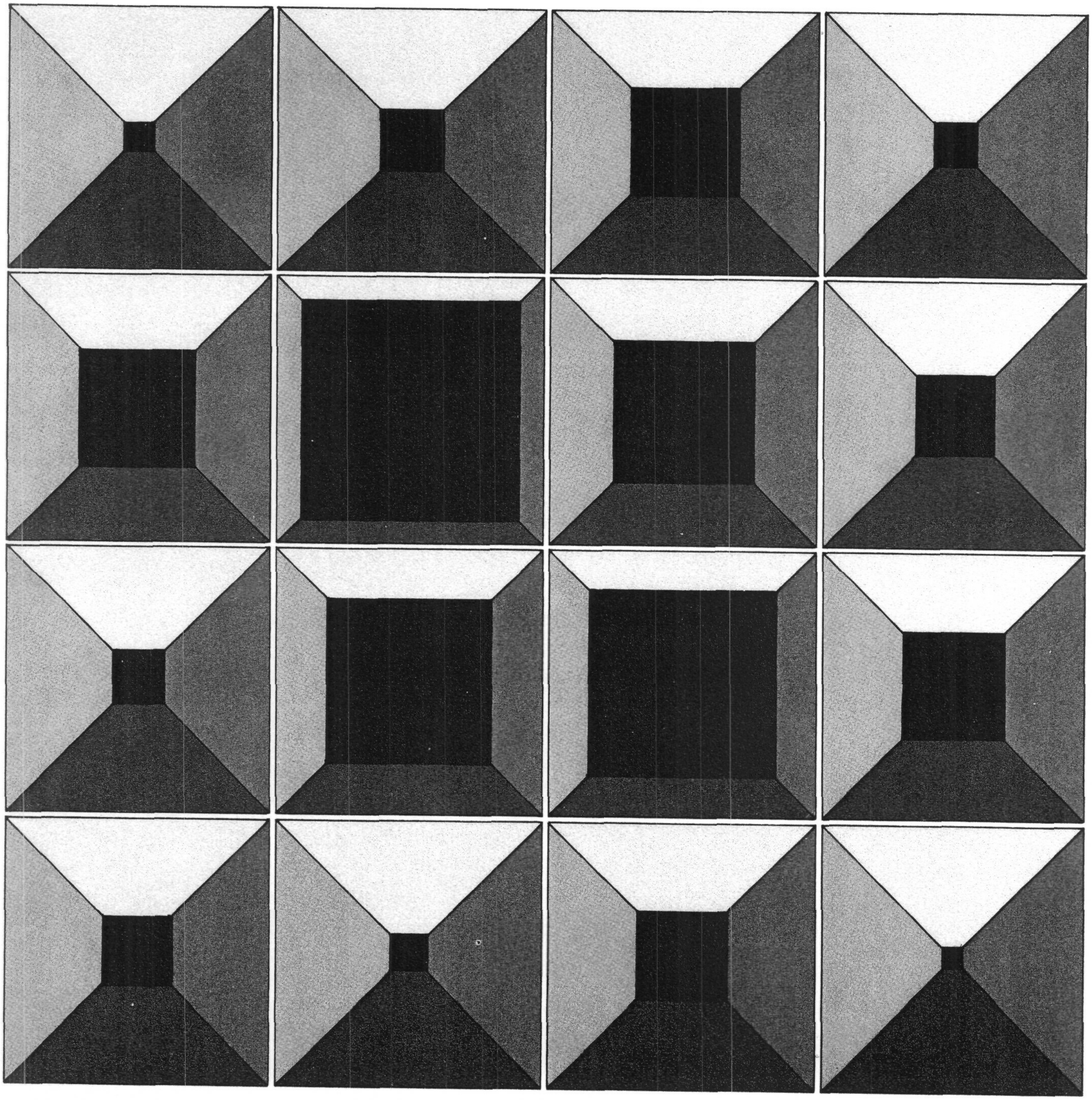
BACKGROUND
PAPER

Assisting the Developing Countries: Foreign Aid and Trade Policies of the United States

September 1980

Congress of the United States
Congressional Budget Office



ASSISTING THE DEVELOPING COUNTRIES: FOREIGN AID AND TRADE POLICIES OF THE UNITED STATES

The Congress of the United States
Congressional Budget Office

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PREFACE

As the Congress seeks to restrain the growth of federal expenditures, foreign assistance has become the subject of careful scrutiny, for it is an important discretionary component of the federal budget. At the same time, Congressional decisions on the amount and type of assistance have great significance to the less developed countries, since the United States remains the largest provider of such assistance.

This paper, prepared at the request of the Senate Budget Committee, focuses on the evolution of the U.S. foreign assistance program and its costs, together with options for modifying it in the future. The paper reviews the size, scope, and distribution of funds among recipients of both bilateral and multilateral aid. Because certain developing countries have come to rely on commercial markets as an important source of funds, the paper examines their past borrowings and their opportunities for continued access to private markets in the near term. And since trade is a major source of foreign exchange for developing countries, U.S. trade policies aimed at increasing LDC exports are analyzed. In keeping with CBO's mandate to provide objective and nonpartisan analysis, the paper offers no recommendations.

This paper was prepared by E. Hazel Denton and Emery Simon, with the assistance of Donald P. Henry, of the National Security and International Affairs Division of the Congressional Budget Office, under the general supervision of David S.C. Chu and Robert F. Hale. The authors wish to acknowledge the valued suggestions of Joan Schneider, and the very helpful contributions of Jane D'Arista, Richard Davison, Dora Jean Newman, Nancy Swope, and Jason Waxler. Professors James Austin (Harvard Business School) and Richard Baldwin (University of Wisconsin) commented on portions of an earlier draft. (The assistance of external reviewers implies no responsibility for the final product, which rests solely with the Congressional Budget Office.) The manuscript was edited by Francis Pierce; it was typed for publication by Jean Haggis.

Alice M. Rivlin
Director

September 1980

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SUMMARY

The United States has political, commercial, and humanitarian interests in assisting the economic development of the less-developed countries (LDCs). Through foreign aid programs and preferential trade policies, it can increase the total resources available to these countries and help them overcome import barriers that often hinder their economic growth. For the developing countries, U.S. aid is of critical importance--not only because the United States gives the largest amounts of aid in dollar terms, but also because other countries are influenced by the size of U.S. aid contributions in deciding upon their own aid levels. During the 1970s, total U.S. aid of all kinds, measured in real terms, increased modestly.

The Congress has been examining aid programs closely in recent months in its attempt to restrain the growth of the federal budget. To provide background information that will be helpful in decisionmaking, this paper reviews U.S. foreign assistance programs, both bilateral and multilateral, and summarizes the recent debate over their funding. Because the economic viability of the LDCs depends not only on foreign governmental assistance but also on loans they receive from private banks and on their own export revenues, the paper discusses LDC borrowings from commercial banks and examines ways in which U.S. trade policies might be changed to increase the LDCs' export earnings.

The LDCs vary enormously in their economic characteristics. Hence, foreign assistance, commercial borrowings, export earnings, and trade arrangements do not play the same roles for all of them. A policy affecting one source of funds will benefit some LDCs more than others:

- The low-income LDCs receive proportionately more funding from national and international aid agencies and at the most favorable rates; they borrow little from the private sector; and they benefit little from preferential trade policies of the developed countries.

- The middle-income LDCs receive funding from aid agencies but on more stringent terms; they borrow more from the

private sector; and they benefit more from preferential trade policies of the developed countries.

- The upper-income LDCs receive some funding from the aid agencies; they are the heaviest borrowers in the private sector; and they are significantly affected by trade policies of the industrial countries.

THE U.S. FOREIGN AID PROGRAM

U.S. aid moves through both bilateral and multilateral channels. Bilateral aid is extended directly to the recipient country. Multilateral aid is provided by international agencies of which the United States is a member.

Bilateral aid, generally involving low-interest loans and/or grants that LDCs use for approved projects, takes three forms. Development assistance funds are aimed toward meeting the basic needs of the poor through projects in agriculture, health, and education. Allocations through the Economic Support Fund (ESF) are less specific and are extended principally to countries in which the United States has particular political or economic interests. Food aid (P.L. 480) largely involves the subsidization of U.S. food exports to countries with poverty-level incomes. The Congress provided $1.6 billion in budget authority for development assistance in fiscal year 1979, $2.2 billion for ESF, and $0.8 billion for food aid.

The United States also contributes to the multilateral development banks (MDBs). These include the World Bank group, the Inter-American Development Bank, the Asian Development Bank, and the African Development Fund. The MDBs extend loans to low-income developing countries at what are called concessional rates (averaging 1 percent per annum with a 10-year grace period) and to middle-income LDCs at somewhat higher, but still favorable, rates (averaging 8 percent). The Congress provided $1.6 billion in budget authority for paid-in capital to the MDBs in fiscal year 1979.

Bilateral Aid Supports Immediate U.S. Political Objectives

In 1973, concerned with the uneven distribution of development benefits, the Congress passed the New Directions legislation. This required that U.S. development assistance be targeted at the poorer people of the world, and that it support countries attempting to satisfy "basic human needs." As a result, by 1979 the United States was directing 81 percent of its development assistance funds to nations meeting the poverty criterion established by the World Bank.

Not all U.S. aid is bound by the New Directions legislation, however. Projects funded through the Economic Support Fund are not tied to the poverty criterion, and this flexibility has encouraged expansion of the ESF. Also, the ESF appropriation request is largely earmarked for specific countries, unlike development assistance, which is presented initially by functional account. Because the United States has a political or economic interest in the welfare of the selected recipients, ESF appropriations are less likely to be cut in the Congressional review process. As a result, ESF allocations tripled in real terms in the 1970s and now account for half of all U.S. bilateral aid. Funds for development assistance remained stable, while food aid fell.

Partly because of the importance of the ESF and its predecessors in the aid budget, U.S. foreign assistance has long been concentrated on a relatively small number of countries, usually of great political interest to the United States. In the early 1970s, Vietnam received a high proportion of U.S. foreign assistance, today, Egypt and Israel account for 40 percent of U.S. bilateral aid.

Current Budgetary Treatment Misstates the Impact of Aid Programs

The annual development assistance budget gives a misleadingly high estimate of the net flow of resources to the LDCs because it does not allow for repayments on past loans. Consequently, the net flow of resources to less-developed countries is overstated in the budget request by the amount of interest and principal repayments on loans made in previous years. For example, in 1978 offsetting receipts for repayment of principal on ESF and development assistance loans amounted to $302 million and for payment of interest to $217 million. The estimated budget outlays for development assistance and ESF were $2.8 billion. The net flow to the LDCs was thus $2.3 billion.

A different misstatement occurs in the food aid budget request, which does not include an estimate of farm support expenditures avoided by the existence of this program. CBO estimates that the net budget cost of the food aid program in an average year may be only half of the total costs shown in the federal budget.

Present Administration Plans Call for Significant Increases in Multilateral Aid

The Administration plans to ask for a higher level of contributions to the multilateral development banks in the early 1980s. Action by the Congress on these requests will involve decisions not only on the overall level of U.S. assistance, but also on the proportion to be offered through multilateral rather than bilateral channels.

In contributing funds to the MDBs, the United States relinquishes direct control over their disbursement. Not surprisingly, the way the funds are distributed by the MDBs differs from that of U.S. bilateral assistance. A large proportion of U.S. bilateral aid goes to the Middle East and South Asia, whereas multilateral assistance is more uniformly distributed among the LDCs. MDB-financed projects tend to be larger, and are likely to involve industrial and infrastructural assistance of a kind not generally supported by U.S. bilateral aid programs.

On the other hand, the fact that the MDBs distribute their funds more evenly among regions leaves the United States free to focus its bilateral aid more directly in line with its foreign policy and trade objectives. Moreover, through the MDBs the United States can give assistance to the populations of countries that, for political reasons, it may not wish to aid directly. Finally, the MDBs provide a vehicle for encouraging additional assistance by other developed nations.

In recent years, the United States has sought to reduce its share of MDB contributions. In the case of the World Bank group, the U.S. share has declined from its original level of approximately one-third to about one-quarter.

LDC BORROWINGS IN THE PRIVATE MARKETS

The LDCs also tap the private capital markets for loans to help support their development and growth. Many of them borrowed heavily from private creditors, especially U.S. banks, when they experienced balance-of-payments difficulties after the 1973 oil price increase. As a result, by 1978 private sources accounted for one-half of the outstanding debt of the non-oil-exporting LDCs, as against one-third in 1972.

The bulk of private lending is heavily concentrated on a small number of relatively high-income LDCs. Thus, at the end of 1978, Brazil, Mexico, and South Korea accounted for one-half of all public debt owed to private lenders.

The banking community has become concerned over the ability of the LDCs to carry their current debt, and over the concomitant risks for the lending banks. Some observers have suggested that the rate of growth in lending to the LDCs is unlikely to be as high in the next five years as it has been in the past five. In response, the World Bank and the regional development banks have recently encouraged "cofinancing" as a way of joining with the private banks in providing funds to the developing countries. So far, the private banks have not expressed great enthusiasm for cofinancing, although such arrangements are increasing. The U.S. Agency for International Development (AID) is currently reviewing possible cofinancing arrangements for assistance to the LDCs, including U.S. government-guaranteed loans by the private sector for use in AID projects and a nonguaranteed program of cofinancing between AID and the private sector.

U.S. TRADE PREFERENCES FOR LDCs

The United States has two programs that allow LDC goods to enter at reduced duty: the Generalized System of Preferences, and the Offshore Assembly Provisions of the U.S. Tariff Code.

The Generalized System of Preferences (GSP) provides duty-free entry for a large variety of manufactured goods and a more limited number of agricultural goods from developing countries. Although the program has led to a sizable increase in LDC exports (estimated at about $500 million in 1977), the major portion comes from only five of the most advanced LDCs. A number of proposals have been made to change GSP in a way that would help the export position of the poorer LDCs. But trade concessions cannot do much for the least-developed LDCs because these nations lack the ability to produce a variety of competitively priced products.

The Offshore Assembly Provisions (OAP) of the U.S. Tariff Code also allow LDC exports to enter the United States at a reduced duty. Goods that contain U.S.-made components can enter

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the United States subject to duty on the value of the finished product, less the value of the U.S.-made components it contains. LDCs have been taking increased advantage of these provisions in recent years, although the provisions are not limited to products assembled in LDCs. Again, it has been the more advanced LDCs that have used the provisions most successfully.

A third way of promoting LDC exports would be to relax quantitative restrictions (quotas) on imports. The United States maintains quotas on a variety of manufactured goods, but only two restrictions--those on nonrubber footwear and textiles--are important to LDCs. For each of the countries subject to these quotas, at least some products are constrained by the restrictions--for certain countries, the number of products affected is quite large--and benefits would accrue to the affected LDCs from a liberalization of quotas.

DECIDING ON THE FOREIGN ASSISTANCE BUDGET

In choosing the future level of foreign aid, the Congress will be weighing assistance to the LDCs against other spending priorities. If it approves the Administration's plans for fiscal years 1980 and 1981, it will expand the amount of real resources involved in the programs.

Whatever overall funding level the Congress selects, it will also need to decide on the mix of programs through which the aid will be delivered. The Congress could choose one of three possible strategies:

- Emphasizing U.S. political and economic interests, which would imply increasing the share of aid disbursed through the Economic Support Fund.

- Emphasizing equitable growth among the poorer countries, which would mean allotting a higher share of funds to bilateral development assistance and food aid programs, or to the multilateral development banks.

- Emphasizing assistance to those countries best able to help themselves, which could be accomplished through additional trade concessions (although U.S. workers might be injured by the resulting import competition).

CHAPTER I. INTRODUCTION

Over the past two decades, foreign aid and the role it should play have been contentious issues. The debate has focused on questions such as:

- What should foreign aid attempt to do?
- How large should the aid budget be?
- What form should country-to-country (bilateral) aid take?
- How much of its aid should the United States give directly to the recipient countries, and how much should it channel through the multilateral development banks?

Because of the importance of the United States as an international aid donor, the foreign aid decisions of the Congress play an important part in determining the resources available to the less-developed countries (LDCs), and thus affect their rate of economic growth. 1/ The U.S. interest in growth of the LDCs stems from several motives: a humanitarian concern for the welfare of less fortunate peoples and nations, a desire to encourage these countries as growing U.S. trading partners; 2/ and the pursuit of international political objectives.

1/ The World Bank defines less-developed countries as nonindustrialized countries. They range from Bangladesh (annual per capita income of $90) to Venezuela ($2,660). They are often divided into two groups: those for which oil exports are an important source of foreign exchange (oil-exporting LDCs) and the others (non-oil-exporting LDCs). The two groups are listed in Appendix I-A.

2/ Trade with the LDCs is increasing rapidly, especially in manufactures. In constant 1972 dollars, U.S. exports of manufactures to LDCs increased from $9.7 billion in 1970 to $22.4 billion in 1977, while U.S. imports of manufactures from LDCs increased from $3.5 billion in 1970 to $11.2

There are, of course, no definitive answers to the questions posed above. Nonetheless, a review of the current status of U.S. aid programs, together with an analysis of other sources of funds for the recipient countries, may help future debate on the size and composition of foreign aid.

OVERVIEW

The United States has three distinct bilateral aid programs that channel resources directly to LDCs: development assistance, administered by the Agency for International Development; food aid, in the form of agricultural commodities; and the Economic Support Fund, intended to serve U.S. political and economic interests. The United States also contributes heavily to the multilateral development banks. Chapters II and III describe the origins of these programs, their current costs to the United States, and the very different ways in which they serve U.S. objectives.

Some LDCs are also able to borrow from nongovernmental sources. In 1978, one-half of the total funds channeled to non-oil-exporting LDCs came from the private sector (Table 1). The major share of the private funds went to the richer countries, leaving the poorer countries dependent upon official sources. The role of private financial markets is the focus of Chapter IV.

The LDCs are critically affected by the trade policies of the developed countries, since their export earnings provide funds for importing industrial goods. Some analysts have proposed that trade concessions, giving LDCs greater access to markets in the developed countries, might be substituted for more direct forms of assistance. Chapter V reviews the trade preferences that have so far been extended by the United States to the LDCs and examines their effect on LDC export revenues.

The immediate decisions on the foreign aid budget facing the Congress are reviewed in Chapter VI, together with a discussion of alternatives for the coming decade.

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billion in 1977. National Foreign Assessment Center, The Role of the LDCs in the U.S. Balance of Payments (September 1978), Table 27.

TABLE 1. NET FLOW OF LOANS AND GRANTS TO NON-OIL-EXPORTING LDCs, 1978 (Billions of dollars)

Income Group a/	Total Loans and Grants	Private Loans b/	Government Loans	Loans from International Financial Institutions c/	Grants	International Monetary Fund
Higher	0.9	0.4	1.2	d/	0.2	-0.9
Upper Middle	11.9	9.6	0.8	0.8	1.7	-1.0
Intermediate	13.6	8.8	2.2	1.4	1.7	-0.5
Lower Middle	6.7	1.6	1.2	1.2	2.4	0.3
Low	7.7	0.3	2.4	2.5	2.8	-0.3
Total	40.8	20.6	7.8	5.9	8.8	-2.4

SOURCES: World Bank, World Debt Tables, Vol. I (December 1979), Tables 6-C, 6-D, 6-E, pp. 122-127; International Monetary Fund, International Financial Statistics (February 1977), pp. 12-13 and (February 1978), pp. 9-10; Organization for Economic Cooperation and Development, Development Cooperation: 1979 Review (November 1979), p. 229.

NOTES: Table does not include data on private debt that is not publicly guaranteed, local currency loans, direct investment, short-term capital movements, or debt of countries that are not members of the World Bank.

Details may not add to totals because of rounding.

a/ Countries are listed by income group in Appendix I-A. The groupings are those of the World Bank, based on 1976 per capita income levels in 1976 dollars: higher income, over $2,500; upper middle income, $1,136-$2,500; intermediate middle income, $551-$1,135; lower middle income, $281-$550; and low income, $280 or less.

b/ Private loans include suppliers' credits, loans from private banks and other financial institutions, publicly issued and privately placed bonds, and other obligations to private lenders.

c/ Loans from international financial institutions include loans from the World Bank Group, regional development banks, and other multilateral and intergovernmental agencies.

d/ Less than $100 million.

The remainder of this chapter provides basic information on aid programs as an introduction to the issues considered in the paper.

HOW DOES FOREIGN AID HELP THE LDCs?

Foreign aid benefits the LDCs in two ways. First, it increases the total resources available to them. This facilitates an increase in their rate of investment, which is a prerequisite to the growth of production, employment, and income. The investment stimulated through aid may be in various areas, such as education, agriculture, or industrial and social infrastructure.

Second, foreign aid increases the foreign exchange resources of LDCs. Many of the inputs needed for economic growth must be purchased abroad, and hence aid may significantly affect the rate of growth.

Successful aid programs produce "graduates," in the sense that economic growth becomes self-sustaining. Brazil and South Korea are two of the most notable graduates among countries that have received large amounts of U.S. aid.

U.S. FOREIGN AID PROGRAMS

The United States provides financial assistance to developing countries through four major programs. Three consist of country-to-country (bilateral) aid; the fourth channels funds through multilateral development banks. 3/

Bilateral Aid

The development assistance program is administered by the Agency for International Development (AID). It provides loans and

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3/ The Congress appropriates funds for these programs under the Foreign Economic and Financial Assistance section (subfunction 151) of the International Affairs Budget. Subfunction 151 does not include assistance directly for military purposes. Included in the foreign economic and financial assistance budget, but omitted from detailed discussion in this report, are the Peace Corps and refugee assistance.

grants at concessional terms for functional development projects and for programs in the areas of health, education, and agriculture. Its funds have been targeted on South Asia and Latin America. Leading recipients in the 1960s were India and Pakistan, along with Brazil. In the 1970s, major recipients were a group of Asian countries: Pakistan, India, Bangladesh, Indonesia, and the Philippines. (For a country-by-country breakdown, see Appendix II-A.)

The Economic Support Fund (ESF) is also administered by AID. It provides loans and grants at favorable terms for developmental purposes--where feasible--for countries in which the United States has special security interests. In practice, most of these funds have been used for balance-of-payments support. From the mid-1960s until the early 1970s, ESF was focused on East Asia--primarily South Vietnam, which regularly received two-thirds of ESF commitments. The bulk of ESF now goes to the Middle Eastern countries of Egypt, Israel, Jordan, and Syria; they received 91 percent of the funds in 1979, as against only 1 percent in 1971. (See Appendix II-B for details.)

The food aid program (P.L. 480) is administered by the U.S. Department of Agriculture (USDA) and by AID. It finances U.S. food exports through loans and grants on favorable terms. In the 1960s and 1970s, India was a leading recipient of food aid, together with Pakistan in the early 1960s and Bangladesh in the early 1970s. South Vietnam took a large share of P.L. 480 funds in the period 1968-1974. In 1979, the three leading recipients of food aid were India, Bangladesh, and Indonesia, accounting for 37 percent of total funding. (See Appendix II-C.)

Multilateral Aid

International financial institutions, including the various multilateral development banks (MDBs) and other international organizations, offer developmental assistance, primarily loans and grants, on terms that depend on the economy of the recipient. This assistance concentrates on providing economic infrastructure (such as roads, irrigation systems, and port facilities). By contrast, U.S. bilateral development assistance emphasizes the social infrastructure (technical and financial assistance concentrated in agriculture and rural development). The United States usually contributes approximately one-third of the funds that MDBs receive. India, Brazil, and Mexico were among leading recipients of multilateral aid in the 1960s and 1970s, joined in the 1970s by Indonesia. (See Appendix III-B.)

DIMENSIONS OF THE U.S. FOREIGN AID BUDGET

U.S. outlays for foreign aid totaled $4.4 billion in fiscal year 1979 (Table 2). The bulk of U.S. aid was offered bilaterally, the Economic Support Fund being the largest single program.

Long-term trends in U.S. foreign aid can be seen in Table 3, which shows budget authorizations for foreign assistance during the 1970s, expressed in constant dollars. Authorizations for bilateral programs, excluding food aid, rose by 45 percent. But among the major bilateral programs, authorizations for the Economic Support Fund more than tripled, while those for development assistance fell slightly, and outlays for food aid declined

TABLE 2. U.S. BUDGET AUTHORITY AND OUTLAYS FOR FOREIGN ASSISTANCE, FISCAL YEAR 1979 (Millions of dollars)

	Budget Authority	Outlays
Bilateral Assistance		
Development assistance	1,534	1,147
Economic Support Fund	2,321	1,755
Food aid	806	316
Other	375	976
Receipts		
Principal	-332	-332
Interest	-343	-343
Subtotal	4,361	3,519
Multilateral Assistance		
Multilateral development banks	2,515	683
International organizations	260	200
Subtotal	2,775	883
Total	7,136	4,402

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TABLE 3. U.S. MULTILATERAL AND BILATERAL ASSISTANCE, SELECTED FISCAL YEARS 1970-1979 (Millions of constant 1972 dollars)

	1970	1972	1974	1976	1978	1979
Bilateral Assistance (Budget Authority)						
Development assistance	1,026	1,036	752	765	858	947
Economic Support Fund a/	437	559	559	1,332	1,488	1,433
Other b/	165	107	190	131	142	231
Receipts						
Principal	-54	-45	-23	-153	-203	-194
Interest	-21	-16	-29	-116	-146	-167
Net Total	1,553	1,641	1,449	1,959	2,139	2,250
Multilateral Assistance (Budget Authority)						
Multilateral development banks	769	1,422 c/	2,028 c/	533	1,292	1,552
Callable capital	(231)	(954)	(1,072)	(74)	(551)	(545)
Paid-in capital	(538)	(468)	(956)	(459)	(740)	(1,007)
International organizations d/	147	152	132	155	161	160
Total Multilateral Aid	916	1,574	2,160	688	1,453	1,712
P.L. 480 Food Aid (Outlays)						
Program costs	1,397	1,320	873	744	799	848
Receipts	-437	-307	-294	-215	-258	-246
Total P.L. 480 Outlays	960	1,013	579	529	541	602

NOTE: A U.S. GNP deflator was used throughout this paper to convert current dollars to constant dollars, where 1972 = 1.

a/ Includes Mideast Special Requirements Fund, Indochina Postwar Reconstruction Fund, and peacekeeping operations.

b/ Includes International Narcotics Control, Inter-American Foundation, refugee assistance, and the Peace Corps.

c/ In 1972, includes \$1.08 billion to maintain gold value of U.S. dollar contributions; in 1974, includes \$1.31 billion to maintain U.S. dollar value of contributions.

d/ Voluntary contributions to the international organizations. Assessed contributions are part of budget subfunction 153.

significantly. 4/ Taking these divergent trends into account, CBO estimates that average annual U.S. disbursements of aid rose by 7 percent in the second half of the 1970s over the level prevailing in the first half, when measured in constant dollars.

HOW U.S. AID DONATIONS COMPARE WITH THOSE OF OTHER COUNTRIES

The United States is by far the largest donor of development assistance in terms of absolute amount. But when assistance is measured against the size of the national economy, the United States ranks below a number of other countries as a donor. The United Nations has adopted a target for official development assistance (ODA) of 0.7 percent of a member's GNP. 5/ The United States falls well below this target, along with many other countries. In 1978, the United States contributed 0.23 percent of GNP in official development assistance, ranking thirteenth among 17 developed-country donors (Table 4).

The United States, France, and the United Kingdom provided more than 80 percent of official development assistance in the early 1960s, but in 1978 they gave only half. Other countries, including the Scandinavian countries and Canada, have increased their share of total assistance (Table 4).

The East European countries, the Soviet Union, and China pledged more than $5 billion in economic aid for the developing countries in 1978, with the Soviet Union committing $3.7 billion. Soviet aid is used primarily to fund large industrial projects, frequently on a loan basis, and is often geared to production of items needed for Soviet use. The bulk of repayments is in goods--if possible, those produced by the funded project. The

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4/ Outlays for food aid reflect an actual year's new commitments better than do authorizations, because they are not distorted by carry-forward balances of the Commodity Credit Corporation (the financing agent for food aid) and receipts.

5/ A definition of ODA is given in Appendix I-B. The United States has not agreed to this target. All aid, not just the grant element, is counted as ODA. A very small part of U.S. development aid is not counted as ODA, such as disaster relief for developed countries and funds for peacekeeping missions.

TABLE 4. NET OFFICIAL BILATERAL AND MULTILATERAL DEVELOPMENT ASSISTANCE, DISBURSEMENTS (Millions of dollars and percent of GNP)

Country	1966-1968 Average Amount	1966-1968 Average Percent of GNP	1978 Amount	1978 Percent of GNP
Australia	148	0.57	491	0.45
Austria	15	0.13	156	0.27
Belgium	84	0.43	536	0.55
Canada	187	0.30	1,060	0.52
Denmark	25	0.21	383	0.74
Finland	4 a/	0.05 a/	55	0.17
France	808	0.69	2,705	0.57
Germany	495	0.39	1,990	0.31
Italy	126	0.18	175	0.07
Japan	342	0.28	2,215	0.23
Netherlands	110	0.48	1,027	0.79
New Zealand	10	0.22	55	0.34
Norway	18	0.22	355	0.90
Sweden	63	0.26	783	0.90
Switzerland	17	0.10	173	0.20
United Kingdom	462	0.43	1,212	0.39
United States	3,352	0.41	4,831	0.23
Total	6,266	0.40	18,204	0.32

SOURCE: Organization for Economic Cooperation and Development, Development Cooperation: 1979 Review (November 1979), p. 201, and Development Cooperation: 1978 Review (November 1978), p. 191.

a/ Estimated.

East European economic aid program also aims at establishing new markets and organizing a supply of raw materials. 6/

6/ National Foreign Assessment Center, Communist Aid Activities in Non-Communist Less Developed Countries, 1978 (1979), pp. 6-16.

Some oil-exporting countries belonging to OPEC have been aid donors for a decade or more, but the majority became actively involved in aid only in the early 1970s, when higher oil prices created large current account surpluses. In 1978, the OPEC countries contributed $3.7 billion, or 1.1 percent of their combined GNP. 7/ OPEC aid is largely untied, and the totals include multilateral as well as bilateral assistance. Some multilateral aid is channeled through OPEC agencies, but OPEC members also made commitments in 1978 to the World Bank, the African Development Fund, and the Inter-American Development Bank. The dominant feature of OPEC bilateral commitments is general support assistance, concentrated on Arab countries, but project aid has increasingly been extended to non-Arab countries in Africa and Asia. 8/

7/ Organization for Economic Cooperation and Development, Development Cooperation: 1978 Review (November 1978), p. 147, and Development Cooperation: 1979 Review (November 1979), p. 269.

8/ Organization for Economic Cooperation and Development, Development Cooperation: 1979 Review, Chapter X, pp. 133-142.

CHAPTER II. U.S. BILATERAL AID PROGRAMS

Direct aid by the United States to other countries (bilateral aid) includes three principal programs: development assistance, food aid, and the Economic Support Fund. In fiscal year 1979, bilateral aid comprised 80 percent of U.S. net outlays for foreign assistance.

In a period when the Congress is attempting to restrain federal spending, the competition for funding will place the individual programs in conflict. If the Congress decides to emphasize foreign policy objectives, it is likely to channel most assistance through the Economic Support Fund. This would continue a trend that characterized U.S. aid programs in the latter half of the 1970s. If, instead, the Congress wishes to emphasize longer-run development objectives, it will devote a larger portion of funds to bilateral development assistance (and perhaps to multilateral development banks, the subject of Chapter III). How large a role food aid plays will depend on whether it is seen principally as a mechanism for U.S. commodity management or as a vehicle for underwriting part of the LDCs' "calorie gap."

At the same time that the Congress confronts decisions on priorities among foreign aid programs, it will be facing the issue of whether U.S. assistance should be concentrated on a relatively small number of countries--the historical pattern--or be spread more broadly. A decision to emphasize political objectives, and to increase the role of the Economic Support Fund, might well result in increased concentration.

As a guide to the debate over levels of funding for the various bilateral programs, this chapter summarizes their legislative history, describing the original Congressional objectives and how they have been modified. The chapter then reviews the current operation of the major programs, and discusses important issues related to their funding. Comparisons among them are complicated by the fact that current budget presentations of aid do not fully reflect the net impact of every program: the chapter provides estimates of these net figures where appropriate. Finally, because some have argued that bilateral aid programs stimulate demand for U.S. exports, the chapter reviews the evidence on this point.

LEGISLATIVE HISTORY

The foreign aid program in its current format began with the establishment of the Agency for International Development (AID) in 1961. The following section reviews the history of U.S. foreign aid since that date.

Development Assistance 1/

In the 1960s, U.S. development assistance programs concentrated on building "infrastructure," such as dams, roads, and power plants. Concerned with the uneven distribution of development benefits, the Congress passed the New Directions legislation in 1973, requiring that U.S. development assistance be targeted upon the poorer people of the world and upon countries attempting to satisfy basic human needs. Current development projects stress improvement of water supplies and sanitation facilities, family planning programs, access to education and health care, expansion of local energy resources, and agricultural development. 2/

1/ A distinction is made between bilateral aid, which covers all forms of assistance provided by the United States directly to developing countries, and bilateral development assistance, which refers only to the loans and grants administered by the Agency for International Development and excludes the Economic Support Fund and food aid.

2/ The Agency for International Development also engages in the coordination of funding from different sources. An example of this is the Club du Sahel, a regional development program for eight neighboring African countries suffering from prolonged drought. The Club began as an American-French initiative, but is now centered in the OECD and involves more than 20 donor agencies and organizations committed to an integrated program of sectoral development in agriculture, fisheries, human resources, marketing, and transportation. See Organization for Economic Cooperation and Development, Strategy and Programme for Drought Control and Development in the Sahel (May 1979).

Interpreting the New Directions legislation has proved difficult. The focus has shifted to the poorer countries and, within them, to the poorer people, but assessing the beneficiaries of a particular project has proved controversial. The U.S. Agency for International Development has chosen a restrictive interpretation. 3/

Economic Support Fund (ESF)

The Economic Support Fund is a descendant of the Marshall Plan "defense support" funds of the 1940s. In 1961, with the enactment of the Foreign Assistance Act (FAA), this type of aid was formally designated as Supporting Assistance. In 1971 it was renamed Security Supporting Assistance and placed under the FAA title concerned with military, rather than economic, aid, thus emphasizing its different goals as compared with development assistance.

The International Security Assistance Act of 1978 replaced Security Supporting Assistance with the Economic Support Fund and Peacekeeping Operations accounts. This change was made to identify more accurately the purpose of these programs, which is "to provide budget support and development assistance to countries of political importance to the United States." 4/

The intention is that ESF be used for development projects wherever possible, but only 30 percent of the funds distributed between 1975 and 1979 were directly for such projects.

3/ Among projects not pursued because of this interpretation are the upgrading of a road between Upper Volta and Niger, and construction of a dam in Senegal to prevent salinization of a river basin so as to protect the water for agriculture. See Foreign Assistance Legislation for Fiscal Years 1980 to 1981, Hearings and Markup before the Subcommittee on Africa, House Committee on Foreign Affairs, 96:1 (February and March 1979), Part 6, pp. 11-12.

4/ Foreign Assistance and Related Programs Appropriations Bill, 1979, S. Rept. 1194, 95:2 (1978), p. 79.

Food Aid

The original goals of the Food for Peace program 5/ were trade expansion, disposal of surplus U.S. agricultural goods, agricultural price stability, foreign economic development, and support of U.S. foreign policy.

Initially, farm goods were donated, bartered, or sold for foreign currencies. As U.S. holdings of foreign currencies grew, sales for dollars on concessional terms began.

A reevaluation of food aid in 1966 placed emphasis on humanitarian concerns, shifting the program's focus from the disposal of U.S. surplus goods to the alleviation of hunger through agricultural development. Development concerns have also been emphasized in recent legislation. Nevertheless, establishing and maintaining commercial markets for U.S. products remain an underlying objective of the food aid program. The inherent conflict among these multiple goals is compounded by the inclusion of political considerations in the selection of recipients.

Food aid provides agricultural commodities for donation or resale under three titles:

Title I: Concessional Loans for Food Purchases ($755 million exported in 1979); 6/

Title II: Donations and Disaster Relief ($398 million exported in 1979); 7/

Title III: Food for Development ($85 million of Title I in investments in 1979).

5/ Established under the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480).

6/ Commodity costs; differential freight costs were $73 million.

7/ Commodity costs; transportation costs were $149 million.

Title I loans are made to LDCs at concessional rates to finance purchases of U.S. agricultural commodities. 8/

Under Title II, food is donated by the United States for nutritionally vulnerable groups (such as young children and mothers).

Title III, Food for Development, began as part of the International Development and Food Assistance Act of 1977. This title provides that at least 15 percent of repayments under Title I be invested by the LDCs in U.S.-approved self-help projects directed to the rural poor. 9/

CURRENT PROGRAM OPERATIONS AND ISSUES

Development Assistance

The projects covered by development assistance are primarily in the agriculture, rural development, and nutrition sectors; a second area of significance is population planning. During the second half of the 1970s, these two areas received an average of 55 and 15 percent of funding respectively. Health and education each received around 10 percent.

Although highly concentrated in the past, development assistance is now widely distributed. In fiscal year 1979,

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8/ The loans are to be repaid over a period of up to 40 years, with a grace period of up to 10 years, at interest rates of 2 to 3 percent, in dollars or convertible currency. No new local currency sales agreements have been concluded since December 31, 1971.

9/ Food for Peace, 1954-1978, Major Changes in Legislation, prepared by the Congressional Research Service for the Subcommittee on Foreign Agricultural Policy, Senate Committee on Agriculture, Nutrition, and Forestry, 96:1 (April 1979), p. 16. Eligibility for forgiveness was specified to be for countries meeting the World Bank poverty criterion, and the forgiveness was extended to appropriate developmental use of the food commodities themselves, not just the appropriate developmental use of the funds generated by the local sale of the commodities.

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68 countries received funding. During the second half of the 1970s, the three major recipient countries (Indonesia, Bangladesh, and the Philippines) accounted for only 22 percent of all funds directed to specific countries and regions. 10/

Some countries that were major recipients in the 1960s are still major recipients, including India and Bangladesh (formerly East Pakistan). Brazil, Colombia, and South Korea are among the program's "graduates." Meanwhile, Kenya and Sri Lanka are "newcomers." 11/

In 1979, 81 percent of country loans and grants went to nations meeting the poverty criterion of the World Bank. 12/ There are, however, several programs that benefit middle-income developing countries. For example, the Housing Guarantee (HG) Program, under which the Agency for International Development guarantees repayment to private U.S. lenders who finance AID-approved housing for low-income families, is used mainly by middle-income developing countries. 13/ Another AID effort that

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10/ There has, however, been an increase in expenditures on an interregional (rather than country) basis, which in 1979 accounted for over one-third of all AID funding (see Appendix II-A). These interregional expenditures in fiscal year 1979 included AID operating expenses, centrally funded programs, disaster relief, ocean freight, and American schools and hospitals abroad.

11/ The annual distribution of AID funds among major recipients from 1962 to 1979 is shown in Appendix II-A.

12/ The poverty criterion of the International Development Association, the soft loan window of the World Bank, is currently an annual per capita income of $625. See Agency for International Development, Congressional Presentation, Fiscal Year 1981, Main Volume, p. 124.

13/ By charging a fee for the guarantee, the program is made generally self-sustaining. The statutory ceiling for housing guarantees outstanding to September 1981 is $1.5 billion. Among countries receiving HG funds are Korea, Thailand, Taiwan, Argentina, Mexico, Venezuela, and Israel. See Ibid., pp. 82-85.

benefits middle-income countries is the Reimbursable Development Program (RDP). Technical services and planning assistance are provided, partly on a reimbursable basis, drawing together U.S. companies to provide goods and services for projects identified by host governments. 14/

Part of development assistance is offered through loans rather than grants. An important policy question is what it would cost an LDC to borrow the funds it receives in official loans at commercial rates. Calculations show that the charges in 1978 amounted to about 10 percent of the cost of borrowing commercially, so that 90 percent of the funds were the equivalent of a gift. 15/ These calculations are based on a conventional market rate of 10 percent, which is too low for the current economic situation. Thus, the grant element in 1980 is even higher.

Economic Support Fund

ESF allocations are made to "promote economic or political stability" in countries of concern to the United States. 16/ Commitments averaged $1.2 billion annually during the 1970s, reaching a record high of $2.2 billion in 1978, as shown in Table 5. (Details of annual flows by recipient are given in Appendix II-B.)

In the early 1970s, 75 to 85 percent of ESF allocations went to South Vietnam, but now similar percentages go to the

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14/ AID is requesting $4 million for RDP activities in fiscal year 1981; the program is active in more than 40 countries, including Saudi Arabia, Bahrain, Kuwait, Colombia, Venezuela, Brazil, and Thailand. See Ibid., pp. 86-88.

15/ Organization for Economic Cooperation and Development, Development Cooperation: 1979 Review (November 1979), p. 228.

16/ Agency for International Development, Congressional Presentation, Fiscal Year 1981, Main Volume, p. 65.

TABLE 5. ECONOMIC SUPPORT FUND COMMITMENTS, FISCAL YEARS 1970-1979 (Billions of dollars)

Fiscal Year	Billions of Current Dollars	Billions of 1972 Dollars
1970	0.50	0.56
1971	0.57	0.61
1972	0.62	0.63
1973	0.63	0.62
1974	0.64	0.58
1975	1.23	1.00
1976	1.13	0.87
TQ	0.89	0.66
1977	1.77	1.27
1978	2.22	1.49
1979	1.98	1.22
Total	12.18	9.51

SOURCE: Agency for International Development, U.S. Overseas Loans and Grants, 1945-1976, p. 6; and U.S. Overseas Loans and Grants, 1945-1979, p. 6.

Middle East (principally Egypt and Israel), reflecting the changed focus of U.S. interests. 17/

17/ Relatively small amounts of ESF aid go to Europe, Latin America, and Africa. In 1978, there was an increase in ESF funding for Africa, reflecting a growth in commitments to Botswana ($15 million), Lesotho ($5 million), Swaziland ($13 million), Zaire ($10 million), Zambia ($30 million), and the regional account ($38 million). See Agency for International Development, Congressional Presentation, Fiscal Year 1980, Main Volume, p. 119.

Although ESF allocations are made according to political criteria, the program is, nevertheless, economic and developmental in nature. It excludes the outright provision of military aid. 18/

At Congressional request, the New Directions criteria are used for ESF whenever possible. Since immediate economic aid, rather than long-term equitable development, is the primary concern, the format of the funding differs considerably from development assistance and may include projects of an industrial nature. 19/ More than 40 percent of ESF commitments between 1975 and 1979 were for commodity import funding, 20/ a quarter for cash grants and loans, and 30 percent for project aid (Table 6).

18/ Since money is fungible, the effectiveness of these restrictions is questionable. As noted earlier, this report focuses on development aid and does not touch upon military assistance. Funds for defense materiel and military training are covered by other security assistance programs. These include (1) Military Assistance Programs; (2) International Military Education and Training; and (3) the Foreign Military Sales Financing Program. Congressional Research Service, Foreign Aid: Overview of the International Affairs Budget, Issue Brief 78055 (February 15, 1980), p. 3.

19/ More specifically, it is unlikely that recent loans to Egypt for gas turbine generators, a cement plant, textile plant rehabilitation, or cargo handling equipment for a port facility would have been made with regular development assistance.

20/ Under the Commodity Import Program (CIP), funds are deposited within the United States to be drawn down on behalf of the countries in receipt of CIP funding. The purchases are identified as relevant to the countries' development needs and reviewed by the United States. Excluded are military goods, goods for which the United States is a net importer, and certain other product categories. The ESF operates with both loans and grants; the cash loans are made at concessional rates, ranging between 15 and 40 years at 2 to 5 percent interest. Food is also shipped as part of the CIP. Of the 2.6 million metric tons shipped in 1978, half went to Israel and half to Egypt. Between 1963 and 1974,

TABLE 6. ECONOMIC SUPPORT FUND COMMITMENTS BY COUNTRY AND TYPE, FISCAL YEARS 1975-1979 (Millions of dollars)

Country	Total	Commodity Import Program		Cash		Project Aid	
		Grants	Loans	Grants	Loans	Grants	Loans
Egypt	3,331	85	1,455	--	--	1,005	786
Israel	3,405	1,100	755	1,290	260	--	--
Jordan	476	--	--	286	--	19	171
Syria	438	--	125	--	--	37	276
Greece	65	--	65	--	--	--	--
Portugal	435	--	--	36	300	6	93
Zambia	50	--	50	--	--	--	--
Jamaica	12	--	10	--	--	2	--
South Vietnam	190	143	--	--	--	47	--
Malta	43	--	--	43	--	--	--
Cambodia	54	--	--	51	--	3	--
Other	516	--	58	58	82	259	35
Total	9,015	1,328	2,518	1,764	642	1,378	1,361
Percent	100	15	28	20	7	15	15

SOURCE: Agency for International Development.

NOTE: Details may not add to totals because of rounding.

The relative flexibility of ESF funding encourages expansion of the program. Also, the ESF appropriation, unlike development assistance, is almost entirely for country-specific amounts,

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such shipments remained well below $100 million per year but began to rise in 1975, and reached $319 million in 1978 (all in 1972 dollars). U.S. Department of Agriculture, Foreign Agricultural Trade of the United States (July 1977), p. 18, and (January 1979), p. 62.

which, given the selection of the recipients, protects this section of the aid budget from significant cuts. ESF allocations tripled in real terms in the 1970s, while funds for development assistance remained static and food aid fell (Table 3).

Food Aid

The food aid program has been significant for U.S. producers: an average of 60 percent of wheat exports and 40 percent of rice exports (by value) during the 1960s were shipped under P.L. 480, declining to 14 percent and 20 percent, respectively, in fiscal year 1978. 21/ (Details of annual flows by recipients are given in Appendix II-C.)

In fiscal year 1978, 4.3 million metric tons of food were shipped under Title I (76 percent wheat, 11 percent rice) and 1.5 million metric tons under Title II (which, because of its nutritional focus, has a wider range of commodities). 22/ P.L. 480 shipments represented 4 percent of U.S. agricultural exports in 1978 (Table 7).

In 1977, the Congress mandated that 75 percent of concessional sales under Title I go to low-income countries, defined as those meeting the World Bank poverty criterion. 23/ Figure 1 shows how Title I sales have been allocated to meet the poverty criterion, and also documents the fact that, from 1968 through

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21/ U.S. Department of Agriculture, Food for Peace, 1978 Annual Report on Public Law 480 (June 1979), Table 5; Foreign Agricultural Trade of the United States (July 1977), Table 9; U.S. Agricultural Exports under P.L. 480 (October 1974), Table 2.

22/ U.S. Department of Agriculture, Food for Peace, 1978 Annual Report on Public Law 480, Table 4.

23/ Initially, in fiscal year 1975, not more than 30 percent was to go to countries other than those designated by the United Nations as "most seriously affected" by food shortages. This was modified to 25 percent to countries with per capita incomes of $300 or less, and eventually to the poverty criterion in 1977.

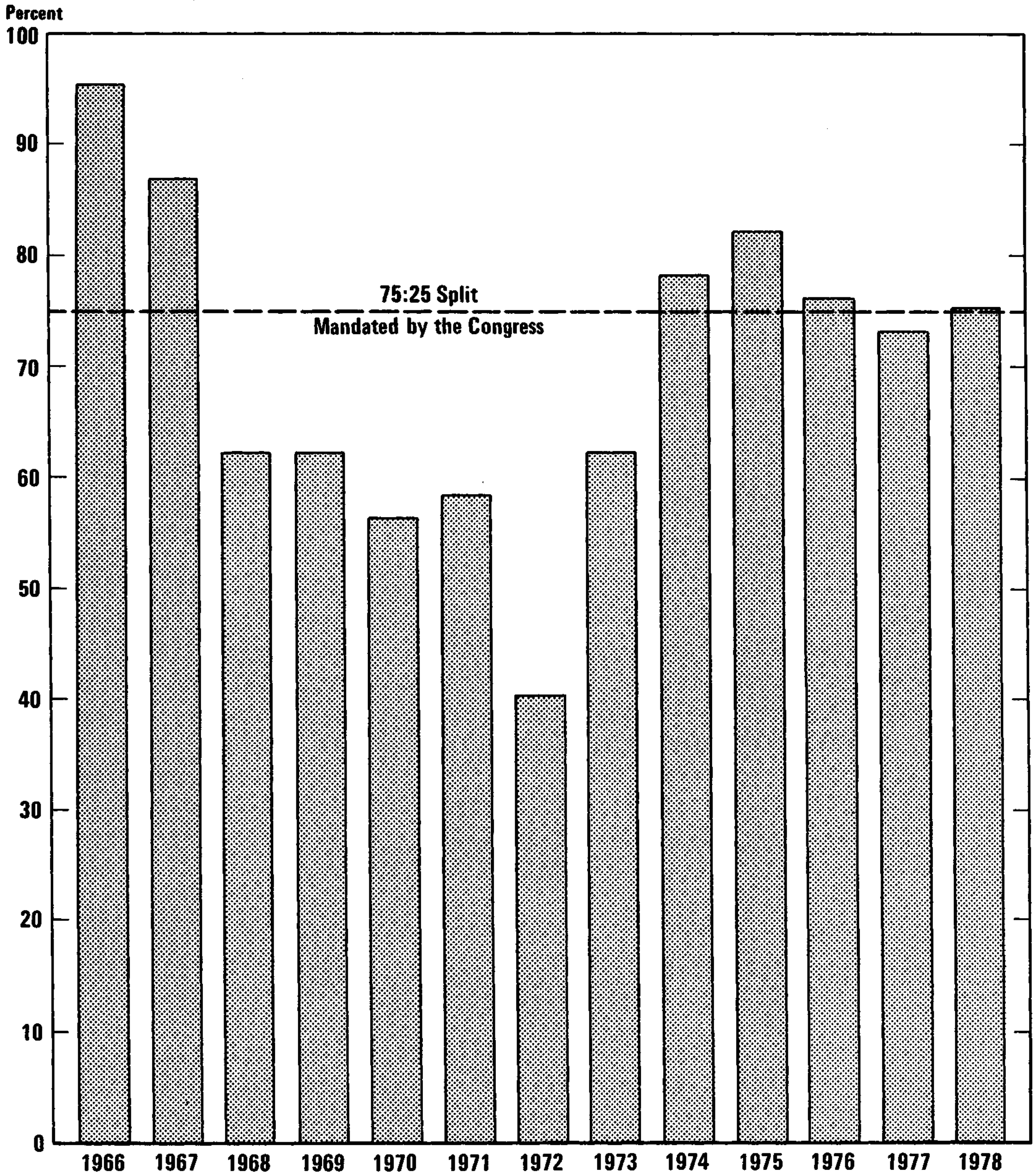
TABLE 7. U.S. SHIPMENTS OF FARM GOODS UNDER P.L. 480, FISCAL YEARS 1962-1978

	Millions of Metric Tons	Billions of Dollars	P.L. 480 Shipments as Percentage of Total Agricultural Exports (by value)
1962	18.8	1.5	29
1963	17.4	1.5	29
1964	16.8	1.4	23
1965	18.4	1.6	26
1966	18.2	1.3	20
1967	14.0	1.3	19
1968	14.6	1.3	20
1969	10.0	1.0	18
1970	11.0	1.1	16
1971	9.8	1.0	13
1972	9.9	1.1	13
1973	7.4	1.0	7
1974	3.3	0.9	4
1975	4.9	1.1	5
1976	4.5	0.9	4
TQ	2.1	0.4	7
1977	6.5	1.1	4
1978	5.8	1.0	4

SOURCE: Susan A. Libbin, "U.S. Agricultural Commodity Aid and Commercial Exports, 1955-1976," in U.S. Department of Agriculture, Foreign Agricultural Trade of the United States (July 1977), p. 18; U.S. Department of Agriculture, Foreign Agricultural Trade of the United States (January 1979), pp. 58-59; U.S. Department of Agriculture, Food for Peace, 1978 Annual Report on Public Law 480 (June 1979), Table 1.

Figure 1.

Percent of Food Commodities Programmed Under P.L. 480 Title I Going to Countries Below the IDA Poverty Criterion



SOURCE: Regina G. Ziegler, *Congress, the 1970s Food Crisis, and U.S. Food Aid Policy,* Massachusetts Institute of Technology, Center for International Studies (July 1979), p. 57.

NOTE: Calendar years 1966-1974; fiscal years 1975-1978. Fiscal year 1976 includes transitional quarter.

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1973, far less than 75 percent was distributed to the poorer countries. 24/

Food Aid and Malnutrition. One of the goals of the food aid program is relief from malnutrition. How big is the problem? How much impact can U.S. food aid have?

One measure of malnutrition is the per capita food supplies available in a country as compared with the caloric intake required for an adequate diet. 25/ To close the calorie gap expected in 1985, it is estimated that the developing countries would need to import approximately 140 million metric tons of grain in that year. 26/

Countries can close the calorie gap by producing more food, importing more food, or redistributing existing supplies. 27/ To fill the calorie gap from local production by 1985 would require an increase in LDC agricultural production of between 5 and 6 percent per annum for the decade 1975-1985--an unlikely rate of production growth.

24/ Tentative allocations for fiscal year 1980 indicate that 80 percent of food aid will go to countries meeting the poverty criterion. (Letter, U.S. Department of Agriculture to Senate Committee on Agriculture, Nutrition, and Forestry, September 28, 1979.) The United States signed an understanding with South Korea in 1971 that P.L. 480 aid would be provided in return for restrictions on exports of textiles over a five-year period. The amount of aid remaining to be exported under this agreement in 1980 is $27 million.

25/ International Food Policy Research Institute, Recent and Prospective Developments in Food Consumption: Some Policy Issues (July 1977), p. 13.

26/ This estimate assumes that 40 percent of incremental supplies would "leak out" to persons consuming more than the adequate amount. Without such leakage, the necessary imports would be about 120 million tons. See Ibid., Table 6.

27/ Per capita food availability in Brazil is sufficient to achieve nutritional adequacy for everyone. Unequal distribution has, however, left about one-third of the population malnourished.

To fill the calorie gap by 1985 from imports, the major grain exporters would have to sustain production growth of 4 percent per year, as against their actual long-term growth rate of 2.5 percent per year. 28/

The total flow of bilateral and multilateral food aid actually fell from 13 million metric tons in 1970 to 10.5 million metric tons in 1978. 29/ Even if the United States returned to the 17 million metric tons of food aid it shipped in the early 1960s, and other donors contributed a similar amount, food aid would still provide only one-quarter of the supplies needed to fill the estimated gap in 1985.

Evaluation of the Food Aid Program. Food aid is a versatile foreign aid tool. Programs can be implemented relatively rapidly, providing immediate benefit to those in need, without major commitments of U.S. personnel. 30/

A key difference between financial aid and food aid lies in the additionality factor--the extent to which the food adds to total supplies rather than merely substitutes for commercial imports. To the extent that it does so, the United States

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28/ Only 14 developing market economies and a few developed market economies have had growth of cereal production of 4 percent or more during the period 1960 to 1975. See International Food Policy Research Institute, Recent and Prospective Developments in Food Consumption, pp. 20-21.

29/ In 1977 (the latest year for which comparable data are available), the United States gave an estimated $1.1 billion worth of cereals in food aid, six times as much as the next largest food donor, Canada, which gave $185 million. The two major multilateral food aid programs are the World Food Program, run by the United Nations, and the Food Aid Convention. (Details are given in Appendix II-D.) See U.S. Department of Agriculture, Foreign Agricultural Trade of the United States (December 1978), p. 73.

30/ Title III, Food for Development, requires a greater degree of involvement, but this is a relatively small part of total food aid.

is fulfilling its goal of increasing the availability of food. Additionality is generally thought to be low, however. 31/

Title I food is generally resold, providing resources for the recipient country. In this respect, food aid is equivalent to a concessional loan, but the question arises whether, as a means of providing resources, it is as beneficial to the recipient as a concessional loan. For the United States, of course, the advantages of food aid may be greater because of its impact on the U.S. agricultural sector.

The U.S. food aid program has been criticized as providing a disincentive to local producers. The extent of the disincentive depends on the factor of additionality. If the U.S. food is truly additional, it must be offered in the recipient's market at a lower price than would otherwise prevail, or it will not sell. The disincentive effect then depends on the response of local suppliers to the drop in price. 32/ If the food aid is not an addition, but replaces commodities that otherwise would have been imported, there need be no local disincentive effect. 33/

31/ The evidence is limited, and more research is needed, but apparently food aid is only partially additional. Alexander H. Sarris, Philip C. Abbott, and Lance Taylor, "Grain Reserves, Emergency Relief, and Food Aid," in William R. Cline, ed., Policy Alternatives for a New International Economic Order: An Economic Analysis (Praeger, 1979).

32/ Evidence on the extent of disincentives is relatively limited and conflicting; one recent study of the literature concluded that "theoretical analysis gives no proof that food aid, if properly handled, has serious disincentive effects on food production in recipient countries. Where a case has been made for such short-term effects, these have been far outweighed by the general advantages accruing to the economy if the opportunities offered by food aid for expanding overall consumption and investment are properly utilized." World Food Program, Committee on Food Aid Policies and Programmes, "A Survey of Studies on Food Aid" (March 1978; processed), p. 2.

33/ A disincentive effect may be traceable to pricing policies of a recipient government, particularly when food prices are kept artifically low by means of subsidies. The disincentive effect may then be wrongly attributed to the supply of food aid.

Buffer Stocks and the Future of the Food Aid Program. Should the U.S. contribution be viewed as a permanent flow of assistance to ease the calorie gap? When food aid shipments began, U.S. agricultural surpluses were common. Supply and (commercial) demand for U.S. agricultural products are now, however, more closely in balance. Nonetheless, the food aid program still operates as if its major objective were to dispose of domestic surpluses. The result is that food shipments tend to fall when LDCs most need them (in periods of tight supply) and to expand in periods when they are less critical (in periods of excess supply). For example, in the mid-1970s, at a time when LDCs were faced with poor crops and high world prices, the volume of P.L. 480 shipments fell to less than half that of the preceding years, although the value of shipments remained stable (Table 7).

It has been proposed that this instability be offset by the creation of an emergency reserve of wheat to back up planned P.L. 480 commitments. 34/ Under current conditions, given the recent increase in government-held food stocks, there would be little net cost to the United States. In the federal budget, commodity costs in the international affairs function would be offset by receipts in the agriculture function. Transportation costs would add to this, however. To the extent that the reserve would ease demand for wheat in a time of shortage, it would depress prices and is therefore opposed by wheat farmers. On the other hand, it would diminish the uncertainty of food aid shipments to the benefit of the recipient countries. 35/

A buffer stock may be needed if the United States is to meet its commitment under the 1980 Food Aid Convention to provide 4.47 million metric tons annually. At present prices, that pledge absorbs three-quarters of the fiscal year 1980 budget appropriation. If agricultural commodities experience price increases without accompanying increases in appropriation levels, the United States could have difficulty fulfilling its pledge in the future. Thus, the establishment of a buffer stock could protect the U.S. commitment.

34/ In H.R. 6635, Food Security Act of 1980.

35/ If the food was truly additional, as intended, the impact on commercial sales would be minimal.

BUDGETARY TREATMENT

Development Assistance

The development assistance budget request does not take account of repayments on AID loans. It is merely the sum of all programs proposed for funding during the budget year. Consequently, the net flow of resources to less-developed countries is overstated in the budget request by the amount of interest and principal repayments on prior-year loans. 36/

For example, offsetting receipts for repayment of principal 37/ and interest on development assistance loans in 1978 amounted to approximately $500 million. 38/ Therefore, net U.S. foreign aid commitments in that year were $500 million lower than the amount actually appropriated. Net budget outlays are therefore clearly a better measure of U.S. efforts to assist the LDCs.

With respect to future fiscal years, AID estimates that repayments of principal and interest on commitments already made will average around $800 million a year during the 1980s

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36/ Principal repayments on AID and predecessor agency loans are "netted" against the total of new budget authority and outlays proposed for Subfunction 151 of the President's Budget--Foreign Economic and Financial Assistance. Interest charges on AID and predecessor agency loans are "netted" against the total of new budget authority and outlays proposed for Subfunction 902 of the President's Budget--Deduction for Offsetting Interest Receipts. Thus, repayments on AID and predecessor agency loans do not enter directly into calculations of AID's budget request. (Information provided to CBO by AID, November 1979.)

37/ Approximately 10 percent of these receipts were from ESF loans, and the balance from AID loans.

38/ The Budget of the United States Government, Fiscal Year 1980, p. 375. These payments appear large, but represent interest on loans made for an average of 30 years at 2.5 percent, which is in striking contrast to the cost of funds from alternative sources.

(excluding repayments in local currencies). 39/ (Repayments in local currencies amounted to $170 million in fiscal year 1978, but this flow will diminish because no new loans are being made with local currency repayment provisions.) 40/ It is noteworthy that the existence of repayment flows offers the United States some flexibility in easing the financial situation of past recipients who may request rescheduling.

Food Aid

The net cost of the food aid program to the federal government is less than the program cost in the P.L. 480 budget request:

- Title I shipments are sales at concessional loan rates producing a stream of repayments. 41/

- Some products are purchased from Commodity Credit Corporation (CCC) stocks, reducing the Department of Agriculture's net outlays--in effect, an intragovernmental transfer.

39/ (Information provided to CBO by AID, November 1979.) From the lender's point of view, the flow of repayments is a separate issue from current budget allocations. Some of the repayments come from countries that are no longer aid recipients, such as the United Kingdom, Taiwan, and Yugoslavia. On a regional basis, new commitments to Latin America in fiscal year 1978 totaled $385 million, against repayments of $271 million. See Agency for International Development, U.S. Overseas Loans and Grants, 1945-1979.

40/ (Information provided to CBO by AID, November 1979.) Repayments in local currency are omitted from the repayment figure of $302 million. Approximately 60 percent of local currency repayments represent payments on P.L. 480; the remainder, payments on development assistance loans. By 1990, local currency repayments are projected to be $119 million, and by the year 2000, $25 million. See Agency for International Development, U.S. Overseas Loans and Grants, 1945-1979.

41/ The budget request is net of receipts, unlike the budget request for AID, for which repayments accumulate in the Treasury as miscellaneous offsetting receipts and thus are not available to offset new appropriations.

- o When farm prices fall low enough to make support prices operative, P.L. 480 minimizes farm program outlays by raising prices. Against the higher prices, the taxpayer balances lower taxes. 42/

Assuming that shipments under P.L. 480 do not displace commercial sales abroad, it is estimated that the real net budget cost of the program in an average year 43/ may be only half of the total costs shown in the federal budget (see Table 8). Even assuming that half of P.L. 480 shipments displace commercial exports, the net budget cost is still reduced, with net program costs estimated at two-thirds of the gross budget figure in an average year. 44/ (The basis for these calculations is set out in Appendix II-E.)

EFFECTS OF THE BILATERAL AID PROGRAMS ON U.S. EXPORTS

One argument sometimes made in favor of bilateral aid programs is that they strengthen the market for U.S. exports. The following paragraphs examine the evidence for this.

42/ Or a smaller deficit or increased expenditures on other programs. There are also distributional issues to consider. A shift from income taxes to food prices is doubly regressive because a progressive tax is lifted and a regressive one imposed, since lower-income families tend to spend a larger proportion of their incomes on P.L. 480-type commodities than do higher-income families.

43/ Because of the recent embargo on grain sales to the Soviet Union, coupled with large crops in many commodities, fiscal year 1980 will be an atypical year for all agricultural programs, including P.L. 480. Estimates of the actual costs of P.L. 480 for fiscal year 1980 would therefore be misleading. This discussion is based on a hypothetical year--average crops, average inventories, average prices, and typical farm programs, assuming the President's original budget request and the intended shipment quantities as of October 1979.

44/ By law, Title I sales should not displace any commercial sales; however, displacement is difficult to detect. To the extent that per capita consumption rises as some people are provided with more food than would otherwise have been available, the displacement factor is reduced.

TABLE 8. ESTIMATED NET BUDGET COST OF THE P.L. 480 PROGRAM IN AN AVERAGE YEAR a/ (Millions of dollars)

Assuming No Displacement of Commercial Exports	
Total program costs	1,399
Less loan repayments b/	-166
Less CCC reimbursements c/	-44
Less farm outlays saved d/	-505
Net cost	660
Net cost as percentage of program cost	47
Assuming 50 Percent Displacement	
Net cost	923
Net cost as percentage of program cost	66

NOTE: The table summarizes calculations that are set out in Appendix II-E.

a/ Assuming no significant disturbances in the time trends of production, demand, stocks, and prices.

b/ Present discounted value of repayments based on sales made in fiscal year 1980. This figure differs from loan repayments reported in the budget, which are receipts from loans made in previous years.

c/ Represents payments to the Commodity Credit Corporation from the P.L. 480 program; in the absence of the P.L. 480 program, CCC would not have received this money and would have been holding more commodities.

d/ Price supports that would otherwise have been paid to farmers if the P.L. 480 goods had been sold commercially, resulting in lower prices.

Development Assistance and ESF

A large proportion of the funds distributed to the developing countries in loans and grants is spent in the United States. These expenditures benefit U.S. producers. (This does not mean, of course, that the net cost of the aid is reduced. Instead of providing only funds, the United States is providing goods and

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services.) This section reviews the magnitude of aid-financed purchases in the United States, and examines which industries benefit most.

Funds channeled through development assistance and the ESF averaged $2 billion annually in fiscal years 1971 to 1977. Approximately three-quarters of these funds were used for the procurement of U.S. commodities and services, with a slight decrease in recent years (in part attributable to the shift toward programs emphasizing basic human needs, which require more local currency operation). 45/ This reflects U.S. policies that require commodity purchases from bilateral aid funds to be made in the United States or in a limited number of other countries.

The purchase of commodities accounted for around half of AID procurement. The impact of these purchases on the 10 major commodity categories for fiscal years 1977 and 1978 is shown in Table 9. Foodstuffs and machinery accounted for the largest amounts of money (a total of $800 million). In relative terms, however, purchases financed by bilateral aid accounted for less than 1 percent of all machinery exports, and less than 2 percent of all foodstuff exports. They were most significant for oils and fats, of which almost 10 percent of exports were comprised of AID commodity purchases in 1978.

To assist developing countries, AID loans and grants 46/ have been partially untied. 47/ In fiscal year 1978, however,

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45/ Agency for International Development, "The U.S. Balance of Payments and the AID Program" (June 1979; processed). Data on technical assistance contracts, shipping and other services, and related activities that grow from AID activities, by country of origin, were not available.

46/ Including ESF loans and grants to the least developed countries. ESF loans and grants to other countries and to the Middle East continue to be restricted to U.S. procurement. (Information provided to CBO by AID, November 1979.)

47/ Non-European countries with annual per capita incomes of less than $1,716 (1978 dollars) and Israel may compete for procurement; Latin American countries may use U.S. loans for purchases from other Latin American countries. (Information provided to CBO by AID, November 1979.)

TABLE 9. U.S. COMMODITY SALES FINANCED THROUGH BILATERAL LOANS AND GRANTS, FISCAL YEARS 1977-1978 a/

	Millions of Dollars		Percentage of U.S. Exports	
	1977	1978	1977	1978
Foodstuffs	230	204	1.6	1.3
Fertilizers	20	39	1.4	2.0
Oilseeds and Nuts	92	91	2.0	1.7
Paper and Paper Products	19	15	1.2	1.0
Chemicals	33	55	0.3	0.5
Machinery, Equipment, and Parts b/	141	219	0.4	0.5
Transportation Equipment and Parts c/	54	119	0.4	0.9
Iron and Steel Products	6	22	0.2	0.6
Animal and Vegetable Fats and Oils	73	141	5.8	9.5
Basic Fabricated Textiles	23	44	0.6	1.1
Other	82	129		
Total	773	1,078		

SOURCES: Agency for International Development, Bureau for Program and Management Services, Office of Commodity Management, Composition of Commodities Financed by AID (November 7, 1979), pp. 1-2; (January 11, 1978), pp. 1-3; (February 8, 1977), pp. 1-3; U.S. Department of Commerce, Bureau of the Census, U.S. Exports, Schedule B Commodity Groupings (June-December 1975; June-December 1976; September-December 1977; September 1978).

a/ Funded by development assistance programs and Economic Support Fund.

b/ Electrical equipment and parts, industrial machinery and parts, generators, transformers, motors, engines, tractors, construction equipment, mining equipment, agricultural equipment, and miscellaneous equipment and parts.

c/ Buses, trucks, passenger cars, aircraft, and other vehicles. All chassis, equipment, and parts for these items are also included in this category.

only $0.02 billion of $1.08 billion spent on commodity procurement went to non-U.S. producers. 48/

To what extent do these sums represent net export gains for the United States? Or, expressed another way, to what extent does foreign assistance merely finance exports that would have occurred in any event? Answering this question requires knowing what exports would have amounted to in the absence of the tied foreign assistance program. Up-to-date estimates are not available, but earlier work on this issue indicated that more than 90 percent of U.S. development loan monies returned in the form of additional exports. 49/ If U.S. aid funds are spent instead in a third country, there will, depending on the economy of that country, still be some positive impact on U.S. exports. Estimates range from 8 to 30 percent of the initial loss of the untied aid funds. 50/

Food Aid

The food aid program is also said to improve commercial markets for U.S. agricultural goods. A number of countries have now made the transition from being aid recipients to becoming commercial buyers: Brazil, Taiwan, Peru, Chile, Colombia, Japan, and Spain. Others that still receive concessional exports --such as South Korea, Portugal, the Philippines, Pakistan, Indonesia, and Morocco--are major commercial purchasers; in fiscal year 1978, they received $0.3 billion of concessional food and purchased goods totaling $1.8 billion. 51/

48/ Agency for International Development, "The U.S. Balance of Payments and the AID Program," p. 5.

49/ That is, exports which would not have occurred in the absence of the loan program and its tied provisions. If this conclusion is still valid, most of the exports shown in Table 9 are in fact net additions to the U.S. export position. Richard V.L. Cooper, *The Additionality Factor in Tied U.S. Development Assistance*, R-974-AID (Rand Corporation, 1972).

50/ David S.C. Chu and Robert Shishko, *The Respending Effects of Untying Aid*, R-975-AID (Rand Corporation, 1972).

51/ U.S. Department of Agriculture, *Foreign Agricultural Trade of the United States* (January 1979), p. 62.

An obvious question is whether the U.S. food aid program created markets for U.S. agricultural products or whether these markets would have emerged naturally in the course of economic development. If food were a differentiable product, the distribution of commercial purchases might show significant effects from past donations. However, a product such as wheat is purchased on the open market at world prices; presumably only the fact that names and places in the United States have become familiar will lead buyers to this country rather than elsewhere, transportation costs being the only other variable.

Two other factors must be considered. The flow of P.L. 480 food often necessitates the opening of an office in the recipient country, and the office is there when commercial sales replace concessional goods, as was the case in South Korea. 52/ Also, tastes may be affected by the type of food provided; thus, wheat consumption in Japan was minor until familiarity with the product was acquired as a result of P.L. 480 shipments.

Putting emphasis on the development of commercial markets may not be consistent with the U.S. aims of providing relief from hunger and helping less-developed countries achieve agricultural self-sufficiency. It may necessitate changing local food preferences (thus creating dependency) and directing shipments to potential customers among the richer, rather than the poorer, LDCs.

52/ A study for the Overseas Development Council concluded that introducing P.L. 480 food to a country, through export sales and branch office establishment, may lead to a further decision to invest locally. For example, in 1969 Korea-Cargill Co., a subsidiary of Cargill, Inc., established a plant to process livestock feed in South Korea, at a time when South Korea was receiving major corn shipments under P.L. 480. Although it has not been established that this corn was used in the Korea-Cargill operation, the availability of the corn under Title I may have influenced the Cargill decision. See Richard Gilmore, with the assistance of Frederick Blott, "U.S. Food and Beverage Industry Report for the U.N. Centre on Transnational Corporations" (Overseas Development Council, January 1978; processed), p. 35.

FUTURE CHOICES FOR BILATERAL AID

Although the stated goals of the U.S. bilateral aid programs stress humanitarian concerns, the distribution of funds largely reflects U.S. political and economic interests. This is particularly true of ESF, and of food aid loans.

The New Directions legislation of 1973 required that development funds be focused on the poorer people in countries that support the provision of basic human needs, with the goal of avoiding unbalanced growth that would destabilize their economies. It is difficult to say what the impact of the legislation has been. The most obvious effect has been on the types of projects supported by U.S. bilateral development assistance programs. Another effect has been to encourage the funding of projects through the ESF, which is not bound by the New Directions legislation.

The ESF has grown rapidly during the 1970s, tripling in size, compared to relatively static funding for development assistance (as measured in constant dollars). To the extent that the bulk of ESF funds are not used directly for project assistance, the proportion of total U.S. aid funds allocated specifically to development has therefore declined. During the period 1975-1979, 70 percent of ESF funds went to commodity import programs or for cash grants and loans; these are basically budget support programs for countries with balance-of-payments problems and relate only indirectly to development assistance.

The food aid program has developed conflicting goals, suggesting that priorities need to be clarified. Despite the expressed concern for alleviating malnutrition in the LDCs, and the considerable progress that has been made in directing assistance to the poorer countries, the size of the food aid program depends on U.S. agricultural stocks. When U.S. stocks are low, resulting from poor crop yields or high U.S. domestic demand, the amount available for shipment to LDCs may be limited. Although a floor has been established for the volume of agricultural stocks, it is limited by appropriations and the availability of commodities. Establishment of a buffer stock could ease this problem.

In shaping the future level and form of U.S. bilateral aid programs, the Congress faces a distinct choice between conflicting goals. It can continue the recent trend, in which the use of aid to support other U.S. foreign and domestic policies has been the principal concern, with the result that the total aid effort has been concentrated on a relatively few countries. This would mean continued growth of the ESF, possibly at the expense of food aid and development assistance. Alternatively, the Congress could pursue the goals expressed in the New Directions legislation of promoting equitable self-sustaining growth in the LDCs. In that case, the development assistance programs would need to be expanded, and food aid more clearly separated from the problems of managing the agricultural marketplace.

CHAPTER III. MULTILATERAL DEVELOPMENT BANKS

In addition to providing bilateral assistance, the United States participates in the multilateral development banks (MDBs), formed by international agreement to operate as financial intermediaries to facilitate economic growth of the LDCs. 1/ The MDBs lend to the LDCs for development projects. Their funds originate from paid-in capital of member nations and from funds raised in the private markets, backed by members' pledges of callable capital.

The Congress has expressed concern about the growth in U.S. contributions to the MDBs and has questioned the extent to which funds should be channeled through such organizations rather than through bilateral operations. If Administration plans are approved by the Congress, U.S. contributions to the MDBs will be substantially higher in the 1980s than they were in the 1970s.

This chapter reviews the multilateral aid programs to provide a background against which the future role of U.S. multilateral aid contributions can be assessed. 2/ It considers three issues of interest to the Congress:

- o What should be the U.S. share in contributions to the MDBs?
- o How should MDB contributions be treated in the federal budget?

1/ The multilateral development banks are: the World Bank Group's International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), and International Finance Corporation (IFC); the Inter-American Development Bank (IDB); the Asian Development Bank (ADB); and the African Development Fund (AfDF), the concessional lending affiliate of the African Development Bank (AfDB).

2/ The United States also extends voluntary support, beyond the assessed contributions, to various international organizations, detailed in Appendix III-A.

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- o What balance should the United States maintain between multilateral and bilateral assistance?

OPERATIONS OF THE MULTILATERAL DEVELOPMENT BANKS

The MDBs make two kinds of loans--"soft" and "hard." Soft loans are extended at highly concessional interest rates; hard loans, at somewhat less concessional rates. 3/ Most hard loans go to middle- and upper-income developing countries, while soft loans are extended primarily to low-income countries (Table 10). 4/ Thirty-six percent of the MDB loans made in 1978 were soft. 5/

The World Bank Group, by far the largest among the MDBs, made more than three-quarters of all MDB commitments in 1978, as shown in Appendix III-B.

Rates charged by the MDBs in 1979 for soft loans ranged from 0.75 to 2 percent per annum with a 10-year grace period; rates for hard loans ranged from 7.7 to 8 percent with grace periods of 2 to 7 years (see Appendix III-C). By comparison, private loans in January 1980 ranged from 14.5 to 15.75 percent, plus management fees averaging 0.5 percent of the total amount of the loan.

WHAT SHOULD BE THE U.S. SHARE OF CONTRIBUTIONS TO THE MDBs?

Each MDB is governed by a board of executive directors. The United States and other major donors each have their own

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3/ The terms "soft" and "hard" relate only to the interest rate charged.

4/ Foreign Assistance and Related Programs Appropriations for 1980, Hearings before the Subcommittee on Foreign Operations, House Committee on Appropriations, 96:1 (1979), Part 2, p. 53. The MDBs attempt to graduate from their programs countries above $2,000 annual per capita income, although the specific policies vary among the MDBs. The movement from soft to hard loans is also a function of per capita income level ($550 in 1976 dollars) and of ability to borrow elsewhere.

5/ Net figures. See Organization for Economic Cooperation and Development, Development Cooperation: 1979 Review (November 1979), p. 238.

TABLE 10. DISTRIBUTION OF MDB LOANS TO DEVELOPING COUNTRIES THROUGH JUNE 30, 1978 (Percentages)

Countries by Income Group a/	World Bank Group			Inter-American Development Bank		Asian Development Bank		African Development Fund c/
	IBRD b/	IDA c/	IFC	Ordinary and Interregional Capital b/	Fund for Special Operations d/	Ordinary Capital b/	Asian Development Fund c/	
Low-Income	18	86	14	--	2	26	89	86
Middle-Income	49	13	36	43	71	70	6	14
High-Income	19	--	29	57	27	4	e/	--
More-Advanced Mediterranean countries and centrally planned economies	15	1	21	--	--	e/	5	--
	100	100	100	100	100	100	100	100

SOURCE: Foreign Assistance and Related Programs Appropriations for 1980, Hearings before the Subcommittee on Foreign Operations, House Committee on Appropriations, 96:1 (1979), Part 2, p. 38. Calculations based on nominal dollars. Loan authorizations by individual MDBs from 1962 to 1979 are detailed in Appendix III-B.

NOTE: Detail may not add to totals because of rounding.

a/ Based on 1976 GNP per capita in 1976 U.S. dollars.
Low-income: $280 or less
Middle-income: $281-$1,135
High-income: $1,136-$2,700

b/ "Hard" loans.

c/ "Soft" loans.

d/ "Hard" and "soft" loans.

e/ Less than 1 percent.

executive director, and smaller donors share executive directors. 6/ After an initial distribution of membership votes, the voting power of each director is set in direct relation to the subscription provided by the country he represents. 7/ U.S. governmental directives on foreign assistance are relayed to the U.S. directors; the extent to which such directives are reflected in decisions by the boards is a function both of the issue to be decided and of the voting power of the U.S. director. 8/

The United States was the main donor at the establishment of each bank, but has since chosen to reduce its share of contributions to the MDBs. This represents a deliberate U.S. policy to spread the burden of support. 9/

The Congress has sometimes appropriated less than the Executive Branch has pledged for U.S. MDB capital subscriptions. These appropriations decisions have had a serious effect on U.S. voting power in the MDBs. In the World Bank, for example,

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6/ The United States shares a director in the AfDF.

7/ No country has an automatic veto over bank board decisions, although the United States has sufficient votes in the IDB to block the two-thirds majority necessary to approve concessional loans from the Fund for Special Operations.

8/ The influence of the United States extends beyond its calculated voting share. Frequently, the United States takes the lead in advocating a position in which it is then joined by other members. Examples of effective U.S. influence in the MDBs are the adoption by the World Bank of a major program of energy lending, a sectoral shift toward agriculture and rural development, adoption of a formula relating interest charges to the cost of borrowing, and creation of an independent Operations Evaluation Department. (See statement by C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs, in Foreign Assistance and Related Programs Appropriations for 1980, Hearings, Part 6, pp. 455-456.)

9/ At the inception of the Asian Development Bank, the United States and Japan provided equal subscriptions; the U.S. role in the ADB has, however, diminished over time. The United States plans to join the African Development Bank (AfDB) in fiscal year 1980, and will be the leading nonregional subscriber.

the U.S. share of subscriptions has fallen far below the 24 percent level recommended in the fiscal year 1979 foreign assistance appropriations act (Table 11). As a result, U.S. voting strength in the Bank is now just over 20 percent and is in danger of falling below the 20 percent level necessary to assure protection of U.S. veto power over charter amendments. The charter of the Inter-American Development Bank provides that the United States maintain 34.5 percent of the total voting power; shortfalls in U.S. capital subscriptions may therefore prevent other members from subscribing their anticipated shares of capital stock. For the Asian Development Bank, the current U.S. capital share (9.9 percent) is appreciably less than the parity with Japan (14.4 percent) originally envisaged when the Bank was established in 1966. Indeed, the Congress cut the Administration's requested authorization for the IDB, ADF, and AfDF for fiscal years 1980-1983--the first time in 35 years that authorization legislation for the MDBs has been subject to Congressional reduction. 10/

Trigger Effect of the U.S. Contributions

Because of Congressional reluctance to approve the capital replenishment commitments made by the Executive Branch (as well as some problems involving contributions from other nations), recent replenishment arrangements for several MDBs 11/ contain measures to preserve negotiated cost-sharing arrangements. Thus, the Fifth Replenishment of the IDA Resolution (IDA-V) provides that, unless unqualified commitments of "at least 80 percent of the second installment are made, IDA will not enter into new credits, disbursements for which would be drawn from the second installment of donors' contributions." 12/ A trigger mechanism thus operates,

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10/ Funds for the Inter-American Development Bank were reduced by 10 percent, and for the Asian Development Bank by 15 percent.

11/ International Development Association, African Development Fund, Inter-American Development Bank (Fund for Special Operations), and Asian Development Bank.

12/ U.S. Department of the Treasury, "Trigger Arrangements for Replenishments of the Soft Fund Windows of the Multilateral Banks" (August 3, 1979; processed), p. 1. Agreement for the Fifth Replenishment was for a country's commitment to be unqualified in the total amount, or unqualified as to the first installment but qualified (that is, subject to appropriation) for the second and third installments.

TABLE 11. U.S. CONTRIBUTIONS TO THE MULTILATERAL DEVELOPMENT BANKS (Percentages)

	Original Share	Sense of the Congress Provision on Contributions (1979)
World Bank Group		
IBRD	34.0	24.0
IDA	42.3	25.0
IFC	32.0	23.0
African Development Bank		
Special Fund	29.0	18.0
Asian Development Bank		
Ordinary capital	20.0	16.3
Asian Development Fund	29.0	22.2
Inter-American Development Bank		
Ordinary capital	41.0	34.5
Fund for Special Operations	69.0	40.0

SOURCES: Jonathan E. Sanford, Multilateral Development Banks: Can the U.S. Limit the Use of Its Contributions? Congressional Research Service, Issue Brief 79114 (November 7, 1979), p. 4; Public Law 95-481, Foreign Assistance and Related Programs Appropriations Act, 1979.

cutting off IDA lending activities, and the United States, by virtue of the size of its contributions, is a significant factor in activating the trigger. IDA-V could not have become effective without U.S. participation, since the U.S. share amounted to 32 percent of the total replenishment. 13/

13/ The Asian Development Fund provides an example of the trigger mechanism at work. Replenishment for fiscal years 1980-1983 is arranged in four equal annual tranches; loans cannot be made using contributions to the second tranche until all contributions to the first tranche have been received. The delay in authorization of the U.S. contribution for fiscal year 1980 has forced the ADF into making only conditional loans.

Conditionality

At times, the Congress has tried to influence the use of U.S. contributions to the MDBs by attaching restrictions to their appropriations. For example, the House amended the fiscal year 1980 appropriation for the International Development Association with the provision that "none of the funds appropriated or otherwise made available by this paragraph shall be obligated or expended to finance any assistance or reparations to the Socialist Republic of Vietnam." 14/

To accept funds subject to restrictions would indirectly violate several provisions of the banks' charters. (The charters do not specifically address this problem.) 15/ Acceptance of funds that have restrictions on their use has been deemed inconsistent with the charters of the MDBs by the general counsels of the World Bank, the IDB, and the ADB, as well as by the U.S. Treasury, the U.S. Comptroller General, and the American Bar Association. In 1975, the IDB refused to accept a contribution from the United States until a restriction on its use had been removed. 16/

HOW SHOULD MDB CONTRIBUTIONS BE TREATED IN THE BUDGET?

Callable and Paid-in Capital

U.S. contributions to MDBs, in terms of outlays from the U.S. Treasury, can be separated into two components: "paid-in" and "callable" capital. Paid-in capital consists of funds authorized and appropriated by the Congress that are actually disbursed to the MDBs. The bulk of these funds are used to make loans, at rates well below those prevailing in the international market, to the poorest developing countries. Callable capital, while subject to similar Congressional authorization and appropriation, is not

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14/ See House debate on H.R. 4473, Foreign Assistance and Related Programs Appropriations Act, Fiscal Year 1980, in Congressional Record (July 18, 1979), p. H6157.

15/ Jonathan E. Sanford, Multilateral Development Banks: Can the U.S. Limit Use of Its Contributions? Congressional Research Service, Issue Brief 79114 (November 7, 1979), p. 2.

16/ Ibid., pp. 2, 4.

disbursed to the MDBs by the U.S. Treasury. These funds, along with similar obligations on the part of other donor countries, provide indirect guarantees for the bonds that the MDBs issue to raise capital in world financial markets. The proceeds from bond sales are lent by the MDBs to middle-income LDCs at interest rates that reflect the cost of MDB borrowing. Funds would be called up from the donor countries only if an MDB was for some reason unable to meet the amortization and interest payments on its outstanding bonds.

About half of the budget authority requests for MDBs between 1970 and 1979 were for callable capital (Table 12). In the period 1980-1985, the split between callable and paid-in capital will remain about the same, although average annual requests for budget authority will be more than double those in the 1970s.

In the fiscal year 1981 budget, the President has introduced revisions making callable capital subject to program limitations in appropriations acts, but not to appropriation. Whether callable capital should be appropriated or not is an issue that has been addressed repeatedly by the Congress, the Administration, and the MDBs. 17/ The strongest argument in favor of removing callable capital from the budget is that it has never resulted in actual disbursements from the Treasury. (The United States now has a total of $11.5 billion in callable capital that has been appropriated and would be available in case of MDB defaults.) 18/ It should be noted that most other donors treat callable capital as an off-budget loan guarantee, so that removing it from the U.S. budget would in fact bring the United States into conformance with the practice of other donors. 19/

17/ The House Committee on the Budget implicitly, and the Senate Committee on the Budget explicitly, accepted this change in their reports on the First Concurrent Resolution on the Budget for Fiscal Year 1981.

18/ In the event of default, the callable capital of each government could be drawn upon, on a pro-rata basis, with liability limited by the uncalled portion of the subscription.

19/ Changing the way callable capital is treated would not affect comparisons of the percentage of GNP allocated by the United States and other countries for foreign assistance to the developing countries, since such comparisons are based on funds disbursed.

TABLE 12. MDB APPROPRIATIONS (1970-1979) AND ANTICIPATED BUDGET AUTHORITY REQUESTS (1980-1985), BY FISCAL YEAR (Billions of dollars) a/

	Paid-In Capital	Callable Capital	Total Request
1970	0.5	0.2	0.7
1971	0.3	0.2	0.5
1972	0.5	0.9	1.4
1973	0.6	0.2	0.7
1974	1.1	1.2	2.2
1975	0.6	---	0.6
1976	0.6	0.1	0.7
1977	0.8	0.4	1.1
1978	1.1	0.8	1.9
1979	1.6	0.9	2.5
1980 b/	1.6	1.0	2.7
1981 b/	1.7	1.6	3.3
1982	1.6	2.3	4.0
1983	1.6	2.3	4.0
1984	2.2	2.5	4.7
1985	2.2	2.5	4.7

SOURCES: U.S. Participation in the Multilateral Development Banks, Senate Committee on Governmental Affairs, Committee Print, 96:1 (April 1979), p. 13; information provided to CBO by the U.S. Department of the Treasury, November 1979.

a/ Estimates based on negotiations where completed, and otherwise on assumption of continuation of the rate of growth of previous replenishments. If the proposal to treat callable capital as a program limitation is accepted, no budget authority would be required for fiscal years 1981 to 1985.

b/ President's revised budget request, March 1980.

Although callable capital would no longer be included in the budget, other limits may affect its authorization, since callable capital is a form of loan guarantee. While it is not explicitly included in the new credit budget, it may be subject to the credit budget ceilings that the Administration has proposed for fiscal year 1981. The implications of these restrictions for callable capital are unclear.

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Changes in the way callable capital is dealt with in the appropriations process may have implications for the passage of the annual foreign aid appropriations bill. Congressional appropriations of callable capital give the semblance of a larger contribution to the MDBs than is actually the case, and increase the size of the federal budget. Changing the treatment of callable capital in the foreign aid appropriations bill would decrease the total appropriation, which might serve to accelerate enactment of the bill. More rapid enactment might, however, lead to less detailed Congressional debate of issues relating to MDB operations.

Since callable capital is an indirect guarantee of MDB borrowing, changing the way in which these guarantees are provided could make purchasers of MDB bonds less confident of their creditworthiness, forcing the MDBs to pay higher interest on their loans. This increase in the cost of MDB borrowing could raise the banks' rates of interest on their loans to LDCs, resulting in a general reduction in the volume, or an increase in the cost, of the funds that flow to LDCs. The change in MDB borrowing costs is likely to be quite small, however, since most other donors already treat callable capital as an unappropriated guarantee.

Arrearages

Accumulating gradually through the 1970s, U.S. arrearages in contributions to the MDBs totaled $1.3 billion by 1979. 20/ An arrearage is the difference between the funds authorized by the Congress for contributions to the MDBs and the amount actually appropriated. Of total U.S. arrearages through 1979, paid-in capital--the amount actually disbursed by the U.S. Treasury--amounted to $373 million.

If requests for callable capital are more acceptable to the Congress as program limitations than as budget authority, this may improve the degree of agreement between the Congress and the Executive Branch on appropriate levels for callable capital in

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20/ International Bank for Reconstruction and Development, $863 million; International Development Association, $6 million; Inter-American Development Bank, $249 million; Asian Development Bank, $155 million; and African Development Fund, $17 million.

the future. Without such agreement, the large size of future requests, as shown in Table 12, suggests that the arrearage problem could become much more serious in the 1980s than it was in the 1970s.

MULTILATERAL VERSUS BILATERAL ASSISTANCE

In donating funds to the multilateral agencies, the United States relinquishes direct control over their disbursement. Does this result in a regional or sectoral pattern of aid that differs from that of U.S. bilateral assistance? If so, are such differences supportive of U.S. foreign policy objectives? Apart from these differences, what other gains or losses accrue to the United States from giving aid through multilateral rather than bilateral channels?

U.S. and MDB Regional Expenditures

In 1979, 64 percent of U.S. bilateral aid went to the Near East and South Asia, 11 percent to Latin America, and 15 percent to Africa. The MDBs channeled 23 percent of their aid to the Near East and South Asia, 34 percent to Latin America, and 16 percent to Africa. 21/ These differences reflect the strong interest of the United States in Asia and the Middle East stemming from its traditional ties and security interests in those regions. As shown in Table 13, countries such as Israel, Jordan, and South Vietnam have received major amounts of U.S. bilateral aid but only limited multilateral assistance. In contrast, Argentina, Mexico, and Venezuela have received little U.S. aid but major amounts of multilateral funds. To some extent, the divergence is by design. The World Bank, for example, takes into account the receipts of a country from other official development sources in making its own funding decisions.

To the extent that the United States is concerned with economic development on a worldwide scale, the fact that the MDBs cover the regions more evenly allows the United States freedom

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21/ U.S. bilateral commitments totaled $4.7 billion in 1978, $0.9 billion of which was allocated on an interregional basis and is excluded from these calculations. (See Agency for International Development, U.S. Overseas Loans and Grants, 1945 to 1979.)

TABLE 13. MAJOR RECIPIENTS OF U.S. BILATERAL AID CONTRASTED WITH MAJOR RECIPIENTS OF MULTILATERAL AID, 1962-1978 a/

Major Recipients of U.S. Bilateral Aid but Not of Multilateral Aid	Major Recipients of Multilateral Aid but Not of U.S. Bilateral Aid
Cambodia	Algeria
Israel	Argentina
Jordan	Kenya
Laos	Malaysia
South Vietnam	Mexico
	Venezuela

a/ The annual distribution of funds from the MDBs to major recipients in 1962-1979 is shown in Appendix III-D.

to distribute its bilateral aid funds more directly in line with its foreign policy and trade objectives. In addition, there are some countries that the United States, for political reasons, does not wish to aid directly, although it may have a humanitarian interest in assisting their populations. The existence of a multilateral lending organization can accommodate these otherwise conflicting objectives.

U.S. Development Assistance by Sector Compared with MDB Expenditures

U.S. development assistance is aimed specifically at efforts to help the poorest people in recipient countries. Agricultural programs of low capital intensity have received special attention, as has population planning. In fiscal year 1979, these two sectors absorbed 70 percent of AID sectoral expenditures.

Although an increasing proportion of MDB funding goes to agriculture, little is directed specifically to population planning (Table 14). Moreover, the MDBs channel around one-third of their funds into energy, power, and industry. This behavior is

TABLE 14. MDB LENDING BY SECTOR, FISCAL YEAR 1978 (Percentages)

	World Bank and IDA	Inter-American Development Bank	Asian Development Bank	U.S. Functional Development Assistance
Agriculture a/	25	32	33	54
Population Planning	1	-	-	16
Health b/	10	-	9	12
Education and Human Resources	5	12	6	9
Energy and Power	15	22	26	-
Industry	16	14 c/	2	-
Other d/	28	20	24	10
	100	100	100	100
Billions of Dollars	10.0	2.2	1.3	1.1

SOURCES: World Bank, 1979 Annual Report, p. 30; Agency for International Development, Congressional Presentation, Fiscal Year 1981, Main Volume, p. 116; information provided to CBO by U.S. Department of the Treasury.

a/ Includes food and nutrition.

b/ Includes water and sewage.

c/ Industry, mining, and tourism.

d/ Includes technical assistance, tourism, urbanization, transportation, and communications.

taken into account by the development assistance plans of the United States, which implicitly assume that infrastructure projects will be handled through multilateral organizations.

MDB lending is now directed primarily at the poorer people in each country, and at the provision of basic human needs. This resulted from a policy shift in the 1970s, supported by the United

States. In practice, this means that MDB projects are reviewed in light of who the beneficiaries are, what needs are served, and how the benefits are transferred. 22/ To the extent that these reviews are effective, MDB lending is in line with the expressed humanitarian concerns of the United States.

Comparative Size of Projects

Larger pools of funds enable the MDBs to finance larger projects than AID. Of 88 agricultural projects supported by the World Bank or IDA in fiscal year 1978, eight represented commitments of $100 million or more. 23/ In contrast, no country received as much as $100 million in development assistance from AID in that year.

On the other hand, the smaller AID operations enable the United States to introduce experimental programs and technical innovations that the MDBs may hesitate to undertake. In some instances, AID funds act as "seed money," financing the first step in a major program that will later be assumed by the host government or an MDB. 24/

Effects on the U.S. Balance of Payments

Calculations of the net impact of the MDBs on the U.S. balance of payments indicate that at least as much funding

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22/ Recent projects include provision of sanitation and social services in a slum of Manila, a drainage and bilharzia control program in Egypt, rural and secondary education projects in Upper Volta, and provision of infrastructure, including producer credit and technical assistance, to rural areas of Mexico.

23/ World Bank, 1979 Annual Report, p. 9.

24/ For example, the Basic Village Education Project in Guatemala was an experimental program of nonformal instruction in agricultural practices for subsistence farmers that did not require literacy for participation. After being run by AID for nearly three years, the program was picked up by the Guatemalan government and is now being copied in Bolivia. The AID funding from inception to completion was $1.7 million.

returns to the United States as was originally subscribed. 25/ Nonetheless, it should be stressed that this does not diminish the real resource transfer involved in U.S. contributions to the MDBs: the net effect is the provision of resources instead of the provision of money.

Moreover, MDB-financed projects appear to purchase proportionately more goods and services from the United States than from other countries. The share of LDC purchases from the United States related to MDB loans averaged 19 percent over three recent years, compared with the U.S. share of world exports to the non-OPEC LDCs of 16 percent. 26/

CONCLUSIONS

What should be the U.S. share in contributions to the MDBs? The MDBs and the U.S. bilateral agencies support different activities in different regions, but their work is complementary. In part, this stems from the leadership role the United States has exercised in the MDBs. Such leadership will be more difficult to maintain if the United States reduces significantly its role in the banks. Recent delays in authorizing replenishments suggest

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25/ "Through the contributions of other MDB donors . . . MDB loans result in expenditures on U.S. goods and services well in excess of U.S. contributions to the banks. From the inception of the banks through 1978, the cumulative current account surplus for the United States directly attributable to the MDB activities . . . has been $11 billion. Cumulative U.S. paid-in contributions to the banks, by comparison, totalled $7 billion." See statement of Hon. G. William Miller, Secretary of the Treasury, in International Development Association Sixth Replenishment and African Development Bank Membership, Hearings before the Subcommittee on International Development Institutions and Finance, House Committee on Banking, Finance, and Urban Affairs, 96:2 (March 1980), p. 31.

26/ Years are 1976 to 1978, based on data from International Monetary Fund, Direction of Trade; Organization for Economic Cooperation and Development, Development Cooperation: 1979 Review (November 1979), p. 238; and information provided to CBO by the U.S. Department of the Treasury.

that the Congress is having second thoughts about its 1979 guidance on what these shares should be.

How should MDB contributions be treated in the budget? The amount of U.S. funds actually going to the MDBs is obscured by the division of MDB resources into callable and paid-in capital, for which a modified budgetary treatment has been proposed for fiscal year 1981. The President's proposal would make callable capital subject to a program limitation rather than being appropriated in full. The treatment of callable capital would then be more consistent with that of domestic loan guarantees in the budget process.

The balance to be struck between multilateral and bilateral aid ultimately involves a political decision on the part of the Congress. Although in its participation in multilateral aid the United States loses direct control over its funds, it exerts influence within the MDBs based on the size of its contributions. The existence of the multilateral channel provides the United States with a mechanism for implementing policies that complement its bilateral activities, and also for pursuing long-run objectives that might otherwise appear to be in conflict with its immediate foreign policy goals.

To the extent that the MDBs encourage development strategies that are supported by the United States but for which the United States provides only a fraction of the funding, the continuation and strengthening of their operations is in line with U.S. interests. To the extent that they are seen as acting in a manner inconsistent with U.S. objectives, or as being a less efficient means of furthering U.S. interests than the direct application of bilateral funds, U.S. support is likely to wane. This will be a crucial issue during the next decade, since the Administration is presently seeking a substantial increase in U.S. contributions during the 1980s over the level that prevailed in the 1970s.

CHAPTER IV. PRIVATE MARKETS AS AN ALTERNATIVE SOURCE OF FUNDS

The developing countries have made extensive use of private capital markets as a source of foreign exchange. In fact, loans from the private sector to the LDCs have increased over the past decade. In 1972, private creditors accounted for one-third of the outstanding debt of the non-oil developing countries. By 1978, private sources accounted for one-half. 1/

To the extent that the LDCs can borrow in the private markets, their need for bilateral and multilateral aid may be reduced. Chapters II and III discussed the efforts of the aid agencies. This chapter concentrates on the present and future role of private lenders.

The oil price rise of 1973-1974, coupled with a decline in prices of commodities exported by many LDCs and the subsequent worldwide recession, stimulated borrowing by the developing countries in the international capital market. 2/ Since then, there has been an explosion of commercial bank lending to the more advanced LDCs, led by banks in the United States and followed by banks in Germany, Japan, and the United Kingdom. 3/ This was

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1/ World Bank, World Debt Tables, Vol. I (1979), Tables 1-A, 1-B, and 1-E, pp. 18-21, 26-27. A distinction is made between loan commitments and debt disbursed. Disbursements represent drawings on loan commitments and are shown in the year in which the drawing takes place. These data refer to disbursed debt, total outstanding.

2/ Helen Hughes, "Debt and Development: The Role of Foreign Capital in Economic Growth," World Development (February 1979), p. 105.

3/ Although the developing countries long had access to the private markets, borrowing was at a relatively low level before 1974. Such borrowing as occurred generally reflected a preference for avoiding the conditionality attached to official credits rather than a lack of resources from bilateral and multilateral agencies. See M.S. Wionczek, accompanied by a decline in interest rates and an increase in loan maturities. 4/

The recent rise in oil prices has increased the LDCs' need to borrow. The estimated current account deficit of the non-oil-exporting LDCs was $46 billion at the end of 1979 and is projected to rise to around $80 billion in 1980. 5/ Can the private markets substitute for official aid, or at least reduce the demand for official funds? This chapter addresses the following elements of this question:

- o On what terms can the LDCs borrow in the private markets? Are these likely to change?

- o Which countries borrow most in the private markets? Are these countries also large borrowers from the multilateral development banks?

- o To what extent might "cofinancing" of loans encourage additional lending by the private sector?

TERMS FOR LENDING

Until recently, loans from the private sector to the developing countries were extended for considerably shorter periods than

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"Possible Solutions to the External Public Debt Problem of the Developing Countries: Final Report," World Development (February 1979), p. 217.

4/ As a result, the share of commercial bank lending to non-oil LDCs by U.S. banks (including foreign branches) fell from 54 percent in December 1975 to 38 percent in June 1979. (See Rodney H. Mills, Jr., "U.S. Banks are Losing their Share of the Market," Euromoney (February 1980), p. 52.) Lending to the LDCs is still, however, a major part of U.S. banking. The 10 largest U.S. multinational banks reported in 1979 that 43 percent of their earnings came from international business; lending to non-OPEC countries comprised approximately one-third of their international lending. See Salomon Brothers, Lending to LDCs: Mounting Problems (April 2, 1980).

5/ World Financial Markets (December 1979), p. 3.

were loans to industrialized countries. The difference narrowed, however, as lenders competed; the differential in rates charged also narrowed. The spread on lending to LDCs shrank from at least 2 percent over the London Interbank Offer Rate (LIBOR) in 1974 to barely 0.75 percent in 1979. 6/ During the past year, however, spreads have widened on loans to developing countries. Concern has increased as to the ability of the borrowers to handle their rising debt in the face of new oil price increases and a world economic recession.

WHO BORROWS IN THE PRIVATE MARKET?

The richer countries have been the major borrowers from private sources (Table 15). Conversely, the poorer countries have borrowed little from the private markets, depending instead on official loans. There has been remarkably little change in the distribution of private and public lending by LDC income class between 1973 and 1978, although the dollar totals have tripled.

Private lending is concentrated to a striking degree upon a small number of countries. These countries tend to have large economies and, by their very size, tend to dominate the totals. At the end of 1978, one-half of all public debt owed to private lenders had been loaned to three middle-income countries--Brazil, Mexico, and South Korea (see Table 16).

In contrast, official lending is distributed more evenly. In 1978, 23 countries received 75 percent of official loans disbursed to non-oil-exporting LDCs, whereas 9 countries received 81 percent of private funds.

It is notable that certain countries (Mexico, Brazil, and South Korea, for example) are not only major borrowers of private funds but also receive large amounts of official funds. The terms they receive from official lenders are generally more attractive, as shown by the average interest rates on commitments in Table 16. 7/

6/ The spread is the amount of the increase in interest rate over LIBOR charged by the lender--in effect, the profit margin.

7/ Official loans are also for longer periods and at fixed rates, compared to the generally shorter periods at floating rates for private loans.

TABLE 15. PUBLIC DEBT OUTSTANDING (DISBURSED) OF NON-OIL DEVELOPING COUNTRIES, BY SOURCE, 1973 AND 1978 (Percentages)

Country Income Group a/	1973			1978		
	Total	Official	Private	Total	Official	Private
High	11	8	17	10	8	12
Upper Middle	18	12	28	20	11	30
Intermediate	31	28	38	35	28	43
Lower Middle	9	9	7	10	12	9
Low	31	43	10	24	41	5
Total	100	100	100	100	100	100
Value (billions of dollars)	74	48	26	210	109	101

SOURCE: World Bank, World Debt Tables, Vol. I (1979), Tables I-A, 1-B, 1-E, pp. 18-21, 26-27.

NOTE: Detail may not add to totals because of rounding.

a/ Definition of income groups and listing of countries is given in Appendix I-A.

PRIVATE LENDING AND THE ROLE OF COFINANCING

Official aid may play a complementary role in encouraging private lending: it provides an inflow of foreign exchange, which indicates a continuation of investment in development. From a commercial bank's viewpoint, this may be one of the factors considered in determining a country's ability to make repayment.

Even countries that have good access to the private markets are eager to remain borrowers from the MDBs, for several reasons: the ongoing economic dialogue that ensues; the reassurance this provides to commercial lenders; and the technical assistance MDBs can give with "institution building."

TABLE 16. NON-OIL-EXPORTING DEVELOPING COUNTRIES LISTED BY AMOUNT OF PUBLIC DEBT OWED TO PRIVATE AND OFFICIAL LENDERS, 1978 (Billions of dollars and percentage interest rates)

Owed to Private Lenders			Owed to Official Lenders		
Country	Amount Disbursed	Average Interest Rate on Loan Commitments	Country	Amount Disbursed	Average Interest Rate on Loan Commitments
Brazil	22.0	10.1	India	15.1	1.8
Mexico	21.3	8.3	Egypt	8.5	2.3
South Korea	6.8	9.8	Pakistan	7.2	2.0
Spain	6.0	9.6	Israel	5.6	4.2
Argentina	4.6	10.2	Turkey	5.4	6.9
Israel	3.6	5.6	Brazil	5.2	7.5
Peru	2.8	12.7	South Korea	5.2	7.4
Chile	2.5	11.1	Mexico	3.5	7.8
Morocco	2.5	9.3	Yugoslavia	3.0	7.7
Greece	2.3	10.2	Bangladesh	2.6	1.4
Philippines	2.2	8.8	Peru	2.5	6.1
Ivory Coast	2.1	8.9	Morocco	2.1	4.5
All Others	22.5		Colombia	2.0	7.6
			All Others	40.9	
Total	101.2	9.6		108.8	5.0

SOURCE: World Bank, World Debt Tables, Vol. I (December 1979), Tables 1-A, 1-B, 1-E, and 12, pp. 18-21, 26-27, 195-211.

The role of the International Monetary Fund is of particular interest to commercial bankers. If a country has negotiated a standby agreement 8/ with the IMF, and has thus implicitly had its economic strategy approved, this provides a measure of confidence for the commercial banks, even if no IMF funds are drawn. Thus, among noncommercial lenders, the IMF has played a significant role even though it was not a net lender in several recent years. 9/

The World Bank and the regional development banks have recently encouraged "cofinancing," in which they join with the private banks in providing funds to developing countries. 10/ A borrower country is considered less likely to default or delay payments if to do so would jeopardize its credit rating with a multinational organization. This arrangement also gives the private banks access to detailed country information through the international organization.

As yet, private banks have not expressed great enthusiasm for cofinancing, although such arrangements are increasing. Commercial bankers argue that cofinancing entails increased administrative costs for the private banks, while it may not achieve much reduction in risk. 11/ Access to information is, however, of great interest to private banks. Their participation in cofinanced projects has tended to be focused on the richer LDCs, which offer more potential for additional business. The private sector contributed $550 million to World Bank cofinanced projects

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8/ Agreements that members may draw upon IMF credits, usually of one year in duration.

9/ International Monetary Fund, International Financial Statistics (February 1977), pp. 12-13, and (February 1978), pp. 9-10.

10/ Jessica P. Einhorn, "Cooperation Between Public and Private Lenders to the Third World," The World Economy (May 1979), p. 36.

11/ As one banker put it: "The only time one needs the cross-default clauses is when there is trouble; and if there is trouble, it's better to be in alone and able to react quickly."

in fiscal year 1979, as compared with a total of $22 billion in development assistance from official lenders in 1978. 12/

The Agency for International Development is currently reviewing forms of cofinancing that could be directed toward the LDCs. Proposals include U.S. government-guaranteed loans by the private sector for use in AID projects, and a nonguaranteed program of cofinancing by AID and the private sector. 13/ Loan guarantees would be a new departure in cofinancing; they would also be a new departure for AID, requiring additional legislation. Opportunities for riskless overseas investment would presumably be highly attractive to private lenders and would channel funds into countries and sectors in which private lenders do not currently invest. The net result for the U.S. government would be an off-budget increase in AID funds. 14/

12/ Organization for Economic Cooperation and Development, Development Cooperation: 1978 Review (November 1979), p. 199, and information provided to CBO by the World Bank, October 1979. The OPEC countries have found cofinancing a useful vehicle for distributing funds to non-oil LDCs at a time when they have relatively few mechanisms for project identification and appraisal. In fiscal year 1978, OPEC agencies (multilateral and bilateral) were involved in 25 cofinancing projects with the World Bank, contributing $523 million; in fiscal year 1979, however, they reduced their participation to 15 projects at $267 million. By comparison, non-OPEC bilateral agencies (including U.S. AID) were active in 48 World Bank cofinanced projects in fiscal year 1979, contributing $1.15 billion, and non-OPEC multilateral agencies were involved in 55 projects, providing $585 million.

13/ Peat, Marwick, Mitchell & Co., "Selection and Development of a Private Sector Financing Instrument," prepared for the Agency for International Development under Contract No. AID-otr-C-1499 W.O. No. 17 (September 1979). AID has been successful with a similar program, the Housing Guarantee Program, with its current ceiling of $1.5 billion.

14/ Other official programs that involve coordination with private funding in developing countries are the International Finance Corporation (IFC), an affiliate of the World Bank

THE FUTURE ROLE OF PRIVATE LENDING

The debt servicing that accompanies both private and public loans may impose a significant burden. For example, Brazil paid 66 percent of its export earnings for payments of principal and interest in 1979 (on all loans, including those from multilateral development banks). 15/ The banking community is concerned over the ability of the LDCs to carry their current debt, and over the concomitant risks for the banks that have lent to them. Observers doubt that the rate of growth in lending to the LDCs in the next five years will be as high as it was in the past five.

The World Bank nonetheless anticipates that private lending will continue to play an important part in the supply of credit to developing countries. In 1990, according to a World Bank projection, the middle-income LDCs will obtain three-quarters of their external assistance from private loans financed at market terms. Low-income LDCs, however, will obtain only one-tenth of their needs from such sources (Table 17).

The World Bank's projection is based on assumptions that may prove optimistic. It assumes modest rates of economic growth for the LDCs and continued growth in private lending of about 4 percent per year. 16/ Moreover, the recent rise in oil prices

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that supports private enterprises, selling off its investments as the businesses develop; the U.S. Overseas Private Investment Corporation, which facilitates American investment in LDCs and is financed on a self-sustaining basis; and the U.S. Export-Import Bank, which assists in the financing of U.S. exports and is under a separate subfunction of the budget.

15/ Bank for International Settlements, "Press Review" (March 14, 1980), p. 4. The proportion of export earnings needed for debt service is not a sufficient measure of a country's credit-worthiness. It is, however, a guideline.

16/ Low-income countries are projected to grow at 4.7 percent from 1975 to 1985, and at 4.9 percent from 1985 to 1990; middle-income countries at 5.3 and 5.8 percent in the same periods; and industrialized countries at 3.4 percent from 1970 to 1980 and 4.2 percent from 1980 to 1990 (average annual percentage growth rates, 1975 prices). (See World Bank, World Development Report, 1979, pp. 3-4, 9.)

TABLE 17. NET DISBURSEMENTS OF MEDIUM- AND LONG-TERM LOANS AND OFFICIAL GRANTS TO DEVELOPING COUNTRIES BY TYPE OF CAPITAL AND BY COUNTRY GROUP, 1976 AND 1990 (Percentages)

	Low-Income Countries a/		Middle-Income Countries b/	
	1976 Actual	1990 Projected	1976 Actual	1990 Projected
Official Grants	21	43	12	11
Concessional Loans	47	46	10	11
Loans at Market Terms	32	11	77	78
Official	(10)	(7)	(10)	(14)
Private	(23)	(4)	(67)	(64)
Total	100	100	100	100

SOURCE: World Bank, World Development Report, 1979 (August 1979), p. 9.

a/ Low-Income: Developing countries with annual per capita incomes at or below $300.

b/ Middle-Income: Developing countries with annual per capita incomes above $300.

and the recession in the industrialized countries have worsened the balance-of-payments outlook for the LDCs. While private lending helped the LDCs adjust to oil price rises in the early 1970s, it is unlikely to do so on the same scale in the 1980s.

Private bank lending has been concentrated on a handful of the most advanced developing countries, leaving the others largely dependent on official institutions for loan funds. For this reason, official lending will play a crucial role in the 1980s. Cofinancing may prove to be a way of using official lending to encourage additional private efforts, but the device is too new to permit a full evaluation of its future role.

CHAPTER V. TRADE PREFERENCES AND U.S. FOREIGN AID POLICY

In 1978, developing countries derived about 10 times as much foreign exchange from trade as they did from bilateral and multilateral aid flows. This chapter considers the part that a preferential trade policy might play, as a complement to official aid programs, in assisting the LDCs.

TRADE AND LDC DEVELOPMENT

Many LDCs are engaged in development programs aimed at increasing their exports, particularly of manufactures. This strategy has two basic objectives:

- To accelerate industrialization, and thereby increase employment and output; and

- To increase foreign exchange earnings.

The effectiveness of such trade-oriented development strategies is circumscribed by several factors. Perhaps most critical is that many LDCs lack the necessary infrastructural and industrial base to produce competitively priced manufactures. The development of competitive export-oriented manufacturing industries may require a large investment of capital and labor, diverting these resources from other economic activity. Production for export may also be more demanding of skilled labor, capital, and other inputs than is domestic production, requiring a reallocation of scarce resources. A third obstacle is posed by barriers to free trade, such as tariffs and import quotas.

In the mid-1960s, the LDCs as a group--through the United Nations Conference on Trade and Development (UNCTAD)--asked for preferential access to the developed countries' markets. 1/ The

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1/ The stabilization of commodity prices has been another major issue at the last two UNCTAD conferences, and is at the center of the current dialogue between developed and developing countries. Because the primary aim of LDCs with respect to commodities concerns pricing policy rather than volumes of trade, commodities will not be considered further in this chapter.

proposed export incentives would take the form of lower tariffs on imports from LDCs than on similar imports from other sources, and the liberalization of nontariff barriers. The effect of these trade concessions on LDC exports would depend on the products covered, the reduction in duty provided, and the capacity of the particular LDC to respond to these incentives.

Three trade preference policies are examined in this chapter, two of which are already in operation: the U.S. Generalized System of Preferences, and the Offshore Assembly Provisions of the U.S. Tariff Code. The analysis focuses on the additional trade created by these two programs, and its distribution among the LDCs, as a guide to decisions relating to possible modification of the programs.

A third approach would be to relax or remove altogether quantitative restrictions on LDC exports to the United States. But the reasons that prompted the imposition of such restrictions in the first place make it unlikely that they will be relaxed or abandoned. Nonetheless, this chapter provides an assessment of the benefits that might accrue to LDCs if they were.

THE GENERALIZED SYSTEM OF PREFERENCES

The Generalized System of Preferences (GSP), authorized by the Trade Act of 1974 and put into effect in January 1976, allows many agricultural and manufactured products of developing countries to enter the United States free of duty. In the early 1970s, most other developed countries set up similar schemes, with slight variations in the products and countries that were eligible.

Whether GSP is judged a success or not depends on the increases in the volume of eligible developing country (EDC) exports that can be attributed to the scheme. 2/ Evidence

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2/ Certain countries are excluded from the U.S. GSP program by the Trade Act of 1974. Among those excluded are all OPEC nations and all nations "dominated by international communism" unless they are signatories of the General Agreement on Tariffs and Trade and members of the IMF. Because of some modifications in the program introduced by the 1979 Trade Agreements Act, several OPEC members will become eligible for GSP concessions. They are Indonesia, Venezuela, and Ecuador.

suggests that the export-promoting effect of GSP has been modest, both in terms of the overall increase in exports and in terms of the number of countries that have benefited. Of almost 100 eligible countries, five--Hong Kong, Taiwan, South Korea, Mexico, and Brazil--account for well over half of total GSP trade.

Product Limitations

GSP's limited effect is attributable primarily to the fact that a number of important EDC exports are excluded from eligibility. Several products were declared ineligible because employment and output in competing U.S. industries might be reduced by increased imports of those products. Among the products excluded are watches, import-sensitive steel, electronics and glass articles, textiles, and footwear.

The exclusion of textiles and footwear is of particular importance. EDC economies are well suited to produce these goods competitively: their manufacture requires large inputs of semiskilled and unskilled labor, of which EDCs have an abundance, while the technology is well known, easily available, and relatively inexpensive. Duty-free treatment for these products would increase the benefits provided by GSP, particularly since the average duty on both textiles and footwear is quite high. 3/ Because most textiles and nonrubber footwear exports from the major EDC suppliers are also constrained by quantitative limits (quotas), a removal of such barriers would further promote these nations' exports.

The Competitive Need Criteria

Besides product exclusions, the effect of GSP is also limited by the Competitive Need Criteria. These were adopted in part to compensate for the disparity in competitiveness among EDCs, and in part to prevent major disturbances in U.S. domestic

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3/ The average tariff on apparel products in 1979 was 27.0 percent, while on footwear it was 10.4 percent. The average tariff on all manufactures was only 8.1 percent.

industries. 4/ Of $9.7 billion of U.S. imports eligible for GSP in 1978, $3.2 billion were denied duty-free entry because of competitive need limitations. (See Table 18 for data on the first three years of operation of GSP.)

The competitive need criteria have been criticized both by the eligible developing countries and by representatives of those U.S. industries that are affected by GSP imports. Developing countries have focused their criticism on the 50 percent market share limitation. They contend that, because product categories are defined very narrowly, it is easy to exceed the market share limit, while the volume of the products shipped may be quite small. 5/ The 1979 Trade Agreements Act addressed this issue, modifying the 50 percent market share rule so that it will be invoked only if U.S. imports of a GSP product exceed $1 million. 6/

The two criticisms of the competitive need criteria most often voiced by U.S. labor and business are that products cannot be removed permanently and that no mechanism exists for removing countries from eligibility. 7/ A product can be redesignated as eligible if, in the year subsequent to its removal from eligibility, exports drop below the ceilings. U.S. labor representatives contend that permanent removal of a country's eligibility

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4/ Exports of specific products are declared ineligible for GSP benefits if the products attain a specific level of competitiveness. As defined by the 1974 Trade Act, a product is deemed competitive, and therefore ineligible, if in any one year exports exceed $25 million in 1974 dollars (in 1979 this amount was $41.9 million) or if it accounts for more than 50 percent of U.S. imports of the product.

5/ Testimony by H. Cubillos, Director, GSP Project, UNCTAD/UNDP, before the Inter-Agency Trade Policy Staff Committee on the Generalized System of Preferences (September 18, 1979.)

6/ As with the other competitive need limitations, this ceiling is linked to growth of the U.S. GNP.

7/ Statements by Stanley Nehmer, President, Economic Consulting Services, Inc., and Rudolph Oswald, Director, Department of Research, AFL-CIO, before the Inter-Agency Trade Policy Staff Committee on the Generalized System of Preferences (September 18 and 20, 1979).

TABLE 18. U.S. IMPORTS FROM GSP-ELIGIBLE DEVELOPING COUNTRIES, 1976-1978 (Billions of dollars)

	1976	1977	1978
Total Imports from Eligible Developing Countries	28.1	34.7	41.4
Most Favored Nation Imports			
Duty free	7.1	9.2	10.0
Dutiable	14.4	17.8	21.6
Eligible for Generalized System of Preferences	6.5	7.7	9.7
Less			
Exceeds 50 percent limit a/	(0.7)	(0.8)	(1.0)
Exceeds dollar limit a/	(1.2)	(2.0)	(2.2)
Not granted GSP b/	(1.5)	(1.0)	(1.3)
Granted Generalized System of Preferences	3.2	3.9	5.2
Agriculture	(0.5)	(0.6)	(0.6)
Manufactures	(2.6)	(3.3)	(4.6)

SOURCE: Office of the U.S. Trade Representative.

a/ Denied duty-free entry because of competitive need criteria limitations.

b/ Denied duty-free entry because insufficient share of value added originated in the exporting country, or because of transshipment or other factors.

for specific products, as well as permanent removal of countries from eligibility, are necessary in order to assure that the poorest developing countries have a chance to take advantage of GSP. These contentions are discussed in more detail below.

Some Eligible Products Not Granted Duty-Free Entry

Another set of factors also limits the effect of GSP. For a variety of reasons, a sizable percentage of products that could qualify for GSP concessions do not in fact enter duty free. In some cases, neither exporters nor importers are aware of GSP. In other cases, goods that are designated as eligible are not admitted duty free because transshipment of the product makes it difficult to document the place of origin, or because the product does not fulfill the requirement that at least 35 percent of its value originate in a beneficiary country. In 1978, $1.3 billion worth of otherwise eligible goods failed to enter free of duty because of these considerations (Table 18).

Effect of GSP on Eligible Developing Countries' Exports

For the reasons discussed above, only about one-half of the products designated as GSP-eligible in 1978 entered duty free (Table 18). Of those, the vast majority were manufactures, with agricultural imports accounting for only 12 percent.

Duty-free entry changes the relative price of GSP items with respect both to domestic goods and to imports from ineligible countries. Table 19 presents estimates of the increase in U.S. imports of manufactures from eligible developing countries that resulted from these two effects. 8/ The increase in 1977 was valued at $549 million, consisting of $511 million because of improved price competitiveness relative to U.S.-produced goods, and $38 million because of diversion of trade from nonbeneficiaries. 9/ This increase represents a gain of about 2 percent in exports of all manufactures from eligible countries to the United States and a gain of 9 percent in exports of GSP-eligible manufactures.

8/ Only the changes in imports of manufactures were analyzed, both because of data limitations and because GSP is aimed primarily at increasing manufactured exports from EDCs.

9/ These estimates may be overstated because of the large volume of trade classified as miscellaneous manufactures, which, due to data limitations, could not be disaggregated. The estimates are also, however, somewhat understated because average tariffs for each category were used rather than tariffs for specific GSP products.

TABLE 19. ESTIMATED INCREASE IN U.S. IMPORTS OF MANUFACTURES FROM ELIGIBLE DEVELOPING COUNTRIES RESULTING FROM GENERALIZED SYSTEM OF PREFERENCES, 1976-1977 (Millions of dollars)

	1976	1977
Increased Exports Because of Additional U.S. Demand	360	511
Increased Exports Because of Diversion from Nonbeneficiaries	29	38
Total Increase	389	549

SOURCE: CBO estimates, calculated from data provided by the Office of the U.S. Trade Representative.

NOTE: For a description of the methodology used to perform the calculations, see Appendix V-A; for a breakdown by sector, see Appendix V-B.

Distribution of Increases in Exports

The largest share of these increased exports accrued to five of the most advanced EDCs: Taiwan, South Korea, Hong Kong, Mexico, and Brazil. As Table 20 demonstrates, these countries accounted for 68 percent of the imports that entered the United States under GSP in 1978. This is particularly striking in that these countries accounted for only 56 percent of total imports of manufactures from all eligible developing countries. The differences in ability to export GSP-eligible products are further illustrated by the fact that the high-income eligible countries as a whole accounted for 86 percent of U.S. GSP trade in 1978, while middle- and low-income eligible countries accounted for only 11 percent and 3 percent, respectively.

Some observers suggest that the GSP scheme should be modified so as to distribute benefits more widely among the eligible countries. Proposals as to how best to achieve this are

TABLE 20. DISTRIBUTION OF U.S. GSP IMPORTS IN 1978 BY ELIGIBLE DEVELOPING COUNTRY INCOME GROUPING, AND FOR FIVE LEADING TRADERS (Percentages)

	Distribution of Total Imports from Eligible Developing Countries	Distribution of Trade Entering Under GSP
Income Groups		
Advanced developing countries a/	72.3	85.5
Middle-income developing countries b/	22.3	11.2
Low-income developing countries c/	5.1	3.3
Leading GSP Traders		
Taiwan	12.5	27.5
South Korea	9.1	12.5
Hong Kong	8.3	10.3
Brazil	6.7	9.0
Mexico	14.6	8.8
Total	51.2	68.1

SOURCE: Office of the U.S. Trade Representative.

a/ GNP of $900 or more per capita.

b/ GNP of $900 to $300 per capita.

c/ GNP of $300 or less per capita.

numerous. They include changing the competitive need criteria so that a country's eligibility to export specific products under GSP is permanently removed, eliminating additional countries from eligibility, and expanding the range of products that are eligible for duty-free entry. Some of the proposals, such as expanding the product coverage of GSP, are advocated by developing countries but opposed by U.S. labor and business, while others, such as the so-called country graduation schemes, are advocated by U.S. domestic interests but opposed by most developing countries. Although many of these proposals have evolved from a desire to expand the export-promoting effect that GSP has on the least competitive countries, it is unlikely that any of the proposals could markedly affect their capacity to export manufactures in the immediate future. 10/

A recent study prepared by the Department of Labor investigated the effect that removing products from eligibility would have on the exporting countries. 11/ In the first two years of operation of GSP, there were 181 products for which at least one of the top five beneficiaries lost eligibility because of competitive need limitations. The Labor Department study analyzed changes in the trade of these goods from 1976 to 1977, and found that net duty-free exports of the four top traders not losing preference, and those of the more than 90 other exporters, increased by similar amounts ($33 million and $38 million, respectively), while net duty-free exports from the countries losing preference decreased by $200 million.

Changes in trade flows responding to changing circumstances usually occur after a lag, and the period considered here may be too short to take this into account. Nevertheless, the results suggest that losses of preferences caused by competitive need criteria do not result in immediate dramatic increases in exports from the least competitive countries (although they clearly hurt the countries losing preferences). A change in product eligibility for GSP is but one of many factors that affect the exports of developing countries. Actual exports depend on the ability of the economy to produce competitively, and preferences of the sort granted by GSP may not be sufficient to compensate for the differences in competitiveness among countries, or between U.S. producers and those in the developing countries.

10/ Trade concessions have the greatest immediate export-promoting effect when a country has established industries, which, with some extra advantage, can compete successfully in world markets.

11/ "GSP Graduation," Memorandum from Howard D. Samuel, Deputy Under Secretary for International Affairs, U.S. Department of Labor, to members of the Trade Policy Review Group (March 29, 1979, processed).

Similarly, it is not clear that by graduating certain countries, greater benefits would accrue to those still eligible. The notion of graduation that is currently being debated 12/ assumes that, with the exception of five to ten countries, all EDCs are equally competitive. This is hardly the case. The developing countries of the world are not a homogeneous group; wide disparities exist among them in terms of resources, infrastructural base, and the availability of skilled labor. The elimination of the most advanced EDCs would not alter this situation--at least not in the short run. Thus, although it is impossible to estimate the effect that the graduation of the most advanced EDCs would have, the exports of countries with continued GSP benefits would not be likely to increase immediately.

The permanent removal of products from eligiblity, together with country graduation, might, however, have an effect on those U.S. industries that compete with GSP products. A number of cases are known in which competition from GSP items has caused disturbances in the U.S. economy. 13/ A more stringent application of competitive need and eligibility criteria, in effect reducing the number of products that enter duty free (particularly if directed at certain import-sensitive items), might reduce the disruptions caused by GSP. The cost of such measures would of course be borne by those developing countries whose exports became ineligible for duty-free entry and also by U.S. consumers, who would pay higher prices.

Another way of increasing benefits to the less competitive exporters, while not changing the eligibility of the major beneficiaries, would be to allow all their GSP-eligible products to enter free of duty, regardless of competitive need criteria or other considerations. CBO estimates that this would have increased the developing countries' exports to the United States in 1977 by $66.2 million, raising the trade-promoting effect of GSP by 52 percent (Table 21). The products registering the major increases would include nonferrous metals, textiles, 14/ lumber,

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12/ See testimony of Nehmer and Oswald.

13/ The most important such product was leather apparel, which was originally a GSP-eligible item but was removed from eligibility in 1978.

14/ A small number of textile products are eligible for GSP.

TABLE 21. INCREASE IN LDC EXPORTS, OTHER THAN THOSE OF THE TOP FIVE TRADERS, IF ALL GSP-ELIGIBLE GOODS HAD ENTERED DUTY FREE IN 1977 (Millions of dollars)

	Increase in Exports
Trade Benefits of All Eligible Countries Under Current GSP Limitations	549.2
Top five eligible countries	(422.8)
All other eligible countries	(126.4)
Increase in Exports if Restrictions Were Removed, Excluding Top Five Trading Countries	66.2

SOURCE: CBO estimates calculated from data provided by the Office of the U.S. Trade Representative.

NOTE: For distribution of increases for 25 manufacturing categories, see Appendix V-C.

and miscellaneous manufactures. Although this would be a large increase in benefits, it would be relatively small in comparison to total exports of those countries to the United States. For certain countries with limited exports, however, even a small increase in trade volume would represent a sizable net gain.

Multilateral Trade Negotiations

Developing countries are concerned about the effect that tariff reductions, agreed to by the industrial nations in the recently concluded Tokyo Round of Multilateral Trade Negotiations, may have on GSP benefits. This concern is justified. The level of preferential access granted to developing countries' exports by GSP is dependent on tariff levels. More specifically, it depends on the difference between the zero duty charged on GSP items and the tariff charged on imports of similar items from nonbeneficiary sources. Reductions in tariffs decrease the relative price advantage that GSP imports enjoy over other imports. Presumably as a consequence of this change in relative prices, some U.S. domestic demand would shift from GSP to non-GSP sources, thereby reducing GSP trade.

Tariff reductions are, however, likely to provide some important benefits for the LDCs. Only one-fourth of eligible countries' dutiable exports to the United States are currently granted duty-free entry under GSP; the remaining three-fourths are subject to tariffs. Among those items subject to tariffs are exports excluded from GSP because of import sensitivity considerations, as well as products subject to competitive need limitations. 15/ While GSP concessions have been granted for a limited period of time, the Tokyo Round tariff reductions are permanent (although they will be phased in over an eight- to ten-year period). If the GSP program were to lapse, the eligible countries would still be assured the benefit of lower tariffs negotiated in the Tokyo Round.

The net effect that tariff reduction will have on developing countries' exports depends on whether or not the decline in GSP exports is offset by increased exports of non-GSP products. Excluding trade in agricultural products and textiles, and using a 1977 trade base, CBO estimates that exports of GSP-eligible manufactures to the United States will decline by $39 million and non-GSP exports will increase by $367 million, for a net increase of $328 million. 16/ About one-fourth of the estimated

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15/ Over time, an increasing number of products that are currently eligible for GSP will exceed competitive need limitations and become subject to tariffs. The lower the tariff, the smaller the disruptions that are likely to result from loss of duty-free access.

16/ These calculations assume that all tariffs will be reduced at the same time, therefore overstating, perhaps markedly, their estimated effects. Because of data limitations, it was necessary to use average tariffs for each of 24 industrial categories rather than the average tariffs on the dutiable component of these sectors, therefore understating the effects of the reductions in duty. The methodology used to perform these calculations is described in R.E. Baldwin and T. Murray, "MFN Tariff Reductions and Developing Country decline in exports will result from a shift in U.S. demand for imports of consumer electronics products to nonbeneficiary countries (mostly developed nations), while the major increases in exports will come in miscellaneous manufactures, rubber and plastic products, consumer electronics, and scientific and measuring instruments. 17/

Conclusions on GSP

The success of the GSP program depends on the criteria used to evaluate it. As a device for accelerating and expanding exports from those developing nations that have attained a moderate level of international competitiveness, GSP has been largely successful. As a means of promoting exports of manufactures from those developing nations that have demonstrated only a very limited capacity to engage in trade, it has achieved only modest results. The increase in trade volumes attributable to GSP in absolute terms are impressive: an additional $500 million worth of manufactured exports to the United States in 1977, and presumably larger increases in 1978 and 1979. These results compare favorably with the more traditional U.S. foreign aid programs. (In 1977, total U.S. bilateral development assistance outlays amounted to $4.2 billion.) On the other hand, compared with total exports from eligible countries to the United States, the share attributable to GSP is less striking. The program has been in operation for only four years, however, and in time developing countries may improve their response to the incentive GSP provides.

Trade Benefits Under the GSP," Economic Journal (March 1977). The authors, using a 1971 trade base including agricultural products but excluding textiles and footwear, and assuming a 50 percent across-the-board tariff cut, estimated that net EDC exports to the United States will increase by $38 million. In a paper prepared for UNCTAD, P.J. Ginman and others, using a set of different assumptions and a 1976 trade base, estimated that net exports from EDCs will decline by $316 million. (See P. J. Ginman and others, "Implications of the Tokyo Round of Multilateral Trade Negotiations for Exports from the Developing Countries" (July 1979, updated August 1979; processed.)

17/ See Appendix V-D for breakdown by sector.

A number of proposals have been advanced to modify GSP. These proposals fall into two categories: those aimed at increasing the advantage that the least competitive countries derive from the program, and those aimed at reducing the disruptions that it causes in U.S. industries. These goals involve contradictory policies. The first, increasing the product coverage of the scheme, implies increased imports, while the latter involves reducing product coverage, and thereby reducing duty-free imports.

OFFSHORE ASSEMBLY PROVISIONS OF THE U.S. TARIFF CODE

The offshore assembly provisions (OAP) of the U.S. Tariff Code allow certain exports of manufactured products to enter the United States at reduced duty. Both developed and developing countries may benefit from these provisions. They apply to metal products and to manufactures containing U.S.-made components. 18/ Metal products sent abroad for processing and returned to the United States for further processing are charged a tariff upon reimportation only on the value of the processing performed abroad (Tariff Code 806.30). Similarly, any manufactured product assembled abroad that contains U.S.-made components is subject to a tariff on the total value of the product less the value of the U.S. components that it contains (Tariff Code 807.00). Of all products entering the United States under OAP, about 90 percent enter under this clause. As with GSP, OAP is not unique to the United States; the tariff codes of most industrial nations contain similar clauses.

These offshore assembly provisions provide a variety of incentives to developing countries to promote their manufacturing industries. In effect, the provisions allow labor-rich developing nations to exploit their competitive advantage in labor costs. The incentives provided by Tariff Code 806.30 tend to be limited by the restriction that the offshore operation involve only processing. The stimuli provided by Tariff Code 807.00 affect a

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18/ These provisions consist of items 806.30 and 807.00 of the U.S. Tariff Code. Item 806.30 was enacted by the Tariff Act of 1930 in order to allow U.S. manufacturers to ship their goods to Canadian plants for processing that could not be accomplished in the United States. Item 807.00 was enacted in 1965 to correct an anomalous practice that arose under the Tariff Act of 1930. Both provisions have been modified several times, most recently in 1974.

wider range of industrial activities, since duty is charged on the value of the U.S.-made components regardless of the number of manufacturing steps or their complexity. Manufacturers in LDCs may be encouraged to produce locally a variety of components that can be added to the U.S.-made ones, and since the regulations require only that the U.S. components not be materially altered, the assembly process may involve a variety of processes, further encouraging diversification in the LDCs.

The fact that OAP has provided incentives to LDCs to increase their exports is demonstrated by the rapid rate of increase of OAP exports from LDCs to the United States. From 1970 to 1978, LDC exports of OAP goods increased almost fivefold in real terms. In nominal terms, the increase has been from $540 million in 1970 to $4.3 billion in 1978, the latter figure representing about 10 percent of U.S. imports of manufactures from LDCs in 1978. The major products were electric machinery, apparel, measuring and controlling instruments, nonelectrical machinery, and transportation equipment.

As with GSP, a small group of the most advanced LDCs accounted for most of the trade. In 1978, the top five GSP beneficiaries accounted for 66 percent of the U.S. OAP trade with developing countries. 19/ If Singapore and Malaysia are included, seven countries accounted for 88 percent of the trade. 20/ The low-income developing countries (with annual per capita incomes of $300 or less) were, as in the case of GSP, able to take only very limited advantage of the program, accounting for less than 10 percent of the OAP trade.

Developing countries have not put great emphasis on the offshore assembly provisions, preferring instead to press for expanded GSP programs and for increased foreign aid. The benefits from OAP are, however, significant. One analyst estimated

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19/ Taiwan, Hong Kong, South Korea, Mexico, and Brazil.

20/ One country in particular, Mexico, accounted for more than one-third (36 percent) of the OAP trade with LDCs in 1978. A large number of industries have developed along the border with Mexico, particularly along the Texas border, specializing in OAP products. Many of these factories are in fact subsidiaries of U.S. manufacturers who ship their components to these border factories for assembly in order to take advantage of the lower labor costs in Mexico.

that if OAP had not existed in 1975, LDC exports of manufactures to the United States during that year would have been $235 million lower. 21/

Along with benefits, OAP may also entail certain costs for LDCs. Incentives to utilize U.S.-made components may discourage some local LDC industries from producing these components. Furthermore, inefficiencies may be introduced if the U.S.-made components are not the cheapest available.

QUANTITATIVE RESTRICTIONS ON LDC TRADE

The second major type of barrier to LDC trade, other than tariffs, consists of quantitative restrictions on imports. Many of the products limited by quantitative restrictions are also subject to tariffs, which for some manufactured products are quite high.

Some observers suggest that developed nations could provide effective export incentives to developing countries by relaxing or removing quantitative restrictions on imports. The success of such a policy would depend, of course, on the degree to which quotas currently restrict LDC exports. 22/

21/ This estimate excluded textiles. Curiously, in the absence of OAP, net U.S. textile imports would have increased by about $59 million. This would have occurred because foreign producers would have substituted more expensive foreign components for U.S. components, thus increasing the price of their goods, while maintaining their exports constant as allocated by U.S. import controls. Including textiles, net LDC exports to the United States in the absence of OAP would have declined by $177 million. See Thomas Birnberg, "Trade Reform Options: Economic Effects on Developing and Developed Countries," in William R. Cline, ed., Policy Alternatives for a New International Economic Order (Praeger, 1979), pp. 240-245. For a technical explanation, see J.M. Finger, "Trade and Domestic Effects of the Offshore Assembly Provision in the U.S. Tariff," American Economic Review (September 1976), pp. 598-611.

22/ The trade-restricting effect of a quota depends on the level at which the ceiling on imports is set. If the ceiling is near to or above the productive capacity of the exporter, The following sections will analyze the effect of U.S. nonrubber footwear and textile quotas on the exports of the LDCs subject to them. 23/

Footwear

The United States has negotiated bilateral agreements to restrict trade in nonrubber footwear with two countries, Taiwan and South Korea. These understandings, known as Orderly Marketing Agreements, went into effect in July 1977 and will expire in 1981. Taiwan has agreed to ship no more than 506 million pairs over the four-year period, and South Korea has agreed to a four-year ceiling of 145 million pairs.

These quotas have indeed restricted Taiwanese and South Korean exports. In the first full year of operation (July 1, 1977, to June 30, 1978), both countries largely filled their quotas: Taiwan shipped 124.7 million pairs, 99 percent of the amount allowable; and South Korea, 28.3 million pairs, or 78 percent of the quota.

There is more direct evidence of the effect of the quotas on Taiwanese and South Korean exports. From calendar year 1977 to calendar year 1978 (1978 being the first full year that the quotas were in force), the two countries' combined market share of total U.S. nonrubber footwear imports dropped from 61 percent to 40 percent. Net U.S. imports from the two countries combined declined by 77.2 million pairs, while total U.S. imports increased by 5.5 million pairs. From 1978 to 1979, their net exports to the United States of nonrubber footwear increased slightly, by 1.4 million pairs, while total U.S. imports increased by 31.1 million

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its trade-restricting effect is likely to be modest. If the ceiling is at a level substantially short of the current productive capacity of the exporter, however, and if there are no alternative markets available for these goods, the quota could inhibit new investment in the industry, and even result in some plant closings.

23/ The United States also has quantitative restrictions on a number of agricultural products that LDCs export, as well as on color television exports from South Korea.

pairs. 24/ While it is difficult to make accurate calculations, estimates of the productive capacities of the nonrubber footwear industries in Taiwan and South Korea suggest that they have remained virtually constant since 1976-1977. Furthermore, total U.S. imports of nonrubber footwear have been increasing since 1976, while domestic demand and production have stagnated, suggesting that the quotas have hurt South Korea and Taiwan while being ineffective in protecting U.S. producers. The country that increased its exports of footwear most dramatically over the period was Italy--not a developing nation--which achieved a 24 percent share of the U.S. import market in 1979, up from 13 percent in 1976.

Assuming that all the reductions in South Korean and Taiwanese exports were the result of U.S. quotas, 25/ a maximum trade loss can be calculated. This loss is estimated by taking the average share of the U.S. market for imports of nonrubber footwear that these countries accounted for in the two years before the quotas took effect, 1976 and 1977, 26/ and applying these market shares to 1979 trade volumes and values. The results of these calculations suggest that Taiwan lost a maximum of $191 million worth of trade and South Korea a maximum of $217 million, if quotas were the sole cause of the change. 27/

Textiles

Estimating the effect of changes in U.S. textile quotas is more difficult, partly because the United States has negotiated

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24/ Total U.S. imports of nonrubber footwear between 1976 and 1979 were: 1976, 370 million pairs; 1977, 368 million pairs; 1978, 374 million pairs; and 1979, 405 million pairs.

25/ A variety of other factors--such as changes in exchange rates and relative wage rates, development of markets other than the United States, and changes in competitiveness--could also have contributed.

26/ Shipments from both countries in the first half of 1977 were exceptionally high because of an attempt to make sales before the quotas went into effect. Therefore, the average market share in these two years is somewhat overstated.

27/ See Appendix V-E for calculations.

different bilateral agreements on textile trade with each of the 19 countries (18 developing countries and Japan) subject to quantitative limits. The restrictions in most countries apply to yarn, fabric, and apparel manufactured from cotton, wool, and manmade fibers. Furthermore, while aggregate ceilings on all textile trade are binding for a majority of the countries subject to them, product-specific ceilings are binding only on a fraction of the products exported by these nations. Because of this, and various data limitations, it is difficult to assess either the volume or value of trade that has been discouraged by the quotas or the increase in trade that would result from their removal or relaxation.

It is possible, however, to identify those countries that have been most affected by the quotas, which are also those countries that probably would benefit most from a relaxation of the current restrictions.

Of the 13 nations subject to aggregate quotas--which set ceilings on a nation's exports of all products manufactured from the three types of fibers, measured in square-yard equivalents--seven countries (Hong Kong, Taiwan, South Korea, Macao, Pakistan, Haiti, and Poland) filled their quotas by 70 percent or more in 1978. 28/ However, four of these--Pakistan, Macao, Haiti, and Poland--accounted for only 8 percent of the volume of controlled U.S. trade in textiles in 1978, and for 5 percent of total trade. The other three countries that filled their quotas by 70 percent or more--Hong Kong, Taiwan, and South Korea--were the major exporters of textiles to the United States in 1978, accounting for 58 percent of the volume of controlled imports and 38 percent of total imports. 29/

The product-specific quotas give another measure of the effect of U.S. restrictions. Table 22 presents data on the share

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28/ It is assumed that the disruptive effects of a quota first manifest themselves at the level of 70 percent filled. Although this may be too low a level for some products, particularly for those that are shipped in large quantities and are subject to large quotas, conversations with several observers who monitor textile trade and quotas suggest that this is a plausible level to select. For detail of quotas by country, see Appendix V-F.

29/ See Appendix V-G for detail by country.

TABLE 22. TRADE ACCOUNTED FOR BY QUOTAS 70 PERCENT OR MORE FILLED IN 1978 (Millions of square-yard equivalents)

	Total Shipments	Shipments Accounted for by Quotas 70 Percent or More Filled	Percent of Total Shipments Accounted for by Quotas 70 Percent or More Filled
Hong Kong	924.2	828.8	90.0
Taiwan	700.0	595.2	85.0
Pakistan	165.1	139.2	84.0
South Korea	541.7	444.4	82.0
Thailand	76.3	56.2	73.7
Mexico	134.9	94.5	70.1
Singapore	123.3	79.1	62.9
Malaysia	27.5	17.3	62.9
Poland	32.3	20.3	62.8
Romania a/	12.3	6.9	56.1
India	85.6	48.9	56.1
Macao	38.7	21.4	55.3
Colombia	45.8	23.7	51.7
Haiti	75.4	36.0	47.7
Brazil	33.0	14.9	45.2
Philippines	161.2	57.4	35.6

SOURCE: CBO calculations performed from data provided by the U.S. Department of Commerce.

a/ Only products made from wool and manmade fibers.

of total exports accounted for by quotas that were 70 percent or more filled. These comparisons presume that the greater the total share of exports for which a product accounts, the greater its importance in the export package of the nation. Once again, the three major exporters, plus Pakistan, stand out, with over 80 percent of each country's total exports of textiles accounted for by those products for which quotas were 70 percent or more filled. 30/ These data could be interpreted as suggesting that quotas have a relatively greater importance for these countries than for most others subject to restrictions on textile trade. For the majority of the other countries, products for which quotas were 70 percent or more filled accounted for between 50 and 65 percent of total trade by volume.

Conclusions on Quotas

A relaxation of U.S. quotas on footwear and textiles would lead to increased exports from most of those LDCs subject to them. A relaxation or removal of restrictions on Taiwanese and South Korean footwear exports could result in a maximum increase in trade that compares favorably with the benefits these nations derive from the Generalized System of Preferences. Changes in U.S. textile quotas would be likely to result in increased exports from all nations subject to them, but the countries that would benefit most in the short run are the ones for which quotas have the greatest export-restraining effect--Taiwan, Hong Kong, South Korea, and Pakistan.

30/ Pakistan is somewhat different from the other three countries. Most of its trade was accounted for by exports of cotton fabric, and 1978 was an exceptional year in that Pakistan exported twice the volume of cotton products that it did in 1977.

CHAPTER VI. FUTURE DECISIONS ON THE FOREIGN ASSISTANCE BUDGET

The basic decisions to be made regarding the foreign aid budget concern its level and its composition:

- o How much aid should the United States provide?
- o How should it be divided between multilateral and bilateral channels?
- o How should it be distributed among bilateral programs?

This chapter reviews the immediate decisions facing the Congress, and examines how their outcome will affect both the level and the composition of foreign aid. It concludes with a discussion of the alternative courses of action open to the Congress for the decade of the 1980s.

CURRENT BUDGET DECISIONS

The Level of Foreign Aid

In attempting to limit the growth of the federal budget, the Congress will give close scrutiny to foreign aid as a source of possible savings. The developing countries, however, will seek increased assistance as slower growth in the developed countries and further increases in the price of oil constrain their earnings and development prospects.

Fiscal Year 1980. The difficulty of reconciling these conflicting pressures became evident in the deliberations on the foreign assistance appropriations bill for fiscal year 1980.

The Revised Second Concurrent Resolution on the Budget for Fiscal Year 1980 included $15.2 billion in budget authority and $10.5 billion in outlays for the international affairs function. 1/ Spending legislation previously enacted for this function totals \$14.5 billion in budget authority and \$10.2 billion in outlays. Enactment of the 1980 foreign assistance appropriations bill would require an additional \$1.1 billion in budget authority and \$282 million in outlays. Other pending supplementals would require \$275 million in budget authority and \$254 million in outlays. Thus, the new budget ceiling will not accommodate all of the Administration's spending proposals for 1980.

Fiscal Year 1981. The constraints on the level of aid operations caused by the restrictive funding of fiscal year 1980 are not likely to be eased for fiscal year 1981.

The First Concurrent Resolution on the Budget for Fiscal Year 1981 included \$23.6 billion in budget authority and \$9.5 billion in outlays for the international affairs function. CBO's preliminary reestimate of the Administration's revised budget request for fiscal year 1981 is, however, \$24.43 billion in budget authority and \$10.26 billion in outlays. The targets in the first concurrent resolution suggest that the Congress is unlikely to approve the full amount of the Administration's request. The outlay ceiling poses a particular problem for foreign aid. Some assistance programs (bilateral development assistance and contributions to the multilateral development banks) result in only small outlays in the budget year. Thus, quite significant cuts in these programs would be needed to meet the outlay ceiling. Other programs (ESF, food aid) require larger outlays in the budget year, but the historical record suggests that these are less likely to be reduced.

Bilateral Aid

The distribution of aid to countries varies among the three bilateral aid programs. Currently, development assistance and food aid are widely spread geographically, while ESF is focused primarily on the Middle East.

1/ Function 150, International Affairs, covers bilateral development assistance, multilateral development banks, international organizations and programs, migration and refugee assistance, foreign military credit sales, the Foreign Military Sales Trust Fund, administration of foreign affairs, the International Communications Agency, and the Export-Import Bank.

Development Assistance. The Administration proposes a real increase in bilateral development assistance for fiscal year 1981. As compared with the conference report on the foreign assistance appropriations bill for fiscal year 1980, which, although not enacted by the Congress, is indicative of the position of the Appropriations Committees, the Administration's (revised) request for fiscal year 1981 would provide 9 percent real growth in funding for development assistance. Measured in current dollars, budget authority would rise from $1.65 billion to $1.94 billion.

If approved by the Congress, this increase in funding would be in line with the New Directions goal of supporting long-term economic development and providing for basic human needs. The countries most dependent upon this kind of official aid are the poorer developing countries. Their needs are increasing with the rise in oil prices and the reduction of export opportunities.

Economic Support Fund. The ESF has tripled in real terms over the past decade, but the Administration does not propose to continue this growth. Its request for fiscal year 1981 shows no increase over the level contained in the foreign assistance appropriations conference report for fiscal year 1980, which, in real terms, was 25 percent below the fiscal year 1979 level.

But the reasons behind the ESF's growth make it unlikely that funding will fall much in the near future. ESF aid supports countries in which the United States has a security interest, primarily Middle Eastern countries. And the fact that the funds are mostly earmarked by country helps to preserve them from the across-the-board cuts made in development assistance programs, which are presented by functional account.

Food Aid. The amount of U.S. food aid is related to domestic agricultural production and to commercial demand for farm products. An increase in agricultural exports, coupled with a decline in food aid funding, has resulted in sharply diminished aid shipments during the 1970s.

During the 1970s, increases in LDC cereal production kept pace with population growth, 2/ but little progress was made toward decreasing the LDCs' need to import food. Since the rate

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2/ Information provided to CBO by the International Food Policy Research Institute, June 1980.

of agricultural production is not likely to accelerate in the 1980s, the need for U.S. food aid will continue.

How much the United States contributes in food aid will depend both on the dollar level of P.L. 480 appropriations and on commodity prices. Under the 1980 Food Aid Convention, the United States is pledged to a minimum annual shipment of 4.47 million metric tons of food grain. The food aid budget level implicit in the fiscal year 1980 budget, including supplemental requests, would permit shipments of 6 million metric tons at current prices, compared to the 6.7 million shipped in fiscal year 1979. The Administration's budget request for fiscal year 1981 also implies shipments of 6 million metric tons.

Multilateral Development Banks

Until this year, the Congress had always approved the Administration's authorization requests for the MDBs without reduction. Recently, however, the Congress has shown a reluctance to continue full support, as reflected in recent amendments to authorization legislation for replenishments falling due in fiscal years 1980 to 1983. For example, the foreign assistance authorizations conference report for fiscal years 1980 to 1983 provided for contributions of $4 billion (for the Inter-American Development Bank, the Asian Development Bank, and the African Development Fund), but the bill as passed by the Congress in May 1980 authorized only $3.6 billion.

Other contributing countries have expressed concern as to future U.S. participation in and support for the MDBs, especially as MDB requests in the 1980s will exceed requests during the 1970s even if authorization is sought only for paid-in capital. The next decision will be made in fiscal year 1981, when authorization will be requested for the proposed IDA-VI replenishment of $3.2 billion over three years. If passed, this would result in annual appropriations of approximately $1.1 billion. 3/

Although Administration plans call for a significant increase in U.S. support of the MDBs in the 1980s, the Congress may decide that these funds are better employed in other parts of the foreign assistance program, or for domestic purposes. To maintain paid-in capital contributions in the first half of the 1980s at the same real level as in the last half of the 1970s would require the

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3/ The replenishment is in support of soft loans and is therefore fully paid in.

Congress to approve at least 75 percent of the Administration's planned requests.

A decision not to proceed with current Administration plans for MDB contributions could have a variety of consequences. The size of the U.S. share in the MDBs affects the ability of the United States not only to veto a specific decision, but also to lead the banks in policy changes. Past U.S. leadership in the MDBs has encouraged development of policies in line with U.S. preferences, and U.S. contributions have thus triggered funding many times greater than its own in support of such policies.

U.S. Trade Policy Toward LDCs

U.S. trade policy toward developing countries is not likely to change in the near term. The Generalized System of Preferences, now in the fifth of the ten years for which it was authorized, is undergoing review. Recommendations and proposals from interest groups in the United States have focused on incremental adjustments aimed at making GSP operations more efficient. Proposals advanced by LDCs to expand the list of eligible products, and to raise the limits on the value of shipments, are not likely to be acted on favorably. The offshore assembly provisions are subject to change in the context of U.S. tariff code revisions, but no modifications of them are foreseen at this time. Finally, the domestic economic factors that prompted the imposition of U.S. quantitative restrictions on textiles and footwear have not changed. The bilateral agreements on footwear and the multilateral agreement on textiles are both subject to renegotiation in the early 1980s.

CHOOSING THE FUTURE LEVEL AND COMPOSITION OF FOREIGN AID: STRATEGIES FOR THE 1980s

During the 1970s, U.S. foreign assistance outlays rose modestly in real terms. Marked changes took place in the composition of U.S. assistance, with the share of the Economic Support Fund increasing as other aid programs stabilized or declined. Because ESF is the vehicle for assisting countries of particular political interest to the United States, it typically focuses on only a few nations. At the moment, Egypt and Israel are the major recipients of ESF monies.

These trends run counter to the Basic Human Needs legislation enacted by the Congress in 1973. That legislation called for focusing U.S. aid on support of developing countries' efforts to provide for basic human needs. Funds directly supporting this policy have shown no real growth during the past decade, and one component, food aid, has even been reduced.

In choosing the future level of foreign aid, the Congress will have to weigh assistance to the poorer countries against other objectives, such as the domestic needs of the United States. In deciding on the composition of foreign aid, the Congress can follow one of several possible strategies:

- Emphasize U.S. security interests. This would continue the trend of the 1970s, but run slightly counter to current Administration proposals. It would increase ESF funding relative to other aid programs, and would concentrate funding on a small number of countries.

- Emphasize concern for equitable growth within the poorer countries. This would imply more bilateral development assistance and food aid, and/or increased support for the multilateral development banks. It is consistent with some Administration proposals, but would be a shift from the trend of the 1970s.

  Whether it would mean distributing aid to a larger number of countries would depend on whether the United States concentrated its efforts on a small number of beneficiaries (as some other donors have done) or gave modest amounts of assistance to a large number of countries. The balance between bilateral and multilateral programs depends on the emphasis one wishes to give to development via capital infrastructure (support of the MDBs) or via social infrastructure (support of bilateral development assistance and food aid). It also depends on the value attached to an international approach (through the MDBs) as against more direct U.S. control (through bilateral programs).

- Emphasize assistance, by trade concessions, to those countries best able to help themselves. The chief beneficiaries, at least initially, would be the more developed countries. Although this strategy could reduce the total aid budget, it might have a negative effect on U.S. employment because of increased import competition.

APPENDIXES

APPENDIX I-A. WORLD BANK LIST OF LESS-DEVELOPED COUNTRIES

Higher-Income (over $2,500)	Upper-Middle-Income ($1,136-$2,500)	Intermediate-Middle-Income ($551-$1,135)	Lower-Middle-Income ($281-$550)	Low-Income ($280 or less)		Oil-Exporting Developing Countries a/
Greece	Argentina	Algeria	Bolivia	Afghanistan	Sri Lanka	Algeria
Israel	Bahrain	Chile	Botswana	Bangladesh	Tanzania	Ecuador
Oman	Barbados	China, Republic of	Cameroon	Benin, People's Republic of	Togo	Gabon
Singapore	Brazil	Colombia	Congo, People's Republic of	Burma	Uganda	Indonesia
Spain	Cyprus	Costa Rica	El Salvador	Burundi	Upper Volta	Iran
	Fiji	Dominican Republic	Ghana	Central African Empire	Yemen Arab Republic	Iraq
	Lebanon	Guatemala	Guyana	Chad	Yemen, People's Democratic Republic of	Nigeria
	Malta	Ivory Coast	Honduras	Comoros	Zaire	Trinidad and Tobago
	Panama	Jamaica	Liberia	Egypt, Arab Republic of		Venezuela
	Portugal	Jordan	Mauritania	Ethiopia		
	Uruguay	Korea, Republic of	Morocco	Gambia, The		
	Yugoslavia	Malaysia	Papua New Guinea	Guinea		
		Mauritius	Philippines	Haiti		
		Mexico	Senegal	India		
		Nicaragua	Sudan	Kenya		
		Paraguay	Swaziland	Lesotho		
		Peru	Thailand	Madagascar		
		Syrian Arab Republic	Zambia	Malawi		
		Tunisia		Mali		
		Turkey		Nepal		
				Niger		
				Pakistan		
				Rwanda		
				Sierra Leone		
				Somalia		

SOURCE: World Bank, World Debt Tables, Vol. I (1978), pp. 21-23.

NOTE: Based on 1976 GNP per capita in 1976 U.S. dollars.

a/ Countries that export large quantities of oil, or for which oil exports are of considerable importance.

APPENDIX I-B. DEFINITION OF OFFICIAL DEVELOPMENT ASSISTANCE

In order for foreign aid flows to be counted as Official Development Assistance (ODA), as defined by the Organization for Economic Cooperation and Development (OECD), the aid flow must meet the following requirements:

- It must go to a country on the OECD list of less-developed countries or to a multilateral institution that provides development assistance to such countries. (All proposed fiscal year 1980 U.S. development assistance funds will go to such institutions and countries.)

- The aid must be provided for the promotion of economic development and welfare. Any aid that is clearly to be used for military weapons or for military purposes is not included.

- The aid must be concessional in character, containing a "grant element" of at least 25 percent. The grant element is the difference between the face value of a financial loan commitment and the discounted present value (using a 10 percent discount rate) of the service payments the borrower will make during the lifetime of the loan, expressed as a percentage of the face value.

All U.S. food aid counts as ODA, as does the Economic Support Fund. A very small amount of U.S. foreign economic assistance does not count as ODA--for example, military-type operations, such as the U.S. contribution to the UN forces in Cyprus and the U.S. Sinai Support Mission ($21 million in fiscal year 1980); the subsidy paid to the U.S. Merchant Marine for transporting P.L. 480 commodities ($93 million in fiscal year 1980); and a few loans that are provided on terms that are insufficiently concessional to qualify as ODA (none planned for fiscal year 1980). 1/

1/ Information provided to CBO by the Agency for International Development, November 1979.

APPPENDIX II-A. DISBURSEMENTS OF U.S. BILATERAL DEVELOPMENT ASSISTANCE FUNDS BY MAJOR

Country	1962 a/	1963	1964	1965	1966	1967	1968	1969
India	467	402	344	265	310	212	301	203
Pakistan	217	186	236	188	127	137	132	104
Brazil	85	61	130	235	244	215	194	12
Turkey	16	77	131	158	140	139	72	44
Colombia	8	93	79	4	86	105	78	101
Indonesia	17	15	10	3	-	-	23	56
Bangladesh	-	-	-	-	-	-	-	-
Chile	143	41	79	100	93	16	58	35
South Korea	38	38	33	52	86	70	40	25
Philippines	4	3	3	3	4	11	10	6
Bolivia	13	26	48	5	25	15	4	11
Nigeria	21	27	46	28	23	22	21	17
Tunisia	19	26	22	19	18	26	14	9
Panama	3	8	9	7	9	25	19	16
Ethiopia	7	10	5	6	35	14	7	17
Afghanistan	8	17	22	11	11	25	9	9
Subtotal	1,066	1,030	1,197	1,084	1,211	1,032	982	665
Other Countries and Specific Regions	487	569	366	328	277	317	281	271
Total Funds Through AID to Specific Countries and Regions	1,553	1,599	1,563	1,412	1,488	1,349	1,263	936
Total Interregional AID Funds b/	151	110	129	144	146	153	163	166
Total (Current Dollars)	1,704	1,709	1,692	1,556	1,634	1,502	1,426	1,102
Total (1972 Dollars)	2,438	2,403	2,347	2,117	2,167	1,928	1,767	1,304

SOURCE: U.S. Agency for International Development, U.S. Overseas Loans and Grants, 1945-1971, and 1945-1978; information provided to CBO by AID.

RECIPIENTS, FISCAL YEARS 1962-1979 (Millions of dollars)

1970	1971	1972	1973	1974	1975	1976	TQ	1977	1978	1979	Total
224	206	6	17	15	20	-	-	-	60	91	3,143
124	7	62	96	58	96	106	31	71	20	9	2,007
88	79	12	41	5	3	1	-	1	-	-	1,406
43	54	59	17	2	1	-	-	-	1	70	1,024
76	84	93	77	40	14	14	7	1	-	a/	960
56	79	115	122	79	43	50	17	42	74	95	896
-	-	199	102	29	62	27	10	62	95	90	676
18	2	1	1	5	31	21	1	1	a/	a/	646
25	61	30	27	27	20	6	-	-	-	1	579
9	11	31	36	44	55	54	7	35	53	44	423
3	4	54	17	39	20	22	2	36	35	29	408
12	14	22	11	4	7	-	-	-	-	-	275
15	13	17	3	2	2	3	a/	11	20	15	254
12	11	23	7	11	8	23	4	14	21	20	250
16	20	31	9	21	17	6	-	1	5	3	230
7	9	10	27	13	16	6	2	20	5	3	230
728	654	765	610	394	415	339	81	295	389	470	13,407
308	261	265	346	277	315	280	129	402	479	509	6,467
1,036	915	1,030	956	671	730	619	210	697	868	979	19,874
201	220	237	271	322	384	407	114	459	522	589	4,888
1,237	1,135	1,267	1,227	993	1,114	1,026	324	1,156	1,390	1,568	24,762
1,387	1,211	1,292	1,199	900	912	786	241	819	932	968	24,680

a/ Indicates less than $0.5 million.

b/ Includes operating expenses, centrally funded programs, transportation, disaster relief, and American schools and hospitals.

APPENDIX II-B. ECONOMIC SUPPORT FUND DISBURSEMENTS BY MAJOR RECIPIENTS, FISCAL YEARS

Country	1962	1963	1964	1965	1966	1967	1968	1969	1970
South Vietnam	113	133	160	217	583	490	392	299	361
Israel	-	-	-	-	-	-	-	-	-
Egypt	20	10	-	-	-	-	-	-	-
Jordan	37	36	34	33	32	32	10	-	-
South Korea	93	90	76	70	61	45	35	20	10
Laos	29	38	33	39	46	46	53	41	44
Syria	-	-	-	-	-	-	-	-	-
Portugal	-	-	-	-	-	-	-	-	-
Thailand	16	10	7	12	30	36	36	25	19
Zaire	63	35	20	15	19	17	15	3	-
Other Countries	428	261	136	106	134	107	61	55	69
Total (Current dollars)	799	613	466	492	905	773	602	443	503
Total (1972 Dollars)	1,143	862	646	669	1,200	992	746	524	564

SOURCE: U.S. Agency for International Development, U.S. Overseas Loans and Grants, 1945-1971, and 1945-1978; information provided to CBO by AID.

APPENDIX II-C. FOOD AID (P.L. 480) DISBURSEMENTS BY MAJOR RECIPIENTS, FISCAL YEARS

	1962	1963	1964	1965	1966	1967	1968	1969	1970
India	252	251	268	391	567	360	325	269	222
Pakistan	152	173	155	158	23	94	163	8	86
South Korea	71	73	113	63	115	62	95	189	104
South Vietnam	32	53	59	50	143	74	139	99	111
Egypt	158	98	94	95	26	12	-	-	-
Indonesia	2	5	5	3	24	26	58	178	146
Bangladesh	-	-	-	-	-	-	-	-	-
Brazil	73	48	151	25	25	79	22	10	62
Chile	7	22	27	14	14	8	23	15	7
Israel	25	18	17	29	27	-	52	37	41
Morocco	16	45	20	22	34	36	56	28	17
Philippines	21	10	16	11	6	29	5	10	14
Sri Lanka	4	7	3	4	7	3	23	18	4
Tunisia	17	32	19	30	2	28	35	37	28
Turkey	113	33	36	32	17	8	12	47	46
Cambodia	-	-	-	-	-	-	-	-	-
Other Countries	407	548	474	426	552	146	326	270	237
Total (Current dollars)	1,350	1,416	1,457	1,353	1,582	965	1,334	1,215	1,125
Total (1972 dollars)	1,931	1,992	2,021	1,841	2,098	1,239	1,653	1,438	1,261

SOURCE: U.S. Agency for International Development, U.S. Overseas Loans and Grants, 1945-1971, and 1945-1978; information provided to CBO by AID.

1962-1979 (Millions of dollars)

1971	1972	1973	1974	1975	1976	TQ	1977	1978	1979	Total
384	385	312	333	188	2	–	–	–	–	4,352
–	50	50	50	325	700	75	735	785	785	3,555
–	–	–	9	253	253	537	700	751	835	3,368
5	55	50	45	88	46	86	70	93	93	845
–	–	–	33	–	35	–	–	–	–	568
41	47	45	33	24	–	–	–	–	–	559
–	–	–	–	83	17	79	80	90	90	439
–	–	–	–	15	35	65	20	300	–	435
17	15	11	5	–	–	–	–	–	–	239
–	–	–	–	–	12	–	20	10	–	229
126	68	154	132	290	22	49	141	192	179	2,710
573	620	622	640	1,266	1,122	891	1,766	2,221	1,982	17,299
612	634	608	580	921	859	663	1,265	1,490	1,223	16,201

1962-1979 (Millions of dollars)

1971	1972	1973	1974	1975	1976	TQ	1977	1978	1979	Total
235	105	64	71	228	181	22	126	136	138	4,211
101	103	82	43	85	97	33	37	58	41	1,692
107	212	159	7	14	117	13	75	56	38	1,683
188	68	188	270	50	1	–	–	–	–	1,525
–	–	1	13	117	206	16	209	192	50	1,287
98	125	118	11	46	57	38	92	123	96	1,251
–	87	59	51	242	183	–	83	99	117	921
35	6	10	6	8	1	2	1	–	1	565
6	6	3	3	62	59	4	32	6	9	327
56	54	60	2	9	14	4	7	7	5	464
40	36	17	17	13	29	3	23	25	21	498
27	38	37	16	11	19	2	49	27	24	372
18	17	11	9	30	26	2	44	38	21	289
31	24	14	7	10	8	–	12	18	16	368
29	8	6	4	4	–	–	–	–	–	395
7	21	26	183	94	–	–	–	–	–	331
250	313	264	260	315	302	53	403	444	507	6,497
1,228	1,223	1,119	973	1,338	1,300	192	1,193	1,229	1,084	22,676
1,311	1,248	1,094	882	1,087	995	143	855	824	669	22,215

APPENDIX II-D. MULTILATERAL FOOD AID PROGRAMS

WORLD FOOD PROGRAM

The World Food Program was approved by the United Nations in 1961. The program is a coordinating mechanism for project-oriented multilateral food aid. The Title II donations of the United States (and some Title I donations) comprise the U.S. contribution. The program selects the recipients for its allocation of Title II aid in line with U.S. Congressional directives.

FOOD AID CONVENTIONS

Food Aid Conventions do not distribute food aid directly but rather coordinate the political and economic aspects of bilateral food assistance. The Food Aid Convention of 1980 commits donors to providing a minimum volume of 7.6 million metric tons of food grain annually, with the United States being the major donor. 1/ Whereas donors under the World Food Program make a monetary commitment, Food Aid Convention donors pledge a specific quantity. This difference is significant in periods of short supply and high prices, as in 1973 to 1974. Under the current convention, the United States is pledged to provide a total of 4.47 million metric tons. Donations under Titles I and II are counted toward this goal, but not food provided through the Economic Support Fund.

1/ Press Release, Food Aid Committee, July 2, 1980.

APPENDIX II-E. ESTIMATED NET BUDGET COST OF P.L. 480

Table 8 in Chapter II shows the estimated net costs of the P.L. 480 program in an average year. Total costs are adjusted to reflect two categories of offsetting amounts: savings in the overall federal budget, and increases in export revenues. The assumptions upon which these calculations are based are outlined below.

It should be emphasized that these calculations are not based on an actual year but rather on an "average" fiscal year 1980. Because of extraordinary and unsettled events in international agricultural markets, calculations for the actual fiscal year 1980 are impossible. Using a hypothetical year makes these calculations typical rather than actual.

PURCHASES FROM THE COMMODITY CREDIT CORPORATION

Some P.L. 480 products are purchased from Commodity Credit Corporation (CCC) stocks, which reduces net Department of Agriculture outlays. This is in effect an intragovernmental transfer. In fiscal year 1979, reimbursements to the CCC accounted for only 3 percent of P.L. 480 program costs, or $44.1 million. This figure was used in the estimate for fiscal year 1980 as well.

LOAN REPAYMENTS

Loan repayments from countries in the P.L. 480 program will reduce future budgets. The present discounted value of these repayments should therefore be subtracted from the program costs. As only Title I sales involve any sort of repayment, the budget savings will be sensitive both to the overall program level and to the mix between Title I and Title II funding. CBO has arrived at a present value of these loan repayments of 26 percent. This figure is based on the following assumptions:

- 15 percent of Title I loans are made with a two-year grace period at an interest rate of 2 percent, followed by 19 years of repayment in equal installments at 3 percent interest on the outstanding balance.

- o 85 percent of the loans are made with a 10-year grace period at an interest rate of 2 percent, followed by 31 years of repayment in equal installments at 3 percent interest on the outstanding balance.

- o Future repayments are discounted at a rate of 10 percent.

The value of loan repayments based on sales made in 1980 is equal to 26 percent of the original Title I budget request for fiscal year 1980 of $843 million, less $93 million for transportation and 15 percent of Title I funds reinvested under Title III, for a total of $166 million.

PRICE EFFECTS

In estimating the effect of P.L. 480 on price levels, one critical parameter is the degree to which P.L. 480 shipments displace commercial shipments. By law, Title I and Title II shipments are supposed to be completely additional: they should not displace commercial shipments at all. Displacement, however, is difficult to detect. Title I recipients are required to meet a "usual marketing requirement" and maintain commercial imports near their average levels for the previous five years, but past imports are not always a good indication of future import intentions. A country with increasing imports can, over time, displace commercial imports with P.L. 480 aid. Furthermore, a country that might increase imports in response to a production shortfall could meet its "usual marketing requirement" and instead utilize P.L. 480 aid. Any estimates of the actual degree of displacement require information about the import intentions of recipient countries, information not readily available from those countries. Because an accurate displacement figure is difficult to derive, two displacement figures are used in estimating program costs: no displacement (0 percent) and 50 percent displacement, which correspond to complete (100 percent) and 50 percent additionality.

Wheat

With no displacement, P.L. 480 will increase the U.S. and international price of wheat by about $0.20 per bushel. With 50 percent displacement, the price change should be closer to $0.10 per bushel. These price changes are based on the following assumptions:

- Prices will rise by $0.125 per bushel for every additional 100 million bushels of P.L. 480 exports, as supplies on the commercial markets are reduced. ($0.125 is the middle of a price response range of $0.10 to $0.15 calculated by the Department of Agriculture.)

- P.L. 480 wheat shipments are 4.3 million metric tons (1.58 hundred million bushels). The P.L. 480 program was expected to ship this quantity of wheat at the beginning of fiscal year 1980, before the events in Cambodia and Afghanistan.

- With no displacement, the entire 1.58 hundred million bushels represent a reduction in supply. If the price effect of such reductions is $0.125 per bushel per each hundred million bushels, then 158 million bushels will raise the price by $0.20 per bushel. With a 50 percent displacement rate, the additional shipments amount to only 79 million bushels, and prices will rise by only $0.10 per bushel.

Rice

With no displacement, P.L. 480 will increase the U.S. and international price of rice by about $1.54 per hundredweight (cwt.). With 50 percent displacement, the price change will be closer to $0.77 per cwt. These price changes are based on the following assumptions:

- Prices will rise by $0.175 per cwt. for every additional million cwt. of rice shipped under P.L. 480. ($0.175 is the middle of a price response range of $0.15 to $0.20 calculated by the Department of Agriculture.)

- P.L. 480 rice shipments are 0.4 million metric tons (8.8 million cwt.). The P.L. 480 program was expected to ship this quantity of rice at the beginning of fiscal year 1980.

- With no displacement, $0.175 per cwt. per million cwt. times 8.8 million cwt. is equivalent to $1.54 per cwt. With a 50 percent displacement rate, the additional shipments amount to only 4.4 million cwt., and prices will rise by only $0.77 per cwt.

FARM PROGRAM SAVINGS

The farm program savings were calculated based on crops of 2.0 billion bushels for wheat and 120 million cwt. for rice. Eligibility for deficiency payments is assumed to be 80 percent for wheat and 100 percent for rice. These figures are roughly consistent with previous time trends and past experience. The farm price is assumed to be at or below the target price established by the U.S. Department of Agriculture, and no set-asides or diversions are in effect. The farm program savings are calculated by multiplying the price changes effected by P.L. 480 shipments by the eligible crop. This amount would otherwise go to farmers as deficiency payments. If prices were to fall as far as the loan rate, the federal government would have to spend an equivalent amount on the loan program. With no displacement, P.L. 480 will reduce farm program outlays by $320 million for wheat and by $185 million for rice, yielding a total farm program savings of $505 million. With a 50 percent displacement rate, the total is reduced to $252 million.

Farm program savings were calculated only for wheat and rice because other commodities are shipped in such small quantities compared to total production that price effects are probably negligible. P.L. 480 feed grain shipments are about 0.2 percent of the total crop, while both wheat and rice are about 7 percent.

EXPORT REVENUE CHANGES

Calculations of export revenue changes are based on total exports of 1.2 billion bushels for wheat and 75 million cwt. for rice. In all cases, the present discounted value of P.L. 480 loan repayments, or $166 million, represents an increase in export income.

P.L. 480 was estimated to account for 158 million bushels of wheat and 8.8 million cwt. of rice. Commercial exports would thus be 1.04 billion bushels for wheat and 66 million cwt. for rice. If it is assumed that P.L. 480 commodities are taken entirely from domestic supply, and that there is no displacement, the price increases effected by P.L. 480 of $0.20 per bushel for wheat and $1.54 per cwt. for rice will increase the value of wheat shipments by $208 million and rice shipments by $102 million, which, together with the P.L. 480 repayments, will increase the export earnings of the United States by $476 million.

Assuming 50 percent displacement, the price effects are cut in half. Commercial wheat exports would bring in $104 million more, and commercial rice exports would bring in $51 million more. Some commercial exports have, however, been displaced, and the revenues that would have resulted from these sales must be subtracted from the price gains. It is assumed that the wheat is sold for $3.40 per bushel and the rice for $9.05 per cwt. (These were the target prices at the beginning of fiscal year 1980.) 1/ If half of P.L. 480 wheat sales (79 million bushels) and half of rice sales (4.4 million cwt.) are displacements of commercial sales, $261 million will be lost on wheat and $36 million on rice. This loss of $297 million is offset by the increase in revenue from the price rise effected by P.L. 480, $104 million on wheat and $51 million on rice, for a loss of $155 million on commercial shipments. When the P.L. 480 repayments are added to this figure, the net gain is $23 million.

P.L. 480 commodities might not be taken entirely from domestic supply. The price rise might discourage other foreign buyers. In the unlikely event that all the commodities were taken from exports, then net export earnings would drop by a total of $96 million with no displacement, and by $273 million with 50 percent displacement. In this case, the domestic price elasticity would have to be zero.

1/ These prices reflect the effect of the P.L. 480 program. Were it not for the program, the prices would be lower: $3.20 for wheat and $7.51 for rice with no displacement, and $3.30 and $8.28 with 50 percent displacement. These prices were used to calculate the loss in export revenues.

APPENDIX III-A. INTERNATIONAL ORGANIZATIONS AND PROGRAMS

The United States makes contributions to various agencies of the United Nations and to other international organizations such as the Organization of American States and the Organization for Economic Cooperation and Development. These contributions are either assessed or voluntary. The bulk of the U.S. donations are assessed on the basis of ability to pay, usually measured by net national income. 1/

Only voluntary contributions are considered under the Foreign Economic and Financial Assistance section of the budget (Function 150), and therefore are subject to annual Congressional authorization and appropriation. The major recipient agencies are the UN Development Program, which concentrates on technical assistance; the UN Relief and Works Agency, which aids refugees; and the UN Children's Fund, which provides clothing, food, and clinics for children. As shown in Appendix Table III-A1, these contributions have risen by $68 million in the past three years, from $191 million in fiscal year 1976 to $259 million in fiscal year 1979. Measured in constant dollars, however, there has been only a small increase.

Currently, U.S. contributions comprise around 20 to 30 percent of the international organizations' budgets, a decline from the level of the mid-1960s but a level consistent with encouraging more sharing of financial responsibilities by the various donor countries.

1/ In fiscal year 1979, the United States contributed an assessed share of $386 million to international organizations.

APPENDIX TABLE III-A1. APPROPRIATIONS FOR U.S. VOLUNTARY CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS AND PROGRAMS, FISCAL YEARS 1976-1979 (Millions of dollars) a/

	1976	1977	1978	1979
United Nations and Related Agencies				
UN Development Programs	100	100	115	126
UN Relief and Works Agency	40	67	52	52
UN Childrens' Fund	20	20	25	30
Other	2	15	19	20
Subtotal	162	202	211	228
Organization of American States	24	15	18	16
Other	5	6	10	15
Total (Current dollars)	191	223	239	259
Total (1972 dollars)	146	160	160	160

SOURCE: Information provided to CBO by the Agency for International Development.

a/ Some voluntary contributions are funded under other accounts. These include the UN Fund for Regulation Activities (funded through AID); UN Forces in Cyprus (funded through ESF); and the UN Fund for Drug Abuse Control (funded through the Department of State).

APPENDIX III-B. LOAN AUTHORIZATIONS BY MULTILATERAL DEVELOPMENT BANKS, U.S. FISCAL YEARS 1962-1979 (Billions of dollars)

	1962-71	1972	1973	1974	1975	1976	TQ	1977	1978	1979	Total
World Bank Group											
IBRD	10.2	1.9	1.8	3.5	4.0	4.8	1.1	5.8	6.0	7.2	46.3
IFC	0.5	0.1	0.2	0.2	0.2	0.2	a/	0.2	0.3	0.4	2.3
IDA	3.1	0.7	1.7	1.1	1.6	1.7	0.2	1.4	2.8	2.6	16.8
IDB	3.6	0.5	0.9	1.1	1.1	1.4	0.3	1.4	1.9	2.0	14.2
ADB	0.4	0.3	0.4	0.4	0.6	0.9	0.1	0.7	1.0	1.0	5.9
AfDB	a/	a/	a/	0.1	0.1	0.2	a/	0.3	0.2	0.2	1.1
Total	17.8	3.5	4.9	6.4	7.7	9.2	1.7	9.8	12.3	13.4	86.6

SOURCE: Agency for International Development, U.S. Overseas Loans and Grants, 1945-1978, p. 204, and 1945-1979, p. 208.

NOTE: Detail may not add to totals because of rounding.

a/ Less than $100 million.

APPENDIX III-C. TERMS AND ELIGIBILITY CRITERIA OF U.S. AND MULTILATERAL DONORS

	Agency for International Development	World Bank (IBRD) a/	World Bank (IDA)	Inter-American Development Bank, Ordinary and Inter-Regional Capital a/
Lowest-Income Recipients				
Maturity (years)	40	-	50	-
Grace period (years)	10	-	10	-
Grace period (percentage interest rate)	2	-	3/4 b/	-
Amortization period (percentage interest rate)	3	-	3/4 b/	-
Middle-Income Recipients				
Maturity (years)	20	15-20	-	15-30
Grace period (years)	2	3-5	-	c/
Grace period (percentage interest rate)	2	7.9	-	7.9
Amortization period (percentage interest rate)	3	7.9	-	7.9

SOURCE: Information provided to CBO by the Agency for International Developmen (July 1980).

NOTE: All terms were those in effect in mid-1979.

Inter-American Development Bank, Fund for Special Operations	Asian Development Bank	Asian Development Fund	African Development Bank	African Development Fund	International Fund for Agricultural Development (IFAD)
40	-	40	-	50	50
10	-	10	-	10	10
1	-	1 b/	-	3/4 b/	1 b/
2	-	1 b/	-	3/4 b/	1 b/
25-30	10-30	-	12-25	-	15-20
5-7	2-7	-	2-6	-	3-5
2-4	7.7	-	8	-	4-8
2-4	7.7	-	8	-	4-8

a/ The interest rate is 1/2 percent above the bank's cost of borrowing. Rates change every quarter. These rates were in effect April to June 1979.

b/ These loans are not subject to interest payments. The charge is for the cost of the services associated with processing the loans.

c/ The grace period is tied to the time required to finish the project plus an additional six months.

APPENDIX III-D. DISTRIBUTION OF FUNDS FROM MULTILATERAL DEVELOPMENT BANKS

Country	1962	1963	1964	1965	1966	1967	1968	1969	1970
India	195	203	95	207	199	226	25	209	271
Brazil	26	19	22	157	147	237	138	183	374
Mexico	183	48	72	48	225	43	213	109	280
Indonesia	-	-	-	-	-	-	-	51	93
South Korea	-	14	-	-	-	-	17	93	72
Philippines	39	23	-	26	5	49	-	18	68
Colombia	95	85	60	23	66	51	83	189	181
Argentina	122	33	5	51	24	77	118	188	167
Yugoslavia	-	65	35	70	-	10	60	46	99
Turkey	-	27	-	39	1	25	-	88	15
Thailand	-	37	1	23	31	11	54	42	57
Bangladesh	-	-	-	-	-	-	-	-	-
Egypt	-	-	-	-	-	-	-	-	26
Malaysia	-	-	59	-	30	53	14	36	30
Morocco	-	17	-	15	38	-	4	11	75
Pakistan	22	54	133	98	77	68	45	174	61
Nigeria	-	14	32	117	32	1	-	20	36
Peru	15	16	26	29	79	36	39	-	9
Kenya	3	-	3	10	-	18	15	4	46
Iran	-	-	17	37	10	25	36	68	47
Subtotal	700	655	560	950	964	930	861	1,529	2,007
Other Countries	437	226	577	593	521	606	496	813	994
Total (Current dollars)	1,137	881	1,137	1,543	1,485	1,536	1,357	2,342	3,001
Total (1972 dollars)	1,627	1,239	1,577	2,099	1,969	1,972	1,682	2,772	3,364

SOURCE: Agency for International Development, U.S. Overseas Loans and Grants, 1945-1971, and 1945-1979.

) MAJOR RECIPIENTS, U.S. FISCAL YEARS 1962-1979 (Millions of dollars)

1971	1972	1973	1974	1975	1976	TQ	1977	1978	1979	Total
243	314	722	442	849	901	80	891	1,602	1,207	8,881
291	675	362	695	478	831	175	706	888	960	7,364
175	336	332	466	558	542	95	263	636	932	5,556
131	104	218	148	441	678	31	541	695	1,071	4,202
145	99	289	153	410	513	61	446	540	666	3,518
61	78	104	228	309	402	34	475	665	436	3,020
118	62	236	122	82	184	64	371	397	518	2,987
207	134	106	13	216	107	91	493	323	383	2,858
99	118	109	148	262	292	-	336	452	275	2,476
122	158	201	242	220	254	26	145	205	500	2,268
27	60	129	208	67	269	81	208	344	367	2,016
-	-	223	91	319	209	-	196	203	425	1,666
-	30	51	44	231	175	52	373	165	340	1,487
67	60	93	204	143	128	48	156	171	173	1,465
45	24	109	140	66	77	77	180	89	422	1,389
47	8	20	-	31	55	18	70	58	235	1,274
99	120	3	109	107	70	17	62	90	182	1,111
100	13	11	95	75	147	46	154	6	186	1,082
44	56	9	84	104	130	45	123	113	265	1,072
169	110	97	367	52	-	-	-	-	-	1,035
,190	2,559	3,424	3,999	5,020	5,964	1,041	6,189	7,642	9,543	56,727
,212	927	1,476	2,384	2,640	3,248	612	3,652	4,631	3,827	29,872
,402	3,486	4,900	6,383	7,660	9,212	1,653	9,841	12,273	13,370	86,599
,631	3,557	4,790	5,787	6,268	7,054	1,230	7,049	8,231	8,253	74,151

APPENDIX V-A. METHODOLOGY USED IN CALCULATING "TRADE CREATION" AND "TRADE DIVERSION"

The equations used to calculate changes in eligible developing country (EDC) exports resulting from trade concessions follow the methodology used by Baldwin and Murray. 1/ The equation for increases in LDC exports resulting from additions to U.S. demand, referred to as trade creation (TC) in the economics literature, is:

$$TC = M_i e_i [\Delta t_i \div (1 + t_i)]$$

Where

M_i	=	initial level of imports from the EDC by the developed nation granting preferences;
e_i	=	import demand elasticity;
Δt_i	=	change in tariff rate;
t_i	=	the initial tariff level; and
i	=	the ISAC trade categories. 2/

The diversion of trade from nonbeneficiary sources is calculated by weighting trade creation by the ratio of imports from nonbeneficiary sources (M_{n_i}) to domestic production (V_i):

1/ R.E. Baldwin and T. Murray, "MFN Tariff Reductions and Developing Country Trade Benefits Under the GSP," Economic Journal (March 1977), pp. 30-46.

2/ Data on tariff rates and trade volumes were obtained from the Office of the U.S. Trade Representative, and the import demand elasticities from William R. Cline and others, Trade Negotiations in the Tokyo Round: A Quantitative Assessment (The Brookings Institution, 1978).

$$TD = TC_i(M_{n_i} \div V_i)$$

This equation is based on the assumption that the substitutability of imports between goods originating from ineligible countries--mostly developed countries--and EDCs is the same as the substitutability between U.S.-made goods and imports from EDCs.

APPENDIX V-B. SECTORAL DISTRIBUTION OF INCREASED ELIGIBLE DEVELOPING COUNTRY EXPORTS OF MANUFACTURES RESULTING FROM GSP IN 1976 AND 1977 (Millions of dollars)

	1976			1977		
	Additional U.S. Demand	Diversion From Ineligible Countries	Total	Additional U.S. Demand	Diversion From Ineligible Countries	Total
Textiles	13.2	0.3	13.5	17.7	0.4	18.1
Lumber	5.1	0.3	5.4	6.4	0.4	6.8
Paper	0.2	--	0.2	0.3	--	0.3
Industrial Chemicals	1.7	0.2	1.9	2.1	0.2	2.3
Drugs and Soaps	1.6	0.1	1.7	2.1	0.1	2.2
Paints, Miscellaneous Chemicals	0.3	--	0.3	0.3	--	0.3
Rubber, Plastic	27.1	1.0	28.1	39.8	1.3	41.1
Leather	26.0	3.7	29.7	23.3	3.5	26.8
Stone, Clay, Ceramics	4.2	0.2	4.4	7.2	0.4	7.6
Ferrous Metals	3.3	0.3	3.6	6.4	0.7	7.3
Nonferrous Metals	12.4	0.9	13.3	5.7	0.4	6.1
Cutlery, Hand Tools	7.1	0.2	7.4	11.0	0.4	11.4
Other Fabricated Metals	18.8	0.6	19.4	30.2	1.0	31.2
Construction, Mining Equipment	0.1	--	0.1	0.1	--	0.1
Office Equipment	2.0	0.1	2.1	2.1	0.1	2.2
Non-Electric Equipment	6.7	0.4	7.1	9.3	0.5	9.8
Heavy Electrical Machinery	7.6	0.2	7.8	13.1	0.4	13.5
Consumer Electronics	13.5	4.9	18.4	13.1	4.4	17.5
Scientific Instruments	8.7	0.6	9.3	14.9	1.0	15.9
Photographic Equipment	3.5	0.3	3.8	4.9	0.6	5.5
Non-Consumer Electronics	0.5	--	0.5	1.2	--	1.2
Transportation Equipment	5.3	0.3	5.6	13.7	0.8	14.5
Aerospace	3.3	0.1	3.4	3.3	0.1	3.4
Automotive	3.3	0.5	3.8	6.6	0.9	7.5
Miscellaneous Manufactures a/	184.0	14.0	198.0	276.0	20.8	296.8
Total	359.5	29.3	388.8	510.8	38.4	549.2

SOURCE: CBO estimates based on data provided by the Office of the U.S. Trade Representative.

a/ This category includes sporting goods; toys and games; jewelry; musical instruments; furniture; printing and publishing; writing instruments; small arms and ammunition; and manufactures not elsewhere classified.

APPENDIX V-C. SECTORAL DISTRIBUTION OF INCREASED EXPORTS OF ELIGIBLE DEVELOPING COUNTRIES, OTHER THAN TOP FIVE BENEFICIARIES, IF ALL ELIGIBLE GOODS HAD ENTERED DUTY FREE IN 1977 (Millions of dollars)

	Increased Trade Due to GSP	Additional Increase Due to Removal of Limitations a/	Percent of Increase
Textiles	6.4	4.5	68
Lumber	3.0	1.2	40
Paper	--	--	--
Industrial Chemicals	1.4	0.2	14
Drugs and Soaps	1.0	0.6	60
Paints, Miscellaneous Chemicals	0.2	0.2	100
Rubber, Plastic	7.3	0.4	5
Leather	17.0	2.4	14
Stone, Clay, Ceramics	1.3	0.6	46
Ferrous Metals	2.4	0.1	4
Nonferrous Metals	5.0	9.1	182
Cutlery, Hand Tools	2.3	0.1	4
Other Fabricated Metals	4.1	0.5	12
Construction, Mining Equipment	--	--	--
Office Equipment	0.8	2.6	325
Non-Electric Equipment	2.3	0.5	22
Heavy Electrical Machinery	2.6	2.5	96
Consumer Electronics	2.1	4.7	223
Scientific Instruments	3.8	0.5	13
Photographic Equipment	1.1	0.5	45
Non-Consumer Electronics	0.1	0.1	100
Transportation Equipment	2.4	1.8	75
Aerospace	3.4	0.3	9
Automotive	1.6	0.4	25
Miscellaneous Manufactures	54.7	32.4	59
Total	126.4	66.2	52

SOURCE: CBO estimates based on data provided by the Office of the U.S. Trade Representative.

a/ These restrictions include Competitive Need Criteria (50 percent market shares and ceiling on value of trade in specific products) and value-added limitations, transshipment, etc.

APPENDIX V-D. SECTORAL DISTRIBUTION OF NET CHANGE IN GSP-ELIGIBLE COUNTRIES' EXPORTS OF MANUFACTURES ON A 1977 TRADE BASE RESULTING FROM TOKYO ROUND TARIFF REDUCTIONS (Millions of 1977 dollars) a/

	Diversion from GSP Exports Due to Tariff Reductions	Additional U.S. Demand for Exports from GSP-Eligible Countries Due to Tariff Reductions	Net Changes in GSP-Eligible Countries' Trade Resulting from Tariff Reductions
Lumber	0.1	8.4	8.3
Paper	--	0.2	0.2
Industrial Chemicals	0.1	0.9	0.8
Drugs and Soaps	0.2	0.4	0.2
Paints, Miscellaneous Chemicals	--	0.3	0.3
Rubber, Plastic	1.6	38.0	36.4
Leather	1.1	8.0	6.9
Stone, Clay, Ceramics	0.3	2.8	2.5
Ferrous Metals	1.5	8.7	7.2
Nonferrous Metals	1.1	8.4	7.3
Cutlery, Hand Tools	0.3	1.3	1.0
Other Fabricated Metals	0.4	3.7	3.3
Construction, Mining Equipment	--	0.2	0.2
Office Equipment	0.2	2.4	2.2
Non-Electric Equipment	0.3	1.8	1.5
Heavy Electrical Machinery	0.4	8.0	7.6
Consumer Electronics	9.7	24.4	14.7
Scientific Instruments	2.1	15.9	13.8
Photographic Equipment	0.4	1.8	1.4
Non-Consumer Electronics	0.3	17.9	17.6
Transportation Equipment	0.4	3.3	2.9
Aerospace	0.2	7.2	7.0
Automotive	0.3	2.7	2.4
Miscellaneous Manufactures	18.0	199.9	181.9
Total	39.0	366.6	327.6

SOURCE: CBO estimates based on data provided by the Office of the U.S. Trade Representative.

a/ Excluding textiles.

APPENDIX V-E. ESTIMATED MAXIMUM LOSS IN NONRUBBER FOOTWEAR EXPORTS TO THE UNITED STATES FROM TAIWAN AND SOUTH KOREA DUE TO QUANTITATIVE RESTRICTIONS IN 1979

	Taiwan	South Korea
1979 Percentage Share of U.S. Market	30.9	6.0
1979 Volume of Exports (millions of pairs)	124.9	24.4
1979 Value of Shipments (millions of 1979 dollars)	463.1	166.6
Average Percentage Share of U.S. Market, 1976-1977	43.6	13.9
Volume of Trade in 1979 Corresponding to 1976-1977 Market Share (millions of pairs)	176.4	56.2
Value of 1976-1977 Market Share in 1979 (millions of 1979 dollars)	654.1 a/	383.7 b/
Net Loss in Value of Shipments (millions of 1979 dollars)	191.0	217.1

SOURCE: CBO estimates based on data provided by the U.S. Department of Commerce.

a/ Assuming an average unit price of $4.045, obtained by dividing the value of shipments by the volume of shipments.

b/ Assuming an average unit price of $6.856, obtained by dividing the value of shipments by the volume of shipments.

APPENDIX V-F. EXTENT TO WHICH AGGREGATE CEILINGS ON U.S TEXTILE AND APPAREL IMPORTS WERE FILLED IN 1978 (Millions of square-yard equivalents)

	Aggregate Quota Level	Total Volume of Shipments	Percent of Aggregate Quota Filled
Pakistan	150.0	165.1	110.1
Hong Kong	957.7	924.2	96.5
Taiwan	758.9	700.0	92.2
Macao	42.4	38.7	91.4
South Korea	623.7	541.7	86.9
Haiti	88.5	75.4	85.2
Poland	44.5	32.3	72.5
Philippines	255.1	161.2	63.2
Singapore	232.0	123.3	53.1
India	186.2	85.6	46.0
Colombia	104.0	45.8	44.0
Romania a/	33.5	12.3	36.7
Brazil	130.5	33.0	25.3

SOURCE: U.S. Department of Commerce, Bureau of Textiles.

a/ Only products made from wool and manmade fibers.

APPENDIX V-G. NUMBER OF PRODUCT-SPECIFIC QUOTAS ON U.S. TEXTILE AND APPAREL IMPORTS FILLED BY 70 PERCENT OR MORE IN 1978

	Number of Product-Specific Quotas	Number of Quotas 70 Percent or More Filled	Percent of Quotas 70 Percent or More Filled
Hong Kong	31	23	74
South Korea	77	36	47
Pakistan	28	11	39
Taiwan	80	29	36
Poland	45	13	29
Macao	36	10	28
Thailand	55	14	25
Malaysia	40	9	23
Haiti	43	9	21
Singapore	56	12	21
Mexico	79	16	20
Romania	52	7	13
India	74	9	12
Brazil	30	3	10
Colombia	75	6	8

SOURCE: CBO estimates based on information provided by U.S. Department of Commerce, Bureau of Textiles.