised, of course, the greatest concerns on the part of U.S. interests. In Congress, proposed exemptions to the list of items to receive preferential treatment grew to include sugar and rum, in addition to the already excluded textiles and apparel. The tax and investment incentives intended to reduce the economic risks of producing and marketing in the Caribbean countries also have come under criticism. The only element of the CBI which has been enacted into law in FY 1982 is the $350 economic- and technical-assistance component of the package.

Caribbean nations responded, on the whole, positively to the CBI, as reflected for example, in the views of CARICOM leaders who found many elements of congruence between Caribbean views and the CBI. However, the Caribbean nations desire more in the way of capital investment for infrastructure than is contained in the program.

U.S. Policy Options Toward the Third World

Trade Policy. The basic tendencies in U.S. trade policy toward Third World countries are likely to persist during the eighties. The GSP, which expires in 1983, is likely to be continued for the exports of the relatively low-income Third World countries. If the pace of economic recovery is slow, and by growing protectionist sentiment, the continuation of GSP could, however, be jeopardized.

There is little likelihood that the United States will respond positively to Third World, primary producers' desires for international commodity agreements (ICAs). The developing countries argued their interests in ICAs at Cancun, but these arguments were largely ignored. Even it appears, UNCTAD VI, held in Gabon in 1983, has assigned a lower priority to commodity negotiations, focusing instead on service trade and investment issues.

The U.S. policy of open trade will not likely be applied to sugar and textiles. The U.S. market for sugar is protected by a combination of a tariff, a Section-22 fee, and quotas. These bring imported sugar prices to levels of price support prescribed for sugar in the 1981 farm legislation. Sugar interests in the southern and western United States are unlikely to give in on this issue. There is also little prospect for trade liberalization in textiles. During the negotiations for a new Multifiber Arrangement (MFA) in 1981, the United States did take a more liberal stance than did the EC with respect to imports of textiles from the developing countries. Ultimately, however, U.S. textile interests succeeded in getting restrictions on the rate of growth of imports and the new MFA, which expires in June of 1985, is even more restrictive than the previous one.

Development Assistance. It is unlikely that U.S. foreign aid will increase substantially in the foreseeable future. There is one bright spot in U.S. aid policy for those Third World countries heavily dependent on official development assistance (ODA) for their economic development which comes from applying the principal of graduation to aid giving. That is, the reallocation of foreign aid as resources are shifted from the NICS to the ODA dependent countries. This seems to be happening as development assistance in the Agency for International Development (AID) being allocated to many poor African countries, is increasing. (The World Bank is doing something similar within the International Development Agency (IDA) lending.)

A foreign-development assistance program, which emphasizes agricultural development through the provision of technical assistance by the land-grant universities and agricultural consulting firms, is also likely to persist.

Private Investment. The United States will probably continue to emphasize the role of private investment in contrast to aid. I have already mentioned efforts to enhance the role of the IFC and OPIC. The United States is also exploring means to encourage cofinancing of projects. One such means is eliminating the 10 percent-of-assets limit on commercial loans cofinanced by the World Bank and private commercial banks. Another example of the emphasis given to private investment is the U.S. committee on Jamaican investment, organized by David Rockefeller at the request of the President as part of the CBI.

U.S. Policy on Food Security

U.S. views on food security are unlikely to change significantly. The United States will continue to be the world's main supplier of food aid and will at least keep its minimum pledge of 4.47 million tons under the 1980 Food Aid Convention. The United States is unlikely to moderate its opposition to internationally controlled or coordinated grain reserves, but it strongly supports the creation of individual country-reserve systems and where appropriate regional, food security arrangements. The United States supported and continues to support the extension of the IMF's Compensatory Finance Facility to cover balance of payments problems resulting from increased foodimport costs due to domestic production shortfalls or sharp increases in the prices of imported food. One policy option open to the United States currently is to increase the amount of food available through P.L. 480, subject of course to international rules regarding the disposition of surpluses and the constraint imposed by the Federal budget.

Research on U.S. Third World Economic Relations

As noted, the U.S. GSP expires next year. We need to know much more about the effects of GSP on the exports of Third World countries and on U.S. trade, employment, and income. Not only do we need empirical analysis of GSP but also of the Free Trade Arrangement proposed for the Caribbean Basin Initiative.

The Generalized System of Preferences Eliminating Trade Distortions in the NICs

As mentioned above, the United States seeks to integrate the developing countries into the world trading system and seeks also to apply the principles of graduation and reciprocity to the NICs. It is important to identify and measure the effects of trade restricting policies in these countries on our exports. Trade barriers in the NICs should be examined carefully and models developed to estimate the effects of their removal. This is particularly important with respect to agricultural trade to those countries. Among the trade-distorting measures analyzed, should be exchange-rate regimes and the effects of liberalizing them.

Market Development

The United States is looking to markets in the Third World as a source of growth for agricultural and other exports. Thus, the role of developing countries as importers requires research attention. We need to enhance our understanding of the relationship between imports from the United States and development strategy, patterns of development, income, investment strategy, and exports. Related to this is research to investigate the effectiveness of U.S. export promotion activities compared to those of our major competitors.

Foreign Private Investment. U.S. policy toward Third World countries places great emphasis on private investment as a source of development capital. Yet both the United States and developing countries themselves impose performance requirements on U.S. firms investing abroad. The effects of these requirements on trade, income, and employment in the United States and in the developing countries needs to be assessed. Needed also are analyses of ways to negotiate reductions or elimination of performance requirements in the developing countries. (Information on negotiating strategies for reducing trade distortions in developing countries is also a serious need.) The conditions in the developing countries--levels of income, levels of education, and labor skills--that influence investment also need to be identified and analyzed.