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THE BENEFITS OF FOREIGN AID TO THE UNITED STATES ECONOMY

Y 4. AP 6/2: S. HRG. 104-716

The Benefits of Foreign Aid to the...

HEARING

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

SPECIAL HEARING

Printed for the use of the Committee on Appropriations



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WASHINGTON : 1996

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THE BENEFITS OF FOREIGN AID TO THE UNITED STATES ECONOMY

MONDAY, SEPTEMBER 16, 1996

U.S. SENATE,
SUBCOMMITTEE ON FOREIGN OPERATIONS,
EXPORT FINANCING, AND RELATED OPERATIONS,
COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 3:05 p.m., in room SD-138, Dirksen Senate Office Building, Hon. James M. Jeffords presiding.

Present: Senators Jeffords and Leahy.

NONDEPARTMENTAL WITNESSES

STATEMENT OF GEORGE BURRILL, PRESIDENT, ASSOCIATES IN
RURAL DEVELOPMENT, INC., BURLINGTON, VT

OPENING STATEMENT OF SENATOR JAMES JEFFORDS

Senator JEFFORDS. I call the subcommittee hearing to order.

Today we have I think an extremely important hearing. One of the most misunderstood aspects of our relationship in the world right now is how advantageous it is for us to be involved internationally. We are here today to take a look at how we can make our sometimes troublesome relationships positive in the end result.

It is not news to anyone that the budget pressures are forcing cutbacks in the role of Federal Government and reductions in Federal assistance to many domestic programs. Foreign aid is not immune from this trend. In fact, it is more susceptible to budget cuts, because it is not seen as having a direct impact upon the lives of people or the economic health of our Nation.

This misperception is augmented by the fact that most Americans think that we pour great amounts of money into foreign aid programs and that they constitute a significant—probably as much as 15 percent, some say 25—percent of our budget. Yet, as the panelists know, this is far from the truth. Less than 1 percent of the Federal budget goes to foreign aid and a significant percentage of that goes to military aid.

Our panelists are here today to inform us about their business experiences and how they see foreign assistance benefiting the American economy. I appreciate their willingness to join us this afternoon. I am afraid most Americans are not aware of the importance of our foreign involvement to them and to their children's future.

As parents, we want our children to have the opportunity to maintain a high standard of living. As the population continues to expand, our economy must continue to grow in order to provide this opportunity. But it seems to me that the only way our economy will continue to expand at the rate it is is to steadily increase our markets abroad. U.S. businesses will have to become more international in their outlook.

The Federal Government will have to do a better job of encouraging businesses to prepare for global competition and to help them identify opportunities overseas. But overseas markets do not just spring up out of nowhere. They gradually develop as a nation climbs out of poverty and develops ties with the international trading community. As a country increases its standard of living, market opportunities naturally expand.

But just being the most powerful Nation on Earth does not automatically get us access to those markets. We have to have a relationship with those countries. We have to be involved in their development at an early stage if we expect special consideration later on. We need to speak their language and understand their culture.

As a victor in the cold war, we cannot expect to just scoop up the trade opportunities that emerge in freer economic surroundings. We must learn to be better salesmen for our products and we must learn how we can tailor our expertise in those settings. This is a challenge both for American business and foreign assistance.

I would like to thank my colleague, Senator Leahy, for being with me. He organized this hearing, and I commend him for that. He has a great outlook on these matters, and I am pleased to have him serving on the subcommittee.

I would also point out that we have excellent witnesses. We have George Burrill, a good friend for many years, president of Associates in Rural Development from Burlington, VT. He will testify in his capacity as the steering committee chair for the Business Alliance for Economic Development.

The alliance has produced a very useful white paper called "Foreign Assistance: What's in it from Americans?" I have a copy of it here.

Steven Daugherty of Pioneer Hi-Bred International of Des Moines, IA, will talk about the impact of foreign assistance upon agricultural trade. Next we will hear from Douglas Bloss of Armstrong International, and Mr. Patrick Cronin of Johnson Controls on the role that foreign assistance has played in the development of their businesses.

Finally, Bob Foster of Volunteers in Overseas Cooperating Assistance [VOCA], will discuss the effect that his volunteer time overseas has had on his dairy business opportunities.

So Senator, please.

OPENING REMARKS OF SENATOR PATRICK LEAHY

Senator LEAHY. Thank you, Mr. Chairman. I would note to Mr. Daugherty that Senator Harkin had hoped to be here and has been delayed, but he will submit a statement for the record. He wanted to make sure that you were appropriately welcomed, and Senator Jeffords has done that, but I also want to thank my colleague and

good friend Jim Jeffords for coming down, helping to make this hearing possible.

I know he made the trip back earlier than he might have otherwise from Vermont. George Burrill and Bob Foster know that especially this time of year we do not like leaving Vermont one moment earlier than we have to, but Jim made that sacrifice because this is an important hearing.

As the chairman has said to you, we talk about whether there is a constituency for foreign aid and everybody says, of course there is not. Well, there is. We think there is not because of the scandals when foreign aid was handed out to corrupt dictators who stuck it in their pockets. Foreign aid has been referred to as a luxury or charity or something we cannot afford. It is said that the American people do not support it. Well, the reality is somewhat different.

I have heard, as I think every Member of Congress has heard that if we just get rid of foreign aid we could balance the budget tomorrow. Well, here is the reality. Foreign aid is less than 1 percent of our budget.

Now, you could get rid of all foreign aid, and you not only would not balance the budget, but I tell you right now, there are a whole lot of companies in this country that are exporting, and if we cut this 1 percent we are going to make that deficit even worse, because this 1 percent pays for practically everything we try to do outside of our borders and in turn, pays for innumerable benefits within our borders.

We live in an increasingly competitive interdependent world, and our security at home is more and more dependent on the much-maligned and poorly understood and grossly underfunded programs that are collectively referred to as foreign aid. So I think we should begin this hearing by taking the term "foreign" out of foreign aid.

Foreign aid helps us. It helps others, but it helps us here in this country, and if we focus our attention on the benefits of foreign aid to the U.S. economy and U.S. security, I think we can broaden understanding of why the "cut foreign aid bandwagon" is misguided and wrong.

There are 5.8 billion people in the world today. Doing quick math, that is about the equivalent population of 22 times the United States. The United States and the rest of the world are both markets for our products, but if we had to rely just upon the U.S. market to keep our economy growing into the next century, is there any doubt the global marketplace is going to win, hands down?

It seems obvious to me anyway, and I think it is to all of the panelists today.

But the competition for those markets is fierce, and the United States is losing out today because of our own nearsightedness.

Since 1992 we have cut foreign aid over 20 percent. That trend is due to the simplistic notion that the more foreigners get, the less we get. In fact, I think the foreign aid budget is about 40 percent less than it was at the time President Reagan was in office, but as our foreign aid declines and we curtail our support for international organizations we see that just the opposite happening in Japan.

Japan is our foremost economic competitor. I think they would like to see us get out of the market entirely and just turn it over

to them, because there, foreign aid and international cooperation are closely linked to Japan's future prosperity.

Every day, American companies are searching for new consumers for their products, and developing countries are the obvious source. The market can only expand so far in Europe. It is the developing countries where the greatest opportunities are.

If you tap into these markets, you find all kinds of problems. The countries are plagued by poverty, political instability, corruption, investment codes that discourage investment, impenetrable bureaucracies, and unfortunately in some areas organized crime. But to try to respond to these and numerous other global challenges every year as the challenges get greater, we budget less.

Most Americans will not take notice of the shift inward until it is too late. While some in Congress boast about cutting back on aid give-aways and get cheers back home when they give those speeches, fortunately for this country our business community is striking out in just the opposite direction. They have accepted, and in fact many have embraced the reality of an interrelated and interdependent world where prosperity derives from engagement, not from retrenchment.

The business community knows, even if some politicians do not, that 80 percent of the foreign aid budget pays for goods and services the U.S. Government buys from American companies, which is supported by 200,000 jobs annually. Whether a farmer in Kansas or a truck manufacturer in Illinois, or an electronic engineer in California, they are all increasingly dependent on the worldwide marketplace for their livelihood.

This year, our foreign aid is used to buy tents to shelter millions of refugees in Africa, machines to build roads in Asia, immunization for children in Central America, wheat, and vegetable oil to avert starvation abroad. These are products made by American workers.

We can boil it down to purely dollars and cents reasons for doing it. It helps create jobs here, and some may ask the moral question, if you are 5 percent of the world's population using one-quarter of the world's resources, there is a moral responsibility to be involved, too.

In the past 5 years, our exports to developing countries have grown by \$100 billion. That has created 2 million new American jobs. Total U.S. aid to Latin America in this century totals about \$30 billion. This year alone, after a century of getting up to that \$30 billion level, our exports to their region will be 2½ times that amount. We are seeing the same trend in Africa, a region that was once dismissed as hopeless.

These markets do not just appear spontaneously in countries where people oftentimes cannot even afford a pair of shoes. They are created. Our foreign aid helps pave the way for America's private sector. It opens up markets, U.S. trade and investment. It takes an educated work force to do that.

It also takes American business people to show that kind of innovation. We are going to hear from some of them. Senator Jeffords has already introduced the panel. As Jim knows, it is rare that even the hint of parochialism ever comes up in the Appropriations Committee, but—nothing against Mr. Bloss, Cronin, or

Daugherty—I do see two good friends from Vermont, George Burrill and Bob Foster, both of whom I have worked with and both gentlemen I admire and know very, very well, and am glad to have them here.

SUMMARY STATEMENT OF GEORGE BURRILL

Senator JEFFORDS. Thank you. As Senator Leahy knows, Vermont probably is the most internationally minded State in the Union, and I say that without any doubt of being contradicted.

Senator LEAHY. Thank goodness, or we could not get away with our attitudes here. [Laughter.]

Senator JEFFORDS. George, please proceed.

Mr. BURRILL. Good afternoon. My name is George Burrill, president of Associates in Rural Development, and I am here today in my capacity as chair of the newly formed Business Alliance for International Economic Development.

The first project of the Business Alliance was the publication of a study called "Foreign Assistance, What's in it for Americans?" My remarks today will be observations and conclusions drawn from that study. Mr. Chairman, I would request that the study be entered into the record.

EXPORTS TO DEVELOPING WORLD

Exports to the developing world are growing immensely. As the 21st century unfolds, U.S. jobs and the health of our economy will be increasingly affected by how well we do in these markets. Only if the United States prepares, participates, successfully competes, will our economy grow to our fullest potential. Those countries that assist in the development of these markets and the development of the physical and social infrastructure that will make them grow will be the country's best place to reap the export market benefits.

While the United States has been withdrawing and cutting foreign assistance, our competitors step in to fill the void. They are now much more active in some of the most promising developing country markets. This will not do if we are to make our economy grow.

Some critics of foreign assistance believe the private sector should make these investments. Indeed they should and, in fact, they are. However, there is a level of basic investment that only Government can make. Let me cite, for example, programs that will change legal systems, induce policy reform, protect intellectual property, promote democracy, and improve health and education, all steps that must be achieved to assure sustained economic growth.

America's foreign assistance programs contribute greatly to both America's national security and to its economic security. In the interests of time, I will restrict my remarks to the latter.

Foreign assistance programs benefit the U.S. economy by increasing exports and by creating jobs. However, most Americans have no idea of how our foreign assistance programs work. One poll last year showed that nearly 6 in 10 Americans incorrectly believed that the United States spends more on foreign aid than on medicare. Few Americans realize that 80 percent of the total foreign as-

sistance budget is spent right here in the United States on American goods and services, more than \$10 billion in 1994. This translates to about 200,000 U.S. jobs.

But if there is one thing that we know for sure, it is that the American economy is growing today mainly because other countries want and can afford to buy our products and our services. Today, exports account for 10 percent of the entire U.S. economy. That is double the level of only a decade ago. In 1983, the jobs of 5 million workers depended on U.S. exports. Today, that number has reached 12 million.

The fastest-growing markets for U.S. goods and services are in the developing world. Between 1990 and 1995, exports to developing countries increased by nearly \$100 billion. That export boom created roughly 1.9 million jobs in the United States. This increase in U.S. exports to the developing world is no accident. Most of the foreign assistance that we spend on developing countries today goes toward making them good customers tomorrow.

American workers are benefiting handsomely from this effort. I draw your attention to the testimony of Byron Charlton of the AFL-CIO that has been submitted for the record.

U.S. foreign assistance now focuses on encouraging six types of reforms in developing countries. First, we encourage reform of developing countries' overall economic policy. For example, in the Czech Republic we assisted in the transition from a command economy to a free market system.

Second, we encourage developing countries to dismantle laws and institutions that prevent free trade.

Third, we are helping to privatize state-dominated economies. The dismantling of state-run industries is an important means of attracting foreign investment. The \$3 million United States Government investment to support privatization in the Indonesian energy sector has led to a \$2 billion award to an American firm for Indonesia's first private power contract.

Fourth, U.S. foreign assistance encourages developing countries to establish business codes, regulates stock markets, fair tax codes, and above all, the rule of law.

Fifth, we are helping to educate a new class of consumers in developing regions. When the United States helps educate a population, we develop a solid middle class with a vested interest in seeing economic reform succeed.

Sixth, we help to build small businesses. Community run lending programs administered by the United States Government are expanding small businesses and increasing per capita income in many developing countries, including Bolivia, Niger, Bangladesh, and Senegal.

AMERICA AT CROSSROADS

America is at a crossroads. We can choose to make a smart investment now, or we can pay a steep price later. The relatively small amount of money we spend on foreign economic assistance serves as an engine for our future economic growth. Foreign assistance thus is an investment, a means of creating future markets for American goods and services.

In deciding how much to invest, we should consider how the level of our foreign assistance today affects our exports and private investment in recipient countries tomorrow. The United States spent relatively more in foreign economic assistance in the 1960's and early 1970's than it does today. The economic activity we are seeing in the developing world is tightly linked to the work of the U.S. Government that was carried out 20 and 30 years ago.

Although the private sector is ultimately responsible for economic growth, the Government's work is critical. We must reverse the decline in foreign assistance that we have seen over the course of the last decade. At the very least, our goal should be to match the mean level of total U.S. economic assistance of the 1960's, about \$18 billion a year in dollars of today's purchasing power.

U.S. foreign assistance must be targeted geographically at countries that have the greatest growth potential. Just as United States economic assistance in the 1960's helped to create the tigers of East Asia in the 1980's, we must now look to the economic frontiers of the future, Eastern Europe, the new republics of the former Soviet Union, the Caribbean nations, Latin America, and Africa.

PREPARED STATEMENT

Mr. Chairman, thank you again for inviting me to speak here. I hope these hearings will help policymakers make the crucial connection between foreign assistance and U.S. economic security, which is the overwhelming concern of so many Americans today.

Senator JEFFORDS. Thank you very much, George.

[The statement follows:]

PREPARED STATEMENT OF GEORGE BURRILL

Good morning. My name is George Burrill, president of Associates in Rural Development, and I am here today in my capacity as Chair of the newly formed Business Alliance for International Economic Development.

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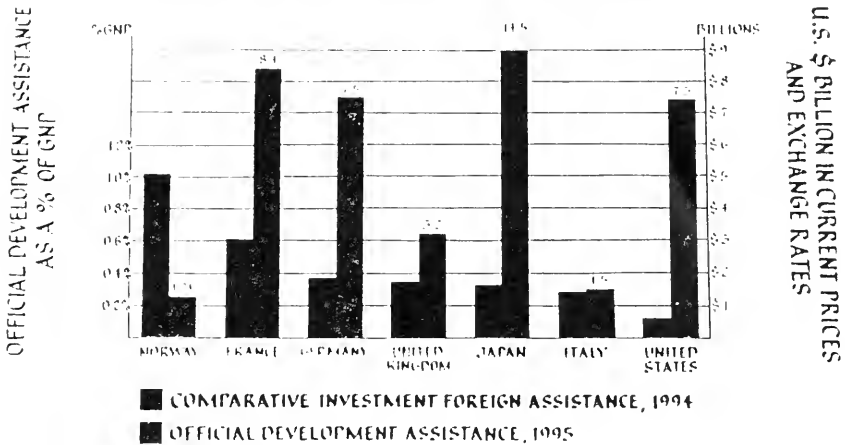
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Mr. Chairman, thank you again for inviting me to speak here. I hope these hearings will help policymakers make the crucial connection between foreign assistance and U.S. economic security, which is the overwhelming concern of so many Americans today.

COMPARATIVE INVESTMENT IN FOREIGN ASSISTANCE



U.S. exports to developed and developing countries—1995 dollars

	Billions
Developed countries:	
1974	\$176.4
1995	341.2
Developing countries:	
1974	91.4
1995	242.6

Source: OECD.

U.S. falls to fourth place

(Official development assistance, 1995—U.S. dollars in current prices and exchange rates)

	Billions
Japan	\$14.5
France	8.4
Germany	7.5
United States	7.3
Netherlands	3.3
United Kingdom	3.2
Canada	2.1
Sweden	2.0
Denmark	1.6
Italy	1.5
Spain	1.3
Norway	1.24
Australia	1.14
Switzerland	1.08
Belgium	1.03
Austria .....	.75
Finland .....	.39
Portugal .....	.27
Ireland .....	.14
New Zealand .....	.12
Luxembourg .....	.07
Total DAC	59.00

Source: OECD.

Pulling our weight?

[Official development assistance as percent of GNP, 1995]

	<i>Percentage of GNP</i>
Denmark	0.97
Sweden .....	.89
Norway .....	.87
Netherlands .....	.80
France .....	.55
Canada .....	.39
Belgium .....	.38
Luxembourg .....	.38
Australia .....	.34
Switzerland .....	.34
Austria .....	.32
Finland .....	.32
Germany .....	.31
United Kingdom .....	.29
Japan .....	.28
Ireland .....	.27
Portugal .....	.27
New Zealand .....	.23
Spain .....	.23
Italy .....	.14
United States .....	.10

Source: OECD.

STATEMENT OF STEVEN J. DAUGHERTY, DIRECTOR, GOVERNMENT AFFAIRS, PIONEER HI-BRED INTERNATIONAL, INC., DES MOINES, IA

Senator JEFFORDS. Steve, let me turn to you. Steven Daugherty is director of governmental affairs at the Pioneer Hi-Bred International, Inc., from Des Moines, IA. Please proceed.

Mr. DAUGHERTY. Thank you, Mr. Chairman. Good afternoon, and once again, thank you for this opportunity. I regret Mr. Harkin could not be here. I know that if he were here he would say nice things about Iowa as well, sir, with regard to our international attitude.

Senator JEFFORDS. Well, this is the first time I have had it loaded two to nothing. [Laughter.]

Mr. DAUGHERTY. I understand. You had an opportunity you could not pass up.

I would like my formal remarks to be entered into the record, sir, and I will briefly just summarize the high points of that for you this afternoon.

I really just want to make three points, and they are really pretty simple, but I would like to share them with you.

First of all, I think the future success of U.S. agriculture is absolutely dependent upon international trade, second, that foreign assistance must have an agricultural component, and third, that flexibility in foreign assistance developmental programs is really critical to meeting the future needs of U.S. agriculture.

But first, I would like to just make a couple of quick comments about our company for those of you who may not be familiar with Pioneer. We are the world's largest agricultural seed marketing, sales, production, and research company. We were founded in 1926 by Henry Wallace, an agricultural visionary who went on to become U.S. Secretary of Agriculture and Vice President in the administration of Franklin Roosevelt.

Wallace and the others who created Pioneer to commercial hybrid corn seed had a genuine interest in using plant genetics to help the people of the world feed themselves and that, I think, is relevant to why I am here today, sir.

Now I will just turn to my three points. First of all, the future economic success of the United States, including that of the agricultural sector, is increasingly dependent upon international trade, and I really believe that we collectively are just now coming to grips with the reality of this, what we would like to call new world order.

For agriculture, you know, there are really only two places for a farmer to obtain income, and I know you are familiar with these. The first, of course is the Government, and the second is the marketplace.

PHASE OUT PRICE SUPPORTS

A decision has been made to phase out direct price supports, and I am not here to complain about that. I am not saying it is a bad idea, but it is a fact of life. We are doing that. So the question, then, is begged where that lost income will come from.

Obviously, it has to come from the marketplace. Well, as comments have already indicated we live in a mature food market here in the United States. Our caloric intake is not likely to increase dramatically on a per-capita basis.

So then we have two choices. Do we reduce our productive capacity to meet the limited domestic demand, and we have already suggested that is not a great idea, or do we increase exports?

Well, the first is not attractive to us at Pioneer, or I believe, as Mr. Leahy has correctly pointed out, to anybody in the United States, and agriculture exports, as we all know, are one of the few consistent bright spots in our balance of trade picture, so we clearly do not want to walk from that export arena.

Where are these new markets for agricultural products? Growth must come from developing nations, the developed world has pretty well taken care of itself, and to do this, they have to have increased purchasing power.

It is clear Government has certain roles and responsibilities that cannot be fulfilled by the private sector, and while the time for direct price supports may have passed, our Government must not abandon the foreign assistance efforts that meet both humanitarian and developmental needs. When properly done, these efforts generate economic growth, political stability, and business opportunities for companies like Pioneer.

It is important to realize that since Pioneer sells seed both in the United States and in other countries, we view U.S. foreign assistance as helpful to our customers both here and abroad. From a U.S. perspective, foreign markets are developed for the grain produced by the seed we sell, and those value-added products that are based on that grain.

In foreign countries, U.S. foreign assistance can help develop local markets for grain which can be met in part by local producers planting our seed, but importantly supplemented by imports of United States-produced grain. It is a win-win situation for us, and history shows that that is the case.

Farmers in developing nations must, however, enjoy rising incomes before they can afford to purchase improved inputs like those that we sell, so the resulting increased production not only generates additional income for our customers, it also stimulates greater demand for their products, and historically increased demand for grain has outpaced the ability to produce it locally, and that has led to increased exports or imports in those countries.

Properly designed and implemented foreign aid programs can help ensure that those imports come from here, from this country and from our U.S. customers. This, I think, is the heart of the issue.

My second point quickly is that foreign assistance needs to have an agricultural component. Foreign aid means many things to many people, everything from jet fighters to free food. Agriculture development does not appear to have a high priority on the foreign assistance agenda. We often hear statistics quoted about the dramatic increase expected in the world population over the next 10 or 20 years, and there is no argument that those people are coming.

For certainty, however, there is a linkage in the need for increased food production and more people, but we do not want to overlook the importance of what it takes to purchase the food. We cannot afford to give it away, and frankly they cannot afford to receive it as gifts all the time. It takes money to translate need into demand. Therefore, the secret is not empty stomachs, it is full purses.

The U.S. Government needs to focus on how to make that happen, and we need targeted programs that link market access, economic development, technology transfer, training, and at that point, aid becomes trade and we all win. What could be a better foreign policy tool?

PREPARED STATEMENT

Finally, flexibility in foreign assistance developmental programs is critical to meeting the future needs of U.S. agriculture. A lot of good things have been done here, and I compliment the Congress for the work they have done. They have really engaged this issue well, and we have some new programs in place or being developed, and I thank the Congress for that.

Because my time is up, I will conclude my formal remarks, but of course would be happy to discuss any of this with you.

Senator JEFFORDS. Thank you very much.

[The statement follows:]

PREPARED STATEMENT OF STEVEN J. DAUGHERTY

Good afternoon Mr. Chairman and Members of the Subcommittee. I'd like my formal remarks to be entered into the record, and I'll briefly summarize those remarks for you this afternoon. I'm Steve Daugherty, Director of Government Affairs for The Americas at Pioneer Hi-Bred International, Inc. I thank you for this opportunity to testify before your Subcommittee on our view of foreign assistance as we enter what might be termed the "New World Order" of agriculture in the 21st Century.

I want to make three points this afternoon:

1. The future success of U.S. agriculture is dependent upon international trade.
2. Foreign assistance must have an agriculture component.
3. Flexibility in foreign assistance developmental programs is critical to meeting the future needs of U.S. agriculture.

But first, let me offer a quick word about our company. Pioneer Hi-Bred International, Inc., is the world's largest agricultural seed marketing, sales, production, and research company. Based in Des Moines, Iowa, our annual sales exceed \$1.5 billion. We do business in about 100 countries around the world. Our major seed products in North America are corn, soybean, sorghum, sunflower, canola, alfalfa and soft red winter wheat. We also offer naturally occurring microorganisms as animal and forage inoculants.

We have about 90 research stations around the world, half of those outside North America and half of those in developing countries. Our research investment last year was \$130 million, which was nearly 9 percent of our sales revenue.

Pioneer was founded in 1926 by Henry A. Wallace, an agricultural visionary who went on to become U.S. Secretary of Agriculture and Vice President in the Franklin Roosevelt administration. Wallace and the others who created Pioneer to commercialize hybrid corn seed had a genuine interest in using plant genetics to help the people of the world feed themselves.

In addition to corn, sorghum and sunflower are also hybrids. With hybrids, farmers must purchase new seed each growing season to get the desired yield. Each seed carries the genetic blend of its pure inbred "parents." Planting the grain from the crop produced by the hybrid seed dilutes the genetic potential and results in a substantially lower yield. With self-pollinated varietal crops, such as soybeans, alfalfa and wheat, the seed and its resulting grain contain the same genetic makeup. Thus, planting the grain harvested from those seeds will not result in lower yields, provided those seeds have received appropriate care.

I'll now turn to my three points.

First, the future economic success of the United States, including that of the agricultural sector, is increasingly dependent upon international trade. I believe we, collectively, are only now coming to grips with the reality of the New World Order for agriculture.

There are only two places for a U.S. farmer to obtain income—the government, and the marketplace. The decision has been made to phase out direct price supports. I'm not saying that was a bad idea. I am asking, however, how the lost income will be replaced. Obviously, it must come from the marketplace. Yet we live in a mature food market in the United States. Our citizens aren't likely to consume appreciably more food in the future because of our relatively flat population growth. We will certainly eat different kinds of food, some of which will be packaged or processed in new ways. But our caloric intake isn't likely to increase dramatically on a per capita basis.

We are then left with two choices—reduce our productive capacity to meet the limited domestic demand, or increase exports. The first is certainly not an attractive option to Pioneer or to the country. After all, agricultural exports are one of the few bright spots in our balance of trade picture.

Where are the new markets for agricultural products? Growth must come from developing nations. But they, again, must enjoy increased purchasing power. It's clear that government has certain roles and responsibilities that cannot be fulfilled by the private sector. While the time for direct price supports may have passed, our government must not abandon the foreign assistance efforts that meet both humanitarian and developmental needs. When properly done, these efforts generate economic growth, political stability, and business opportunities for companies like Pioneer.

By the way, why shouldn't that improved economic and political environment also lead to investments on the part of U.S. farmers? As U.S. farmers and farmer co-operatives seek ways to expand yet spread their risks, they may well look to developing countries for opportunities. It would be part of the continued globalization of agriculture. Investment decisions being made in the next few years will determine who meets the demand for food in the rapidly growing economies of Asia. Will it be U.S. agribusiness, including farmers and their co-ops, or will it be European? Canadian? Australian? South American?

Past efforts clearly show that U.S. foreign assistance can help establish and maintain a good trade and investment climate for U.S. agribusinesses in developing countries. Being on the ground now leads to solid relationships that can produce dividends later. U.S. foreign assistance also establishes a foundation of good will for U.S. agribusinesses, which creates a better environment for investing in developing countries.

As you know, many of our best customers today for agricultural products were aid recipients decades ago. Increased foreign aid on the part of other developed nations suggests they have adopted our model. Meanwhile, we in the United States continue to debate the value of these investments when they were never needed more. Although the American public may be frustrated by an apparent lack of direct and

immediate benefit, policy makers should not underestimate the value of indirect and long-term benefit.

By the way, I'm not here because Pioneer benefits directly from foreign assistance. In fact, although 80 to 85 percent of the foreign assistance budget is spent on U.S. goods and services, none of it goes to Pioneer. We support focused foreign assistance because it builds economic growth, which is necessary before those consumers can afford to buy the products produced by our U.S. customers. Of course, we also support the political stability fostered by foreign assistance. That can be extremely helpful not only to sustain and grow exports from the United States, but also to establish and grow businesses in the countries receiving the aid.

It's important to realize that since Pioneer sells seed both in the United States and in other countries, we view U.S. foreign assistance as helpful to our customers both here and abroad. From a U.S. perspective, foreign markets are developed for the grain produced by the seed we sell and those value-added products based on the grain. In foreign countries, U.S. foreign assistance can help develop local markets for grain which can be met in part by local producers planting our seed and supplemented by imports of U.S.-produced grain. It's a win-win for us.

Producing high quality seed is expensive. We must do extensive research and development and maintain high production standards to ensure that our seed performs. As a result, our seed carries a premium price. But the higher cost results in a greater benefit. Farmers are assured of germination, yield, standability, and tolerance from the stress of drought, disease and pests. If farmers can't afford our seed, however, they won't buy it. Again, that means U.S. farmers must have markets for their products.

Farmers in developing nations, meanwhile, must enjoy rising incomes before they can afford improved inputs. The resulting increased production not only generates additional income for our customers, it also stimulates greater demand for their products. Historically, increased demand for grain has outpaced the ability to produce it locally and that has led to increased imports. Properly designed and implemented foreign aid programs can help ensure those imports are from the United States. This, I believe, is the nub of the issue. Foreign aid has worked, can work, must work to the mutual benefit of the giver and the receiver. We don't just owe it to them, we owe it to ourselves. We need only look at the success stories so well known to recognize the potential. Poor people make poor customers. Yet many of our best customers—South Korea, Malaysia, Taiwan, Mexico—received food assistance. Today, we export those countries more food in a year than the total amount of their assistance.

Pioneer and its customers in those countries receiving U.S. foreign assistance could benefit in several ways. For example, programs to provide credit direct to foreign producers would enable them to afford higher quality inputs. Most foreign aid today, as I understand it, is government-to-government. This makes it difficult to get credit in the hands of the producer.

A related program might organize producers into buying cooperatives so they can afford higher quality inputs. That would allow for the cooperative to administer the funds, rather than the government. Cooperatives, or other such organizations, could also be used to provide local market development, education, and research activities, similar to those done in the United States by the various farm and commodity groups. This would also provide a structure to ensure input by producers into the policy making process, an important role in emerging democracies.

Programs are also needed to train extension service workers to help provide the management skills necessary to use and benefit from higher quality inputs. This is a function too large to be handled by individual companies.

Of course, foreign development efforts must be balanced with improved market access to ensure opportunities for U.S. agribusiness. This argues for continued aggressive negotiations on the part of the U.S. Trade Representative. The progress made through the successful completion of the Uruguay Round of the General Agreement on Tariffs and Trade, and the North American Free Trade Agreement, must be solidified and expanded in future negotiations.

My second point is that foreign assistance needs to have an agriculture component. Foreign aid means many things to many people—everything from jet fighters to free food. Agricultural development does not appear to have a high priority on the foreign assistance agenda.

We often hear statistics quoted about the dramatic increase expected in the world population over the next 10 to 20 years. This is used to demonstrate the need for increased food production. There certainly is a linkage, but something is often overlooked in the equation. We can't afford to give the food away. It takes money to translate need into demand. Thus, the secret isn't empty stomachs, it's full purses. Generally, the first sector of the economy to develop is agriculture.

The U.S. government needs to focus on how to make that happen. We need targeted programs that link market access, economic development, technology transfer, and training. At that point, aid becomes trade and we all win. What could be a better foreign policy tool?

My final point is that flexibility in foreign assistance developmental programs is critical to meeting the future needs of U.S. agriculture. The U.S. Department of Agriculture's market development programs, which involve strong public and private sector partnerships, are an excellent model. For example, consider the Foreign Agricultural Service's cooperator program. While not considered foreign assistance, the Foreign Market Development cooperator program is a long-standing example of public-private partnership that has developed both economies and markets for many years. Pioneer is a long-time supporter of this 40-year-old program, which now enjoys some 70 cooperators working in more than 140 countries. A major reason we like the FAS cooperator program is that the market development work is financed by the private sector in the United States, by the private sector or governments in foreign countries, and through appropriated funds administered by the Foreign Agriculture Service. The lion's share of U.S. private sector funding tends to come from farmers who put up their own money, collected through checkoffs on the sale of their commodities. The multiplier effect of those dollars is dramatic. This is a program that generates significant results and is worthy of increased federal funding.

I compliment Congress for recent efforts to transition foreign assistance into this New World Order. As we see increased privatization, democratization, and globalization around the world, our foreign aid programs must adapt.

The recent change in the Public Law 480 Title I program is one example. By giving the private sector the opportunity to access those moneys, we can move beyond the simple transfer of agricultural products into the complex world of public-private transactions and market development.

Another example is the new Emerging Markets Program, which helps U.S. exporters develop markets in lower income countries with dynamic economies and high potential. The EMP, along with the World Bank's Seed Sector Development programs in Ukraine and China, should produce the host-country policy changes needed to facilitate the entry of U.S. seed varieties.

The new Supplier Credit Guarantee Program provides additional flexibility to GSM-102 credit programs. Although the program, as I understand it, is rather narrowly focused by product and country, the concept is good. In short, a great deal has been done. But more needs to be done. U.S. foreign assistance providers can work closely with U.S. agribusiness to maximize our investments and achieve mutually beneficial objectives in the areas of foreign policy and trade. The programs must be expanded, fully funded, and completely executed to capitalize on the opportunities afforded by the transition into market-driven economies around the world. Making and keeping foreign assistance programs results-oriented and tied to U.S. business opportunities will build credibility and support among Americans.

This concludes my formal remarks. I would be happy to try to answer any questions you may have. Once again, Mr. Chairman, my thanks to you and the Subcommittee for this opportunity to provide input on the future of U.S. foreign assistance.

STATEMENT OF PATRICK J. CRONIN, MANAGER, MARKETING SERVICES, JOHNSON CONTROLS, MILWAUKEE, WI

Senator JEFFORDS. Our next witness is Patrick Cronin, director of marketing services for Johnson Controls. Please proceed, Patrick.

Mr. CRONIN. Mr. Chairman, thank you for the opportunity to address you today. I offer my written testimony for the record. I would like to provide some highlights of our experiences, some of the positive aspects of our experiences with respect to foreign aid.

Formally, my name is Patrick Cronin. I am the manager of marketing services for Johnson Controls, based in Milwaukee, WI. We operate in four major areas of business. We are global leaders of each of these businesses, that is, building controls and building services, automotive seating, automotive batteries, plastic packaging systems, particularly plastic bottles. We have roughly 62,000 employees around the world. We have employees in every State in the Union. We operate in over 60 countries worldwide.

I would like to provide some testimony regarding what I mentioned as the positive aspects of foreign aid. Specifically as it is defined and used, I believe, as developmental assistance, alluded to with pejorative connotations about foreign aid, being taxpayer's thinking we are sending U.S. dollars overseas ending up in some black hole, in fact we have found there is very positive developmental assistance for our company and others, specifically in our business, the energy efficiency market, and specifically in some of the developing newly opened markets around the world.

Specifically, this assistance helps to get U.S. companies established, especially in the crucial early stages of market development, and I cannot overemphasize how critical the timing is for companies like ours to get into these markets early to provide the opportunity for demonstration of not only U.S. products but the application of our products and the application of our technologies.

Certainly, in our businesses we are finding a significant increase in foreign competition. The energy efficiency business worldwide is no exception. We are also finding more and more that our foreign competitors are able to and, in fact, leveraging significant assistance in foreign aid by their governments to these new markets.

As I mentioned, one of our businesses, perhaps our most important business, because they employ me, is our energy efficiency business, essentially providing building controls, building services, and in essence will substantially reduce the energy used in buildings.

When you consider the opportunity for energy efficiency, particularly in the developing world, it is staggering. As my colleague just mentioned, and very accurately, the need for energy conservation, for example, is not always translating to business or demand.

There has to be an infrastructure in place. There has to be commercial development in place. There has to be the opportunity for companies like ours and our U.S. business colleagues to show what these markets can gain from energy efficiency, what the positive aspects of energy efficient behavior are, which oftentimes is very different from their behavior in the past, how important that is, and how important it can be to a sustainable energy future.

FOOTHOLD IN FOREIGN MARKETS

It has been very, very important for us to get a foothold in these markets, specifically when we talk about markets like Central Europe, Eastern Europe, the former Soviet Union market, Southeast Asia, and now, quite substantially, some of the Latin American markets, but in many of these markets we are finding the demand for energy is becoming very, very significant.

These markets are now open, which means there is a new industrialization of these markets, there is population growth, there is new commercial market development. This all means more energy requirements.

These energy requirements are putting a significant strain on old and very inefficient energy infrastructure. Oftentimes we are finding this old energy infrastructure, being the power generation infrastructure, is also one of the most polluting sources as well. What we are finding is U.S. companies tend to have by far the best products, the best application experience, the most know-how in being

able to show customers and potential customers in these developing markets how to save energy.

With these new markets developing, and with the position that U.S. companies have, I do not believe that it is tolerant that we just participate in these markets. I think it is essential that U.S. companies assume the lead in energy efficiency in these markets as they develop, and again, I will emphasize, the earlier the better.

We have found, for example, through USAID and the trade development association that this development assistance provides significant benefit to companies like ours to get in early to provide very crucial demonstration opportunities of our technology, to be able to be a part of training programs, again, to help that transition between need and market demand, as well as the opportunities to network with colleague companies, if you will, U.S. companies, in our business and related businesses that make the U.S. presence that much more powerful.

Let me give you two examples, if you will, please. We have done a USAID-sponsored demonstration project in the Czech Republic back in 1991. This was one of the first demonstration projects sponsored by USAID specifically for energy efficiency after the Czech market began to open up. It was a very, very good way for us to help get established in this market specifically for energy efficiency.

Once we were established there, it was much easier for Johnson Controls to expand its presence, not only through our control systems business but also in automotive seating and plastic bottles. We are now one of the largest employers in the Czech Republic, and a very significant force, as United States business in this market.

We are also in the process of executing a contract right now through USAID in the city of Zelenograd, Russia, which is just outside of Moscow. We are installing automated controls in the municipal district heating network there.

The opportunity, we believe, is significant, because this is a major demonstration of U.S. technology in a market that will be phenomenal, that is, the district heating networks all throughout Eastern Europe and, in particular, the former Soviet Union.

We expect this demonstration of U.S. technology will save the city of Zelenograd roughly 41 million cubic meters of natural gas per year. It also translates to what we believe to be roughly about 44 million kilograms of CO₂ emissions, all of this with the expected payback of less than 2½ years on the USAID investment.

Major opportunities for us to show the Russians in general, and developing markets—I am sorry, the Russians in particular and the developing market in general that United States technology can work, and work very, very well.

So I would just like to say that there are ways to improve the processes of the developmental assistance agencies. Oftentimes, we find them to be very bureaucratically run. For example, in Zelenograd it took 2 years to get this program off the ground; 2 years is a long time when you understand the criticality of early market entry, and so anything that can be done to streamline this process to reduce the time involved to get demonstration programs

or projects underway, to get training programs underway, will very, very much be appreciated.

We often find, as I mentioned, significant foreign competition in the energy efficiency markets. We have also seen in many cases specific instances where business goes to foreign competition, mainly because their government either provided project financing, project feasibility money, or outright assistance for the project. There is absolutely no way we could compete against this.

We are not asking for the U.S. Government to compete on a dollar-for-dollar basis against these foreign firms. It is important to realize that this is the reality of the marketplace.

When you also consider the fact that the Japanese in Asia, as well as the Pacific rim and many of our European competitors have historic cultural, ethnic, and longstanding commercial ties to many countries in the developing world, United States companies right out of the box are considered to be outsiders. It is a hurdle we have to overcome even before we get to the marketplace.

PREPARED STATEMENT

We do find, and we hope to continue to find the benefit from the developmental assistance programs of the U.S. Government that helps get U.S. businesses established, and again emphasize established early in the developing markets.

Thank you very much for the opportunity today, and I would welcome the opportunity to discuss things further.

Senator JEFFORDS. Thanks very much.

[The statement follows:]

PREPARED STATEMENT OF PATRICK CRONIN

Mr. Chairman and Members of the Subcommittee. Thank you for the opportunity to testify before you today on the foreign assistance program and its role in helping U.S. businesses develop overseas markets for our technologies.

I am Patrick Cronin, Manager of Marketing Services for Johnson Controls. Johnson Controls is a global market leader in building control systems and facility management, automotive seating, plastic packaging and automotive batteries. We are headquartered in Milwaukee, Wisconsin and have 62,000 employees worldwide. We have employees in every state in the Union, and operate in over 60 foreign countries.

I am here today, Mr. Chairman, to stress the importance of the foreign aid program in promoting the expansion of markets for U.S. businesses. I would like to emphasize the positive aspects of foreign aid, specifically when it is defined, and used as developmental assistance. From a business perspective, this assistance is of particular importance to help U.S. firms get established in developing markets, especially in the crucial early stages of market entry. This support is critical, particularly as our European and Japanese competition receive substantial assistance from their governments.

One of Johnson Control's most important businesses is the design, manufacture and installation of control systems that regulate energy use, heating, ventilating and air-conditioning, lighting and safety in buildings. These technologies are crucial in utilizing energy more efficiently. The market for these products, however, is only now emerging in the developing world. The U.S. foreign assistance programs enable companies to get these technologies and application techniques to those who need them and, in turn, help U.S. businesses develop new markets.

The Need: No one can question the need for these technologies. With the rapid pace of industrialization throughout the developing world, the demand for energy is rising dramatically (up to seven times faster than in the industrialized world). According to the Worldwatch Institute's State of the World, developing nations need \$40 billion in foreign exchange annually over the next decade for new power plants and transmission lines; yet the World Bank has said developing nations will be lucky to raise half that amount.

This increase in energy demand is putting a heavy burden on an already deteriorating power generation infrastructure in these developing countries. This existing infrastructure also tends to be some of the most harmful polluting sources as well. The result is severe environmental strain with millions of tons of pollutants being thrown into the air, damaging public health and contributing to the threat of global climate change.

The United States has much to contribute to meet these needs. The U.S. is the world's leader in manufacturing and applying energy-saving technologies. Our country has reduced its energy use per unit of production by 40 percent since 1973. We are uniquely qualified to help the developing world reach a sustainable energy future. As energy demand increases in the developing world, energy efficiency and the associated efforts to curb emissions represent a tremendous growth market. The potential market for energy efficiency goods and services is estimated to be \$20 billion in Eastern Europe alone. It should be of interest to all of us that U.S. business not only participate, but establish a leadership position in these rapidly emerging markets.

The U.S. foreign assistance program, particularly the Agency for International Development, is helping these emerging market countries balance the need between new, cleaner and more efficient power production with the potential for reducing energy demand through end-use energy efficiency. At the same time, these efforts have helped create new markets for U.S. business by promoting U.S. technologies, introducing our techniques and designs, and by providing critical opportunities for the demonstration of U.S. equipment and applications.

Our Company's Experience: Johnson Controls is a case in point. We have worked on a variety of projects with AID in Hungary, the Czech Republic and Russia. In the Czech Republic, Johnson Controls was involved in one of the first demonstrations of U.S. energy saving technology for commercial buildings under an AID-sponsored project. Though relatively small in scale, this project nonetheless provided a valuable opportunity to help establish our company's presence in the Czech Republic, and demonstrate our technology in the commercial arena after their Velvet Revolution. We have since expanded our business there, establishing automotive seating and plastic packaging operations, making Johnson Controls one of the largest private companies operating in the Czech Republic. In addition to serving local customers, we are key suppliers in the Czech Republic to other major U.S. companies like Chrysler, McDonalds, and Coca-Cola.

In Russia, we are participating in the Commodity Import Program (CIP), an AID initiative to get energy-saving technologies into this large and vastly inefficient country. The CIP was designed to fund large demonstration projects to show the tremendous economic and environmental benefits of improving energy management. We are now in the process of installing an automated control system in the central heating system for the city of Zelenograd, just outside of Moscow. We conservatively estimate that this application of U.S. technology will help to reduce Zelenograd's consumption of natural gas by 41 million cubic meters per year, while reducing CO₂ emissions by some 44 million kilograms per annum. Strictly in terms of natural gas savings, we expect a payback of this AID investment of approximately 2.5 years. This and other pilot projects will give participating U.S. firms an important boost in establishing market position in Russia over the long term.

Johnson Controls is not the only company that has benefited from AID's programs. Attached to my testimony is a list of other AID projects, compiled by the Alliance to Save Energy, that have mobilized capital from the private sector and from multilateral development banks that have created new opportunities for U.S. companies.

Facing the Competition: Our foreign assistance program is vital because it helps level the playing field against our foreign competitors. According to the Office of Technology Assessment (OTA), members of the European Union and Japan not only provide a higher level of funding for foreign aid programs relative to the size of their economies, but they also successfully structure these programs in ways that promote more of their exports.

OTA estimates that the global market for environmental technologies—everything ranging from water treatment products to solar panels—is more than \$250 billion a year, but that the U.S. share of this market was only \$25 billion in 1991. Despite our ability to provide superior goods and services, the U.S. is losing ground to its competitors, partially because other governments target their assistance efforts to also help their industry capture flourishing new markets.

Let me give one example: an important market development tool is public financing for feasibility studies. The Japanese government spends about five times as much as the United States on feasibility studies for large international projects.

Many European governments offer substantive developmental funding or bank financing for major projects in the developing markets. Not surprisingly, these capital-intensive projects are typically steered to companies whose government financed the study or provided major funding. This gives Japanese and European companies a strong edge over U.S. firms in market development.

In addition, it should be noted that the EU countries have both the multilateral aid coming from Brussels and the bilateral aid programs from each individual country. That means European companies have many more public resources at their disposal to help them pursue overseas markets. In the emerging markets of Eastern Europe and the Former Soviet Union, our European competitors have an advantage because of their proximity and because of historical connections. Similarly, our Japanese competitors are better positioned geographically to aggressively develop markets in the booming countries of Asia. Though we have found genuine respect for the quality of U.S. technology, U.S. firms still have to overcome the issue of being cultural, ethnic, and business outsiders.

The Role of the Financing Institutions: I also want to stress the importance of other institutions that are supported by the U.S. foreign assistance program. These include the multilateral development banks such as the World Bank and the European Bank for Reconstruction and Development (EBRD) as well as the Export-Import Bank. The financing institutions are important because they mobilize large amounts of capital that enable developing countries to invest in sustainable energy technologies. These large projects also open new markets for U.S. companies by addressing one of the most persistent problems for us as we approach potential customers in the developing world: lack of financing.

After decades of supporting traditional energy projects, the World Bank is now putting resources into energy efficiency and environmental improvements. The Bank is now financing multi-million dollar loans for energy efficiency in Brazil, Russia and other countries. These loans enable developing countries to purchase our technologies, giving us new contacts and knowledge, which last far longer than the loan itself. The experience that we gain from these programs opens long-term market opportunities for Johnson Controls and other companies.

We are also pleased that the EBRD, which the U.S. also supports, is aggressively promoting energy sector reform in Eastern Europe and the Newly Independent States. The EBRD has recently established an energy efficiency unit in which they are looking to finance energy efficiency projects. In addition, this unit in EBRD is working with individual companies on developing specific projects in the region and on designing innovative financing mechanisms. This is the type of support that companies like ours need in order to break into markets in less developed countries.

Recommendations for Improving AID Processes: We also appreciate the opportunity to suggest ways to improve the effectiveness of AID programs. Some, not all, of the AID programs in which we have participated have carried a burdensome amount of red tape. For example, it took two years from program approval to contract award for this CIP project in Zelenograd. Such bureaucracy slows the process at a time when U.S. business needs to act more nimbly. Program development and the contracting procedures should be streamlined to reduce the time involved to get training programs and demonstration projects underway.

In addition, the effective in-country application of U.S. technology has to be emphasized for the best demonstrable results; often AID pursues and promotes the shipment of U.S. equipment, without full appreciation of the local installation or operating requirements which often differ from the U.S. market. The most effective use of the U.S. technology often requires value-added expertise and support from the supplier; it is not as simple as taking the VCR out of the box, connecting the wires, and trying to get the clocklight to stop blinking "12:00."

In summary, Mr. Chairman, I want to say that the foreign assistance program is helping us expand into new overseas markets, and that is creating jobs—real jobs for our people at Johnson Controls. These efforts help level the playing field with our European and Japanese competitors who receive much more assistance from their governments. Without these initiatives, U.S. companies cannot pursue new markets as aggressively as we need to.

Thank you again, Mr. Chairman, for offering Johnson Controls the opportunity to testify before you today in support of the U.S. foreign assistance program. I welcome any questions from you or members of the Subcommittee.

AID: HELPING COMPANIES BREAK INTO NEW MARKETS WORLDWIDE

COMPILED BY THE ALLIANCE TO SAVE ENERGY

Other businesses are developing new markets around the world, particularly through the leveraging of AID resources with the multilateral development banks. As the examples below indicate, it is clear that the taxpayers are indeed getting their money's worth from AID's programs:

- In Eastern Europe, AID is replacing old, inefficient equipment with new and modern technologies. AID purchased \$1.25 million worth of energy-efficient equipment and installed it in 50 facilities throughout the region. The net savings in energy is about \$15 million per year. This means that these facilities now have millions of more dollars to invest in other, more productive economic activities. These programs have already helped U.S. companies that manufacture efficient lighting, insulation, control systems and other products enter this huge marketplace.
- AID's efforts in renewable energy are stimulating the installation of wind systems, the sale of photovoltaic manufacturing plants, and a wide variety of other technologies. In Costa Rica, a \$120,000 investment by AID led to a \$24 million Inter-American Development Bank loan for a 20 megawatt windplant. The utility is proceeding with a bidding process for construction, and has already signed a power purchase agreement with a U.S. company for an additional 20 MW windfarm to be privately owned and operated at the same site.
- AID's Energy Training Program works with U.S. companies on providing officials in the developing world with hands-on training on energy and environmental technologies. One of the sessions was performed by Shell Engineering, a small company based in Columbus, Missouri. This company has had no previous international experience. One of the trainees returned to his native Oman and in very short order, Shell received a \$700,000 contract for air-pollution monitoring equipment and technical assistance. According to Shell Engineering, the tax revenue for the U.S. government from this contract will be more than the taxpayer money spent on the training program.
- An AID program in Mexico has been educating industrial end-users on the benefits of high-efficiency motors. These motors are manufactured in the U.S., and as a result of this program, three U.S. manufacturers of high-efficiency motors have been getting orders from south of the border, expanding a new market for most of these companies.
- A demand-side management program developed by AID in Indonesia has led to a major commitment on the part of the Indonesian government to support energy efficiency programs, which if fully implemented, will lead to \$364 million in reduced costs and a to significant reduction in pollution levels. Local leaders, who worked closely with AID on the design of this program, will no doubt favor U.S. technologies in the implementation phase. This and other efforts often tip the scales in favor of U.S. technology. And in a country the size of Indonesia—where energy demand is skyrocketing—this is very important.
- In Brazil, AID supported the commercialization of an emerging technology which promises to double the efficiency of conventional biomass combustion systems. Early identification of this opportunity, supported by \$500,000 of AID funds, led to a \$70 million investment by private investors and the Global Environment Facility.

**STATEMENT OF DOUGLAS V. BLOSS, CORPORATE VICE PRESIDENT,
ARMSTRONG INTERNATIONAL, STUART, FL**

Senator JEFFORDS. Our next witness is Douglas Bloss, a corporate vice president of Armstrong International. Please proceed.

Mr. BLOSS. Good afternoon, Mr. Chairman. Thank you for the opportunity to testify on foreign assistance programs and their role in helping U.S. businesses overseas. Specifically, I would like to share Armstrong's story and our successful entrance into the East European marketplace, but I would like to give you a brief background on Armstrong International.

Like Johnson Controls, we are also an energy efficiency company. We are a leading steam energy management company.

Steam is used in a variety of industries from pulp and paper, chemical, refining, food processing, and as steam gives up its latent

heat, our energy efficiency technology traps the steam and returns condensate back to the boiler, increasing efficiency and improving environmental emissions.

The market in Eastern Europe is a tremendous market for my company. It represents quite an opportunity. Steam energy management has in the past been nonexistent, certainly very ineffective. The pricing of energy is on the rise and has been in this market for some time, and the opportunities we see throughout this region look quite great to us.

Despite these opportunities, however, there are barriers. We have found that energy managers in this region are poorly trained and simply unaware of some of the technologies that are available, particularly from the United States.

Armstrong is a smaller company. We need good local contacts and accurate market profiles. It is difficult for us to get in some of these regions, and this is where the Agency for International Development was fairly helpful for Armstrong.

In 1991, they launched an emergency energy efficiency program starting with energy audits for enterprises in the region, and then training some of the energy managers in various different technologies and approaches to saving energy.

Rather naively, we were approached first with a request for some videotapes of our training on steam energy management. That later translated to some small placements of products in the region. Just like Johnson Control cited some demonstrations of our technology, American technology in the region proved very, very helpful.

However, the most important step for us was the identification of local energy managers that later became representatives for Armstrong. We market our products through a network of independent representatives. Finding talented people that understand the challenges is difficult for us. AID did that for us, and that was a tremendous help.

In fact, today, Mr. Chairman, virtually every representative we have throughout the region of Eastern Europe carrying the Armstrong flag was identified at an AIDS-sponsored seminar, or one of the AID energy audit programs.

The winners in this program include those families of people that are now successfully marketing our products in the region. It also includes companies that are employing American technology, improving their ability to compete.

This program really functioned as a catalyst for us. We have been an international company. However, our efforts in this region were enlightened by the activity that IAD offered.

PREPARED STATEMENT

I would like to just conclude by sharing one story that I am quite proud of. One of the AID contractors that we met in this program was convinced that there was an opportunity for our products in China. He now works for us, and is liaison for a joint venture that he helped to successfully negotiate in Beijing.

This was an effort that really functioned as a catalyst for us. It enlightened us to the opportunities, and we strongly support that kind of assistance.

Thank you very much.
 Senator JEFFORDS. Thank you very much.
 [The statement follows:]

PREPARED STATEMENT OF DOUGLAS BLOSS

Mr. Chairman and Members of the Subcommittee. Thank you for the opportunity to testify before you today on the foreign assistance program and its role in helping U.S. businesses develop overseas markets.

I am Doug Bloss, Vice President of Sales and Marketing for Armstrong International, Inc. Armstrong is a leader in steam energy efficiency and steam trap technology in the United States. We are headquartered in Florida and have our main manufacturing facility in Three Rivers, Michigan.

Mr. Chairman, I am here today to tell the Subcommittee about the importance of a U.S. foreign assistance program which helped my company compete in the global marketplace. Specifically, I will share our successful entrance to the booming East European market, primarily resulting from participation in regional programs of the Agency for International Development.

First, allow me to briefly explain our business. Steam energy is used in a variety of process industries—from food to pulp and paper—to chemicals and refining. In fact, nearly one half of manufacturing energy consumption goes to the generation of steam. As steam is distributed throughout a facility and performs its useful work, it loses heat and condenses. Our steam trap technology removes this condensate and returns it to the boiler to improve system efficiency.

In the developing world, particularly in countries of Eastern Europe and the Former Soviet Union, steam management is either ineffective or nonexistent. Many facilities in Eastern Europe have poorly designed steam traps or none at all. Steam system inefficiencies cost millions of dollars in needless fuel consumption and contribute to pollution from by-products of the boiler combustion process.

The United States is a leader in steam efficiency technology, and the situation in Eastern Europe presents a tremendous opportunity for our company. Our U.S. made technology vastly improves the efficiency of the entire steam system, requiring much less fuel input and generating significantly less emissions of many pollutants.

Despite these market opportunities, there are many barriers that must be overcome. Energy managers are often poorly trained and do not understand the technologies that are available. Pricing policies are sometimes in conflict with market development for energy efficient products and services. These barriers are not easily resolved by smaller U.S. companies.

As a smaller organization, we must be highly efficient in our pursuit of opportunities around the world. Accurate market assessments and quality local contacts are critical to our international growth. This is where the Agency for International Development has been so helpful for my company.

Eastern Europe faces a critical energy situation. Because of its historical lack of emphasis on efficiency, the region's economies generally consume twice as much energy per unit of GDP than in Western Europe and the United States. According to one study by the Alliance to Save Energy, if Eastern Europe were as energy efficient as Western Europe, its energy intensity would be reduced by 44 percent, saving the region 218 million tons of oil equivalent a year and \$25.8 billion a year in energy costs. At the same time, energy prices have risen steeply, which creates large problems for old, inefficient companies that are used to essentially free energy under the old system. As a result, many companies in the region are struggling to stay afloat, partly because their energy costs have risen beyond their ability to pay.

Confronting this regional energy crisis, AID began the Emergency Energy Program in 1991. After conducting several energy audits in the region, AID recognized the need for steam energy improvements. AID consultants contacted us for educational videos and soon requested small orders of steam traps to demonstrate their effectiveness to local officials in Poland, Hungary, Bulgaria, and the Czech Republic.

Perhaps most importantly, the AID program trained local engineers to become full-fledged energy consultants—people who knew their country and the potential market for different energy-savings technologies. This aspect of the program provided the missing element for us: local contacts whom we could hire to market our technology. AID trained these experts and put us in touch with them. As a result, many of these engineers are now local distributors for Armstrong, giving us an on-the-ground presence in almost every country in the region. Today, nearly every representative we have carrying the Armstrong flag in Eastern Europe came from participation in an AID seminar or from the recommendation of an AID contractor.

Today, our position in the market is well-established. However, there are literally hundreds of small and medium-sized companies around the country which could be moving into overseas markets with similar assistance.

Mr. Chairman, our entrance to the rapidly emerging East European markets would have taken considerably longer had it not been for AID's assistance. During this critical early period, European competitors, with comparative advantage in the region, could have secured a competitive advantage as first entrants. We are now well accepted and enjoying sales growth throughout Eastern Europe.

I understand the AID model will expand to other countries and I am hopeful this occurs, particularly in Russia and Ukraine. These countries represent the same energy challenges as countries like Poland and Hungary. However, they represent much larger opportunities for U.S. business, especially in the long term. Additionally, the development of market mechanisms for energy efficiency in the Ukraine may facilitate the shut down of the Chernobyl nuclear power station * * * which is in everyone's interest.

Among the "winners" from the AID program are the families of local East Europeans who successfully market our products and those companies using superior American technology who are better positioned to compete globally.

The AID program has been a catalyst for our international growth and enlightened us to opportunities outside of Eastern Europe as well. One of AID's U.S. consultants in Eastern Europe convinced us there was tremendous potential for our products in the People's Republic of China. This consultant now works for Armstrong as a liaison to the newly formed joint venture which he helped us negotiate in Beijing.

In summation, Armstrong International is supportive of U.S. foreign assistance programs which improve export prospects for U.S. businesses such as the AID Emergency Energy Program.

Thank you again, Mr. Chairman for offering Armstrong International the opportunity to testify before you today.

STATEMENT OF BOB FOSTER, VOLUNTEER, VOLUNTEERS IN OVERSEAS COOPERATIVE ASSOCIATION (VOCA), WASHINGTON, DC

Senator JEFFORDS. Our next witness is Bob Foster, one of our outstanding farmers in Vermont, and one who has really impressed me with his desire to volunteer, especially overseas. Please proceed, Bob.

Mr. FOSTER. Thank you very much. I want to thank you for this opportunity to discuss how the U.S. benefits from foreign assistance efforts. I speak today as an American who served in Poland through the Volunteers in Overseas Cooperative Assistance.

My family operates a 320-cow dairy farm in Middlebury, VT, and I also serve as vice chairman of Agri-Mark, Inc., a New England milk marketing cooperative that manufactures the fine Cabot dairy products.

I will try to confine my remarks to 5 minutes and ask that my written testimony be included in the record.

The subject of this hearing is important to all Americans for three primary reasons. First, we have a humanitarian role to play and foreign assistance is the prime way that we can fulfill this responsibility to mankind.

Second, we live in a global economy. Tariffs, protectionism do not open trade doors, developments do. In the global marketplace the United States must understand and cultivate our international customer. They, in turn, need to have an understanding and appreciation for the global marketplace. Furthermore, as their standards of living increase, so do their appetites for U.S. products.

My third point is that international assistance plays a vital role in our national security. It is an investment made so that our children and grandchildren can live in a more peaceful and prosperous

world. Where you find hungry masses of people, you will also likely find unstable Governments.

Obviously, I am not alone in these opinions, as there are almost 5,000 other Americans who are also willing to volunteer their time and talent through VOCA.

In early 1990, I was privileged to be one of the first Americans to enter Poland after the fall of communism. The U.S. Agency for International Development chose VOCA to be the first United States organization to launch a program in Poland, and I was a member of the first team of volunteers on the ground.

Volunteer Roy Wilby and I shared our knowledge with farmers, Government officials, and others to explain how the U.S.-style co-operatives can help them. Our recommendations led to the formation of Poland's first training center for cooperatives and other agribusiness. The center has started a chain reaction of success for hundreds of cooperatives that are the vehicle for Poland's growth.

POLAND'S ECONOMY

Obviously, there have been many other factors that have contributed to Poland's progress. The numbers show that Poland's economy has greatly improved, and so has our trade relationship with them. In 1991, Poland's gross domestic production was decreasing by 7 percent. By 1995, this was reversed, and it is increasing at an estimated rate of 6 percent. Furthermore, United States export growth to Poland is projected to skyrocket from \$912 million in 1993 to over \$7 billion by the year 2000.

Even though Poland is located in the center of Europe, the United States is the largest foreign investor in their economy. Coca-Cola, McDonald's, Procter & Gamble, as well as many other companies are contributing to the rapid shift from state to private sector employment in Poland.

VOCA clients are contributing to the success of these companies by developing the human resources as well as the small- and medium-sized businesses upon which the larger U.S. companies depend for out-sourcing of raw materials and services.

Let me briefly summarize four other examples of how VOCA assignments have led to the trade linkages for the United States. Business surged for John Deere by \$12 million after VOCA volunteer Robert Millbern of Kansas helped a farm equipment dealer in Slovakia last year develop a marketing and business plan. In 1994, Deere had sold only one combine to this dealer, compared to 35 this year.

Agrienterprises of Alabama is embarking on a poultry joint venture in Kazakhstan based on information developed by Alabama VOCA volunteer Hubert Christopher this year. The \$7 to \$10 million operation will supply poultry for Chevron and other Western firms located in the region, as well as local markets. Additionally, Agrienterprises will import U.S. soybean oil for the poultry feed.

Louisiana VOCA volunteer Jackie Theriot helped privatize a Bolivian sugar factory and forged trade ties that resulted in the collective sales of \$2 to \$3 million of seven different Louisiana companies.

Meredith Corp., of Iowa has helped to launch a Russian farm magazine after their senior editor, John Walter, completed VOCA

assignments with Russian journalists. The magazine is now an important advertising vehicle for United States companies, such as Triple F, Monsanto, Kinze, and others throughout Russia, Ukraine, and Belarus.

PREPARED STATEMENT

I want to conclude by thanking Congress for its support in the international assistance to VOCA and the Agricultural Cooperative Development International. VOCA often describes their work by building on the old adage, give a man a fish and feed him for a day, teach a man to fish, and he can feed himself for the rest of his life. To this we add that not only does he feed himself, but he also can afford to buy the fishing equipment from the United States.

Thank you again for allowing me to share my thoughts with you. I would be happy to answer any questions you may have.

[The statement follows:]

PREPARED STATEMENT OF ROBERT FOSTER

Mr. Chairman and Members of the Committee, I thank you for the opportunity to appear before you to discuss how the United States benefits from foreign assistance efforts. I speak today as an American who has served in Poland through Volunteers in Overseas Cooperative Assistance (VOCA) and as a former member of VOCA's Volunteer Advisory Council. My family operates a 320-cow dairy farm in Middlebury, Vermont. I also serve as Vice Chairman of Agri-Mark Inc., a New England milk marketing cooperative that manufactures Cabot dairy products. In addition, I serve on the board of the National Milk Producers Federation and just completed my activities as one of the 18 members of the U.S. Beef Industry Long Range Plan Task Force.

I believe the subject of this hearing is important to all Americans for three primary reasons. First, as Americans we have a humanitarian role to play and foreign assistance is a prime way that we fulfill this responsibility to mankind.

Second, we live in a global economy. Tariffs and protectionism don't open trade doors. Development does. It opens the hearts and minds of our partners in developing countries and emerging democracies. We are in a global marketplace. The United States must understand and cultivate our customers. They in turn need an understanding and appreciation for that marketplace too. Furthermore, as their standards of living increase, so do their appetites for U.S. products.

My third point is that international assistance has a vital role in our national security. It is an investment for our children and grandchildren to live in a more peaceful and prosperous world. Where you find hungry masses of people you will likely also find unstable governments.

Obviously, I am not alone in these opinions since there are more than 5,000 other Americans throughout the nation who are also willing to offer their time and talent as volunteers through VOCA. A private, non-profit organization, VOCA draws upon the American spirit of volunteerism to send U.S. agricultural, business and environmental professionals to emerging market countries throughout the world. In early 1990, I was privileged to be one of the first Americans to enter Poland after the fall of communism. The U.S. Agency for International Development (USAID) chose VOCA to be the U.S. international development organization to launch a program in Poland, and I was a member of the first team of volunteers on the ground.

Another volunteer and I worked with the Regional Board of Rural Solidarity in the Rzeszow province in southeastern Poland. We met with farmers, the Rural Solidarity Council and many other groups to provide them with insight into American agricultural marketing and how we organize supply cooperatives. As a result of this shared knowledge, a group of farmers in the village of Chmielnik formed the first cooperative created in the region since the fall of communism. These entrepreneurs received assistance from the Polish-American Joint Commission for Humanitarian Assistance and began operating their new cooperative flour mill in July 1991. The enterprise immediately began competing against state monopolies, and has been operating profitably for five years.

We also made recommendations that led to the formation of Poland's first training center for cooperatives and other agribusinesses. The resulting Agency for Cooperative Promotion has since trained more than 500 individuals in cooperative principles and assisted fledgling cooperatives with legal, economic and financial advice. I am pleased to report that this cooperative center's work started a chain reaction of success for hundreds of American-style cooperatives that are vehicles for Poland's free-market growth.

Obviously, there have been many factors that have contributed to Poland's progress since the fall of communism. However, the numbers show that Poland's economy is greatly improved and so is our trade relationship with them. In 1991, Poland's gross domestic production was declining by 7 percent. By 1995, Poland's gross domestic production was growing at an estimated rate of 6 percent, according to the U.S. Department of Commerce. Furthermore, U.S. export growth to Poland is projected to skyrocket from \$912 million in 1993 to \$7 billion by the year 2000.

Despite the fact that Poland is located in the center of Europe, the United States is the largest foreign investor in their economy. Coca-Cola, McDonalds, Proctor & Gamble and other U.S. companies are contributing to the rapid shift from state-employment to private-sector employment in Poland. VOCA clients are contributing to the success of these companies by developing the human resources as well as small and medium-size businesses upon which the larger U.S. companies depend for outsourcing of raw products and services. For example, the VOCA-assisted Run Sweet Corn Company will provide 500 tons of frozen sweet corn this year to Kentucky Fried Chicken restaurants in Poland and surrounding countries. Furthermore, the owner of Run purchased essential processing equipment from the United States based upon the recommendations of a VOCA volunteer.

While large U.S. companies have made great strides in Poland, there is still much work to be done to assist small and medium-size companies in their trade relationships with Poland. Because VOCA has developed an extensive network of client firms throughout Central and Eastern Europe, we are well positioned to facilitate entry into these markets for U.S. businesses that lack the internal resources to investigate and develop these growing markets. Therefore, VOCA has created the International Market Access Program (IMAP) that can serve this role.

I would also like to share with you information about how other VOCA assignments have led to trade linkages for the United States. VOCA volunteers are trade ambassadors. While we don't make business deals while on assignment, our contacts don't die when our return flights land here in the United States. In fact, for many volunteers the real work has just begun. VOCA volunteers provide advice to their clients on how to obtain necessary products, equipment and services. They also help identify potential business partners. This flow of information often generates opportunities for U.S. companies. Many VOCA volunteers have continued to advise their overseas clients by phone, fax, mail or whatever else it takes to communicate for years following the assignment. Some volunteers have even used their own money to help their overseas clients come to the United States to shop for U.S. technology and products.

I would like to cite several examples to prove my point. John Deere sold more than \$9 million of Midwestern-made farm equipment to VOCA client Agroservis of Slovakia in the first seven months of 1996. Business surged for John Deere after VOCA volunteer Robert Millbern of Kansas completed his VOCA assignment with Agroservis, a farm equipment dealership, in February of 1995. Millbern assisted the owners of Agroservis to develop a business plan, which included a marketing strategy to increase sales. He also trained Agroservis dealers to maintain and repair equipment, ensuring new customers of long-term service. The sales figures demonstrate the volunteer's impact: Within three weeks of the volunteer's assignment, John Deere sold \$3 million worth of equipment to the dealership. In 1994, John Deere had sold only one combine to Agroservis compared to 35 in 1996. Tractors, combines and choppers are just some of the other major pieces of equipment ordered from John Deere by Agroservis in the last year and a half totaling some \$12 million in U.S. sales.

Agrienterprises Inc., of Alabama is embarking on a poultry joint venture in Kazakstan based on the information developed by Alabama VOCA volunteer Hubert Christopher this year. After conducting a feasibility study for the business centers of Atyrau and Uralsk oblasts, the owner of Agrienterprises Inc., decided to move ahead with a joint venture and is now writing a business plan for an egg laying facility in Atyrau and a broiler plant in Uralsk. The \$7-million to \$10-million operation will supply poultry to Chevron and other Western firms located in the region as well as local markets. In addition, Agrienterprises will import U.S. soybean oil for poultry feed.

Louisiana equipment manufacturers have opened markets in Bolivia based on trade relationships created by Louisiana VOCA volunteer Jackie Theriot. The volunteer helped guide a group of farmers in privatizing a Bolivian sugar factory. Theriot has also forged trade ties that have resulted in collective sales of \$2 million to 3 million for seven different Louisiana companies. Furthermore, based on the volunteer's recommendations, a Bolivian sugarcane producer purchased a Louisiana-made chopper harvester that was the first of its kind in Bolivia. These choppers sell for approximately \$250,000 each in the United States and more sales are expected because of the success of this initial purchase. Bolivia's producers have already tasted the success resulting from U.S. equipment, which is an important step in their becoming long-term U.S. customers. Furthermore, this work has not conflicted with the interests of U.S. farmers as Bolivia is shipping under the GATT rules and cannot fulfill its local commitments and those of surrounding countries.

Meredith Corporation of Iowa has helped to launch a Russian farm magazine after their senior editor John Walter completed VOCA assignments with Russian journalists. The publication is the first bilingual, agricultural publication on the Internet's Worldwide Web. Possibly even more important, the magazine is now an important advertising vehicle for U.S. companies, such as Triple F, Monsanto and Kinze, throughout Russia, Ukraine and Belarus.

The California raisin industry developed a \$500,000 annual market for raisin concentrate in Uruguay based on the information provided by VOCA volunteer Michael Ingalls of Washington state. A honey importer/exporter, Ingalls was in South America in March of 1993 advising honey producers on how to become better marketers. Upon his return to the states, he shared marketing information with a representative of the U.S. honey and California raisin industries. Raisin industry marketers typically introduce this bakery ingredient to new export markets with a single quart jar of product. However, the VOCA volunteer's leads allowed them to achieve their first sale with a full ship's container load within months of the volunteer's return to the United States. Uruguay now buys \$500,000 of the high-value product that creates U.S. employment opportunities.

Erie Foods International of Illinois has formed a partnership with milk plants in Kazan and Krasnodar and various milk brokers in Russia to import casein, a milk protein used in non-dairy creamers, soups and powdered diet drinks that is not produced in the United States. VOCA volunteers from Illinois and New York laid the groundwork for this trade relationship. According to Chris Larson of Erie Foods, the company imports 750 metric tons (1,653,000 pounds) of casein from Russia per year. By buying from Russian producers, Erie Foods saves \$5,000 for each 40,000 pound load—or \$206,000 a year.

U.S. coffee distributors from California, Oregon, Alaska, Illinois and Florida signed an agreement with Cafeieres Natives, a coffee farmer cooperative in Haiti, to purchase Haitian Bleu coffee, a specialty coffee grown in remote mountainous regions under shade. VOCA volunteer Holly Chase of Connecticut worked with the manager of Cafeieres Natives in May 1995 to devise ways to advertise Haiti's "new" coffee. The marketing strategy included taking advantage of Haiti's rich painting and craft tradition to illustrate promotional items.

U.S. bean producers in the Pacific Northwest are benefiting from plant samples collected by VOCA volunteer Leon Reese of Oregon while on assignment in Armenia. Pathologists at a USDA agricultural research service in Washington state are screening the grain and vegetable seeds for resistance to disease. In particular, they have discovered that the Armenian chickpea (garbanzo beans) samples are resistant to a foliar disease that is a major constraint in the cultivation of chickpeas in the region. Producers in the Pacific Northwest raised nearly 18 million pounds of the beans—valued at \$6 million—in 1995. In 1987, these chickpea producers lost \$1 million to \$2 million as a result of the foliar disease. The Armenian samples will enable U.S. plant breeders to develop new, higher-yielding crop varieties with stronger resistance to diseases.

Kussel Co. Ltd. of Wisconsin sold \$140,000 worth of U.S. cottage cheese equipment to the Piatnica Dairy Cooperative in Poland thanks to the relationships fostered by several VOCA volunteers. The dairy now produces 400 tons of cottage cheese per month and sales from cottage cheese contribute to 50 percent of Piatnica's profits.

U.S. commodity associations also benefit. For example, VOCA recently concluded a project for the American Soybean Association to develop a market for full-fat soya made from extruded U.S. soybeans. This is a win-win for Poland and the United States. Because of Poland's increasing prosperity, the demand for meat is rising and Poland is unable to produce soybean products that are vital to the livestock industry.

VOCA is poised to foster even more of these positive business activities through its upcoming consolidation with Agricultural Cooperative Development International (ACDI). The ACDI/VOCA consolidation combines the strengths of both organizations to serve as a premier provider of professional services to promote sustainable economic and social development. ACDI has helped Koch Supplies of Kansas City identify business opportunities in Kazakhstan under a USAID ACDI food systems improvement project. Koch has now formed a joint venture to modernize the Kazakhstan dairy sector. Another recent example is that an ACDI soybean marketing specialist went to South Africa under a contract with the American Soybean Association to help open that market for U.S. soybean producers.

These activities are exactly what America needs to get in on the ground floor with these potential customers. A World Bank report shows that 40 percent of all U.S. exports and half of all U.S. agricultural exports go to developing countries. Furthermore, export markets to developing countries are growing much faster than exports to the industrialized countries. The International Monetary Fund and the International Food Policy Research Institute document that from 1990 to 1993, exports from the European Union to developing countries grew at an annual rate of 6.3 percent and are now valued at nearly \$300 billion a year. Meanwhile, U.S. exports to developing countries rose by almost 40 percent from \$140 billion to \$197 billion. The increase alone created an excess of 1.1 million U.S. jobs.

We must not wait for our competitors, such as the European Union and Japan, to introduce their technology and equipment in developing countries and emerging democracies since these trade relationships are often deeply rooted once in place.

While these business relationships are exciting, I believe their importance falls short of my other two less quantifiable points that the United States has a responsibility to assist mankind and that promoting peace and prosperity worldwide has a priceless value. VOCA has recently embarked on a USAID-funded program in Uganda to train former military troops with new business skills. Many of these former soldiers will use this information to find or create employment in agriculture, allowing this initiative to literally help turn swords into plowshares. In the Philippines, VOCA just launched the Building Unity for Continuing Coconut Industry Reform to help farmers and farm workers strengthen their political and economic position in the marketplace. This democratization program will create new opportunities for this industry that supports the livelihoods of nearly one-third of the Filipino population. The USAID-funded initiative will benefit the approximately 3.4 million coconut producers, primarily those with small farms, as well as farm workers. This predominantly female group comprises the most economically disadvantaged segment of the Philippines. These are just a few of the thousands of such important initiatives around the world.

I want to conclude by thanking Congress for its support of international assistance programs that have supported VOCA and ACDI. VOCA often describes their work by building upon the old adage "Give a man a fish and feed him for one day. Teach a man to fish, and he can feed himself for the rest of his life." However, we add that he cannot only feed himself; he can afford to buy fishing equipment from us too.

Thank you again for allowing me to share these thoughts with you.

ADVANTAGES OF TRADE

Senator JEFFORDS. Thank you very much, Bob. That is an excellent point. I appreciate your testimony very much. This is an area that I have been very interested in for many years. I have been concerned that when our State Department comes before us they try to defend foreign assistance based upon the defense of the Nation and the national interest, and all of that.

I have always believed that the best defense is a good offense. It seems to me what you have pointed out, that if we were more active in understanding the advantages of trade and the tremendous markets that are opening up out there, that we would not have to defend foreign aid, but would be seeking to increase it. I am sure you agree.

I wonder if you see any change in recent years or months in the attitude of the U.S. Government in getting involved in efforts to help and assist businessmen.

I remember going to one foreign country where I was besieged by American businessmen who said we have got to get in to see the head of the power corporations. We want to bid on these contracts, but we've got Germany coming in with their foreign minister, somebody else with their foreign minister, and they all open the doors and they go in and they deal directly with these guys, and we cannot get in. The Governor might get us in, a Senator will get us in, but it is hard to get our country to help us.

I got them in, incidentally, but is this sort of thing still a problem? Are we still not really doing what we need to do to help our business?

Mr. DAUGHERTY. I would like to comment on that, if I may. Our CEO and president, Chuck Johnson, spent a month in central Europe earlier this year. He went over after consulting with the White House and the State Department, and the cooperation received from the Embassy staff and the agriculture attachés was absolutely exemplary in all of those countries.

We give very high marks to our Government, at least in this particular instance. The Government was very interested in helping us, and as a result of their assistance, he was able to meet with at least agriculture minister level officials and in many cases higher on that trip, so it was very helpful.

Senator JEFFORDS. Does anyone else want to comment? How aggressive are we in helping out our businessmen?

Mr. BURRILL. I think you have an example here of how it can work. The problem that occurs is when there is a reduction in Embassy staff, when an AID mission closes, so to speak, the American flag starts to go down.

We then have a situation that you encountered, where businesses cannot find someone to help them get access, and our competition is there doing it, so I think that all of us have seen countries in Latin America in particular, some places in Asia, certainly it is happening in Africa, where the ability to quickly access people is not there the way it was 5 and 6 years ago, and this in the long run is going to hurt because the competition is going to have that access.

Senator JEFFORDS. And we are closing down Embassies and consulates in many, many countries now because of cutbacks. Does that have a direct impact? Apparently you say that it does.

Mr. BURRILL. Well, I think that the reduction in staff in Embassies and certainly the closing of AID missions, it means there is less of an American presence which over time is going to mean less knowledge and less contact on the part of official American infrastructure there with the local people so that there will be less ability for businessmen who come in to access it quickly through official U.S. Government people.

Senator JEFFORDS. Senator Leahy.

Senator LEAHY. Mr. Chairman, Mr. Burrill has talked about aid to support development and how it has been cut sharply. He and I have discussed this on a number of occasions, and we are very much in agreement about what the consequences are.

EXPORT ASSISTANCE PROGRAMS

But you mentioned some of the export assistance programs that have been spared the knife: the Export-Import Bank, OPIC, Trade Development Agency, International Finance Corporation, the hard loan windows at the international financial institutions. Are these organizations capable of building the foreign markets and promote U.S. exports?

Since they are not getting cut, should we be able to rely on them, or is this a case where the ones that are being cut do it differently, or carry out a different role?

Mr. CRONIN. If I may make a comment, I believe that all of the efforts are important, and in fact many of the efforts are directly complementary of each other. Especially when you are looking at, at least in our business, the energy efficiency business, it is a critical problem we have is finding financing for projects, and more specifically a sustainable mechanism for financing, particularly in Eastern Europe.

Senator LEAHY. You say we cannot do this alone with the Export-Import Bank or OPIC or those others?

Mr. CRONIN. They all help. They all help. They cannot carry the total weight of the need for market development.

Senator LEAHY. The total weight of what?

Mr. CRONIN. Market development.

One of the most important points I think I would like to make here, though, is as these new markets become open, this is probably the worst time for the Government to start cutting back on developmental assistance. This is a tremendous opportunity for U.S. companies, the energy efficiency business and many, many others.

EXPAND OUR PRESENCE OVERSEAS

This is a tremendous opportunity for us to expand our presence overseas, to export U.S. products, to export U.S. technology applications thereof. It is by far the worst time for our Government to say, nope, sorry, we are going to cut back on these things because we think we are not getting the benefit of it, we think it is pouring money into a black hole.

Senator LEAHY. The example I use is that at a time when the United States is cutting back on foreign aid our most aggressive trading partners are increasing the amount they spend. We ought to learn something from this.

Japan, which has an enormous balance of payments surplus, at a time when the United States has the largest deficit it has ever had, increases their budget for foreign aid while we decrease ours. They increase their exports while we decrease ours. They increase their exports while our exports are not adequate to cover our own balance of payments.

Sooner or later, somebody has to wake up to the fact that our competitors, who are doing so much better in their balance of payment, consider one of the major reasons for their success to be their ability to increase their support for foreign aid and their involvement in creating foreign markets.

And frankly, I think a number of them would be delighted if we would get out of the business altogether. But George—you men-

tioned in your own testimony, that while we have been cutting back on our foreign aid, our economic competitors are filling the void. Who are some of the people who are getting the edge on us by filling the void when we back out?

Mr. BURRILL. Well, you can see, in fact, if you look at this chart here that says, comparative investment in foreign assistance, the red columns there are the actual dollar amounts that some of the other developed countries are putting into development assistance, and you can see that actually in terms of total dollars the United States is fourth, and this means France, Germany, Japan, they are all putting more real dollars into development assistance than we are, and over time, that will have a tremendous effect on market share and the ability of United States companies to access those markets.

Another thing—this just recently has become apparent to everyone—is the cutback in IDA and our support for International Development Association [IDA], \$900 million or so in arrears there. This means there is billions of dollars of contracts that U.S. companies cannot bid on, cannot be part of, and over time, that will mean that our competitors will be in there and they will be doing that work, and they will have access to those people, to those markets, they will make contacts, and this means over a long period of time their increase in the market share will be very evident.

Senator LEAHY. Tell me if you would agree with this. We can be in a win-win situation, one part being they are buying American goods to build their roads, their hospitals and so on, and the other part of the win that we are opening up an area for American goods to be sold, and American business to be involved. Conversely, to lose-lose, we stay out. They are buying somebody else's goods to build the roads and the hospitals, and somebody else's country is getting the foothold. Is that basically in the ballpark?

PROVIDING FOREIGN ASSISTANCE

Mr. BURRILL. I think that is an excellent way of describing it. That is absolutely true. By providing foreign assistance when we help economies develop, we are helping them, that is a win for them and it is a win for us, because they are then going to have more money and a more vibrant economy to buy from us. It is absolutely a win-win.

Senator LEAHY. And if I might, Mr. Chairman, simply follow up with Bob Foster. Bob, we come from a small State, and you see Senator Jeffords and myself all the time, either down here or up there, and you have no hesitation to tell us about your experiences.

I remember a couple of the times you sat in my conference room and we talked about your VOCA experiences. We have so many of the same friends and neighbors, and we all enjoy hearing about your experiences. Are some of your other members, though, going around where maybe they may not be preaching so much to the converted, but maybe doing a little conversion among some of their congressional members?

I do not want to push this proselytizing analogy too far but are there others going out and doing this?

Mr. FOSTER. There are a number of volunteers that have been involved with the VOCA project. For instance, last year there were

some thousand volunteers that participated in programming, and a lot of those have come back and shared their experiences, and shared them with their congressional delegations as I did with you, because we think it is an excellent way to leverage.

What we have done is, we have actually formalized the process to a certain extent in VOCA, and have provided—we have two initiatives. One is the international market access program, which allows U.S. businesses to contact VOCA to find out what some of those markets are and use the experiences of the volunteers to do some development, market development work as well, and build upon the contacts that we have.

A number of volunteers, once they have finished their VOCA tour of duty, if you will, continue to stay in contact with those organizations and assist them by fax and other things.

Senator LEAHY. You told us about the one, the farm magazine in Russia.

Mr. FOSTER. What that has done, that has, through the Meredith Corp., allowed us to advertise United States products in the international market in Russia.

Senator LEAHY. That was a case, I understand, where a VOCA volunteer helped launch the magazine in the first place.

Mr. FOSTER. Yes; and another one that comes to mind is in Poland where, as a part of the initial group that I was involved with, two of the seven people established a cooperative called Agriwisconsin in the dairy sector, and that had some ups and downs, and I do not know where it is at this point, but there is a lot of these types of initiatives that can be leveraged with very little resources put to those, just based on the initial can-do attitude of the volunteers and the people involved. It is a grassroots effort.

Senator LEAHY. Thank you.

Thank you, Mr. Chairman.

Senator JEFFORDS. Let me pursue that a bit more broadly with respect to volunteerism and American citizens going over and assisting especially the emerging nations in Eastern Europe, in learning about the fundamentals of the free enterprise system as well as the legal commercial codes and that sort of thing.

FREE ENTERPRISE SYSTEM

Do we do much, do you observe much going on from our Nation in helping these countries to be better at understanding how to make an effective free enterprise system? George.

Mr. BURRILL. Yes; in fact, as you probably know, there has been a group of lawyers and people from the legal profession in Vermont, judges and otherwise, that have been going to the former Soviet Union the last few years, working with us over there, and much of this is aimed at reforms that need to take place, changes that need to take place in the former Soviet Union before foreign investment can come in with a greater surety that they are going to be successful in the long run.

You need a predictable legal system. You have a need to be able to redress if there are grievances, you need to be able to expatriate funds, a whole series of legal issues that need to be resolved, and of changes that need to be made, and I know there have been peo-

ple from the legal profession from all over the United States that have been volunteering their time in going through USAID programs, and including our own out of Vermont to assist in this process.

Senator JEFFORDS. Well, it seems to me that the best way to make contacts is to help create sound financial structures. In this way, we show that we are really trying to help other countries understand how to benefit themselves. I just do not know that we do enough of that. What do you observe?

Mr. BURRILL. Well, I think it is more instances now. I think that there is a movement toward it being more widespread, but again, the resources are not there. I think the small amount of resources that it takes from the U.S. Government, even though a lot of it that done is volunteerism, there are not enough resources there to do it broadly.

One of the problems is that everyone expects it to happen very quickly, and this is a long-term process, and it takes a number of years, and there has to be some patience, and I think that the Congress has to be willing to stay with this, and if that happens, then we will see even more people get involved in this kind of a process.

Senator JEFFORDS. Does anyone else want to comment? Bob.

Mr. FOSTER. Yes; part of what VOCA does, and ACIDI does, is to develop and work with the credit institutions. For instance, of the 783 projects last year, I believe some 77 were involved in the financial and credit arena, and developed cooperative structures in these countries to provide the credit that is necessary to establish the small businesses, and this is done through either a brief 3-week visit for a volunteer or for a longer period of time on a contractual basis with the group to provide guidance and help in establishing institutions that can provide the infrastructure necessary for some of these other business activities to flourish.

Senator JEFFORDS. I wonder also whether we do enough in this Nation to try and ensure that we have sufficient people who speak foreign languages. Do you find a problem with getting interpreters? What do you think we ought to be doing to try to get young people more interested in foreign languages so that they can be able to go over and negotiate?

My advice to my son when he was in high school was to take Chinese and get involved in finance and business. Well, he is involved in finance and business, but Chinese somehow slipped by. After observing the language for 1 week, I understood. But now that he is going into international ventures, and he has been to China five times, and he said he wishes he had learned Chinese.

How are we doing in that regard in this country? Yes, Doug.

Mr. BLOSS. I believe we can do a whole lot more, and there is not a business today in America that is content with being king of the domestic market any more. We are certainly in the global economy.

EXPOSURE TO FOREIGN MARKETS

I know a lot of our younger employees are getting exposure to foreign markets far quicker than the people before them. I think what we will see is some of the better paying jobs will go to people who have that capability.

Having been to China myself 11 times, I miss being able to communicate fluently with these people, and I think it is an effort that we really need to focus on.

Senator JEFFORDS. I know I find when I am over in a foreign country, that frequently the head of state knows English, though he may choose to speak in his own language.

It is interesting just how few people we have that really understand the languages to assist us. Yes, Patrick.

Mr. CRONIN. I would fully agree. As Mr. Bloss mentioned, the marketplace is rapidly becoming global. It is not a luxury for us to just be part of a domestic market any more. Any opportunities we have for our employees or our sons or daughters to be exposed to some sort of global marketplace, outside cultures, the more the better.

I personally travel to between 10 and 15 countries a year. Even though I think I do fairly well in a couple of languages, I certainly cannot be fluent in more than eight perhaps.

However, what I find most important is to be able to go into a market, go into a new country or go into a visiting country and deal with an expanded range of contacts, and be able to show the proper courtesies and proper cultural sensitivities, if you will.

I can introduce myself in about nine languages. That is about all I can do in eight languages, but again, what it does is, it shows my hosts and my counterparts and perhaps my future customers that I am making every effort to meet them on their own terms.

You can always find good interpreters. I have been able to understand that how to meet colleagues and customers on their own terms, particularly for what we consider foreign cultures, is very, very important.

When we go into a new market, obviously we are trying to leverage as much as we can from friendly sources, from available sources, be it other companies with whom we may do business, professional or trade colleagues, certainly representatives of the U.S. Government who are based there.

If we are losing more and more of the seasoned people from Embassies and consulates and missions, it is more difficult for us to be able to go in and try to effectively meet counterparts and customers on their own terms.

Senator JEFFORDS. Mr. Daugherty.

Mr. DAUGHERTY. I would like to agree with what has been said, and I think the point about losing people, and the point I made earlier about the Embassy staff, I do not want to overlook the fact that we do have good people in place. I think the point that is being made is we do not have enough of them, and Americans do a pretty good job of what they do.

We just are not able to do enough, and the answer is not necessarily just the money. Appropriating a few billion more is not necessarily going to make those markets happen for us. It is that interrelationship, and the programs that put people on the ground.

I know in my own life I tend to go back to people and places and buy things where there is a relationship that has been built, as opposed to just something that is a good price, and so I think there is much more to developing these markets and providing business opportunities than just putting money on the table. We have to do

some of the things that have been said here with regard to people programs.

Senator JEFFORDS. The kinds of exchanges you were in, Bob, are those the kinds of things? I know we have several in Vermont, where the farmers have come over here and we have gone over there. Do you think that bears a direct relationship to the ability to open markets?

Mr. FOSTER. Yes; I do. I have seen some specific incidences, and I think there are a number of examples, some of which I have included in my testimony, that have come out of the VOCA program.

When you get the feel for the country, you can see the opportunities that are there, and you bring those back and you share them with the business community here and with your neighbors, and fellow associates, and it is hard to pinpoint exact examples of how those things spin off, but there is just so much opportunity out there.

To get back to your language thing, speaking the language of the communities, I think we have got to do a lot more in that arena. I think we have been complacent too long. We have been complacent about a lot of things, and I think we are in for a rude awakening if we do not wake up pretty quickly.

Senator JEFFORDS. I took a look at the census report, at the little State of Vermont. I cannot remember how many different languages were spoken in some of the families in Vermont. I think it was something like 30 languages which they speak at home.

If we could somehow know who they are we could have them available nationwide for interpreting and getting involved in these things. I think we have a huge resource out there that we really have not tapped at all. It would be interesting to see what we could do with it.

DANGER OF ISOLATIONISM

Mr. BURRILL. If I could make a comment on this, we are really looking here at a very much broader issue in American society, and that is the danger of isolationism, and this cuts completely across our society, and we have to be very careful that this does not grow. It needs to stay out of the education system, because we need the education system to let people think globally.

We need to reinforce language instruction. That has certainly been dropping off all across the country. I know it has in Vermont.

Another example, we need to keep supporting the Peace Corps. There are a whole series of things in our society that if we begin to psychologically back away from, we will back away from our support not only monetarily but just in the way we approach the world, and I think it takes leadership to see that that does not happen.

We are certainly going through a period when it could. We won World War II and we won the peace partly through the Marshall plan. We won the cold war, but given the actions of the Congress in the past couple of years, I am not sure we are getting ready to win the peace after the cold war.

Senator JEFFORDS. Pat.

MARSHALL PLAN

Senator LEAHY. Thank you. I think how much different this world would have been had we not had the Marshall plan. Now, there was foreign aid, a huge amount of foreign aid. I recall getting a telephone call after giving a speech basically in this committee about the need for it, and talking about the Marshall plan.

I got this call early one evening at home, and a voice which I should have recognized right away says: "Patrick, this is Richard Nixon, and I want to talk to you about your speech." I thought, oh, God, what did I say. He said he watched it on C-SPAN. He said: "Let me tell you how hard it was."

And then he gave me a quick history lesson as only President Nixon could about how unpopular the Marshall plan was and how President Truman went to the head of Studebaker and the head of one of the major labor unions and others to get them to come together to build support. I think they had something like 8 or 9 percent approval in the Gallup Poll at the time, and yet, can you imagine if President Truman and the others had just backed away from it, what a different world and what a less peaceful world we would have faced?

Mr. Cronin, when you speak of knowing the languages and the customs, I realize, this is something you cannot just turn on and off. Both my wife and my mother had English as their second language, and I know that when my mother was alive I traveled with her to the country of her birth, and the difference in the acceptance was impressive.

It was not so much that I was a U.S. Senator, but that my mother spoke the language, and the same holds true when my wife translates for me in other countries.

You mention about losing good people. There seems to be this idea, that we can just turn the spigot on and off. Would you agree with me, that is not the kind of expertise you can just turn on and off on a country, is that not so?

Mr. CRONIN. Yes, sir.

Senator LEAHY. In some ways, we sit here and we all agree on this, and we all know the necessity of it. To go back, George, to what you were saying, we have got to get the word out even more. I hope that this hearing does just that, and I compliment Senator Jeffords in taking the time to come here to be with us, because this is really about what kind of jobs we are going to have.

So many of us have children who are going to live most of their lives in the next century, as many of the people in this room do, but we have some responsibility to make sure that there are going to be jobs for those young people in the next century. The jobs are not going to be selling from one end of your neighborhood to the other. The neighborhood electronically is an instantaneous neighborhood. The neighborhood is one where things change.

Mr. Bloss, you talked about Eastern Europe. You went there after AID started its program in 1991, is that correct?

Mr. BLOSS. That is correct.

Senator LEAHY. And now you are established and do not need AID, but it is safe to say there are a lot of other good businesses

and good businesspeople from the United States who could get a foothold in there but need somebody to help them get in there.

Mr. BLOSS. Absolutely, and I think what gets lost in assessing foreign assistance is, as Pat mentioned, the importance of getting in early.

If you look from a marketing sense, the most enviable position a marketer can have is being first in the prospect's mind. Whatever investment it took to gain that spot, it is going to be more to dislodge someone who got there first.

There are lots of smaller U.S. companies that, like ourselves, we looked at Eastern Europe and said, some day that is going to be a great market, and we kind of conservatively wait for that market to prove it to us before we get in. Unfortunately, at that point the money we have to spend is considerable to dislodge somebody that has already gotten in, and there are a lot of companies that could use that assistance.

Senator LEAHY. Well, I am glad to see businesspeople like Bob Foster, who gets to go overseas, and the VOCA people from all over the country who do too. And I am glad, George, that your association has brought together so many good people to do this, and all of you for taking the time to pass on your own experience.

INTERNATIONAL MARKETS

We have all these international markets, but you all know it is not the easiest thing in the world to establish a market. You do not just put up a sign and have everybody rush to you with their trade.

Historically once the Marshall plan became a roaring success, at least for the first few years the United States had basically the manufacturing capability in the first world, and we could set our own markets.

It is almost like Henry Ford saying, you can buy any color car you want as long as it is black. You could buy whatever kind of TV you want, but it will be ours, or whatever kind of machine or tool, as long as it is ours. It is not that way any more, and the markets are there. It takes expertise, and for those who think you can just turn it on and off, that is just not true.

Senator JEFFORDS. Let me ask about one other matter which has bothered me over the years. We have had complaints from people dealing in the international sector that our ethical codes are restrictive such that it is a significant detriment to them being able to negotiate a deal.

Let us say, assuming that is correct, and if it is not correct let me know, should we be attempting to try, either in the United Nations or elsewhere, to establish some sort of commercial code so that everybody plays, on the same level playing field?

Mr. BLOSS. I think that would be a tremendous benefit. Indeed, you are correct, we must compete against other countries that do not share our same views in that regard. It makes it difficult. The playing field is not level. Whatever we could do in that end to level the playing field would be a great help to U.S. business.

Senator JEFFORDS. Does anyone else want to comment on that, or does anybody disagree with that?

[No response.]

Senator JEFFORDS. Anything else, Patrick?

Senator LEAHY. I was just going to say that when we first thought of holding this hearing, I had some misgivings because I know that foreign aid is unpopular, notwithstanding what we have heard here. There is a whole lot of other foreign news such as the Persian Gulf and the elections in Bosnia, and having a number of campaigns underway—neither Senator Jeffords nor I have one, but I must admit—

Senator JEFFORDS. That is why our statements were so short today. [Laughter.]

Senator LEAHY. That may be one of the reasons why we are the two Senators who came here. I was not sure if anybody besides us and the witnesses would be here, but we are spending foreign aid to help reconstruct Bosnia. We are using foreign aid to help feed Kurdish refugees in Iraq, and the election is a lot about the economy and jobs, the fastest growing part of our economy is our exports.

Look at Nigeria, an impoverished population of 110 million that is doubling every 22 years. If they are impoverished they do not buy American exports, but that is where our future markets are. If we help them get out of poverty, it is the place for our future markets.

Everybody here has said the private sector needs the Government's help to overcome the obstacles to investment abroad. It is only common sense. We have seen it in Eastern Europe, we have seen it in the former Soviet Union, Latin America, Asia.

FOREIGN AID PROGRAMS

Our foreign aid programs help lay the groundwork. We accomplish far more if we stop thinking about it as being some kind of a gift and give-away.

As I said, you could justify foreign aid in two areas, certainly, because it helps our own security the more democracies, the more middle classes that grow up around the world, but it also helps our economic security here at home. Then after we look at all the dollars and cents reasons why it makes sense, you can also say when you are the wealthiest, most powerful Nation on Earth, that there is a certain moral responsibility, too. This is one of those areas where our economic good sense and our moral obligations can come together.

Senator JEFFORDS. Well, I thank all of you for very excellent testimony and a very helpful discussion. I will come away from this really seriously questioning our cutbacks. And I am sure the Department of State will be happy to hear the concerns expressed here about what is going on around the world with respect to reducing Embassy staffs to ineffective levels.

We have run into some Embassies that are just totally decimated, where there is nobody left except the Ambassador and the chauffeur, practically. That is not a very productive exercise for developing overseas markets. We will carry back, to the committee this and many other ideas and suggestions you have had.

This is extremely important. I think the future of our Nation depends upon us recognizing these kinds of problems. We have to be positive, and really go out and seek the markets. In order to do that we have got to change our attitudes on a lot of things. So

hopefully this testimony today will help us move in that direction so that we can end up, as I said earlier, with a good offense—finding markets rather than trying to defend our foreign policy on bases which are not as relevant as this.

CONCLUSION OF HEARING

Thank you all very much. The subcommittee will stand in recess subject to the call of the Chair.

[Whereupon, at 4:30 p.m., Monday, September 16, the hearing was concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

Material Submitted Subsequent to Conclusion of Hearing

[CLERK'S NOTE.—Additional material was received by the subcommittee subsequent to the conclusion of the hearing. The statements will be inserted in the record at this point.]

PREPARED STATEMENT OF THE BUSINESS ALLIANCE FOR INTERNATIONAL ECONOMIC DEVELOPMENT

The twentieth century was in many ways the American century. One hundred years after gaining independence and on the heels of a violent Civil War, the United States began to blossom and prosper. Today, we have the world's pre-eminent economy, a relatively high standard of living for most of our citizens, and the promise of a technologically enriched future. Still, as this century draws to a close and we reflect upon our past successes, we must ask: Can we continue to prosper?

Not if the isolationists have their way. They are part of a small but vocal movement in the United States whose policies, based as they are on fear and a fundamental distrust of the economic forces at work in the world today, would steer the economy in precisely the wrong direction. They call for America to disengage from the rest of the world by erecting barriers to trade and investment and slashing U.S. foreign assistance. Not since the 1930's have the stakes been so high: America's participation in the world is the key to its future prosperity, and our foreign assistance programs play a critical role in ensuring our continued economic growth through foreign trade and investment.

The isolationists' message has resonated largely because they haven't been honest about what it means for the U.S. to remain engaged with other countries. It doesn't mean that foreigners will buy up our national treasures. Nor does it mean accepting unfair trade practices that can hamper our exports. And it certainly doesn't mean extravagant government spending abroad.

Engagement abroad means cooperating with other countries on global problems—like the environment, disease, and overpopulation—that affect us all. It means helping other countries grow economically so that they can become better customers for American goods and services. And it means persuading other countries to open their markets to American products, so that our economy can grow along with theirs and provide Americans with high-paying jobs that have a future in the global marketplace.

Foreign assistance is one of the best instruments we have to accomplish these tasks. But some Americans still think of it as a giant handout, a kind of "foreign welfare." The equation seems simple to most: "The more foreigners get, the less I get." While some politicians are content to play on these fears, others explain that foreign assistance is an investment in America's future, with real payoffs now and many more later. The money the United States spends on foreign assistance means tangible benefits to the American people, in the form of more jobs, a cleaner environment, and a safer future. This is the lesson of the past, but its message is getting lost in the isolationist furor.

The timing of the assault on foreign assistance is especially poor. Just as the United States is beginning to make foreign assistance truly efficient—conditioning it on a recipient's willingness to implement sound economic policies and foster democracy—and as we are realizing the increasing importance of exports to "poor" countries, some are trying to persuade us that foreign assistance is a useless drain on limited resources. These people say that we need to focus our efforts on creating jobs and opportunities at home; the irony is that creating opportunities at home is precisely what foreign assistance does, in more ways than most of us realize.

FOREIGN ASSISTANCE TODAY

There are two ways in which U.S. foreign assistance benefits the American people. The first is very direct: by purchasing goods and services from U.S. companies for use in foreign assistance programs. The second way—facilitating private sector trade and investment—is perhaps less direct, but even more important for America's long-term economic growth.

In 1995, Congress approved almost \$13.5 billion for total foreign assistance. Military assistance, administered by the Defense and State Departments, accounts for close to one-third of this total. Multilateral assistance makes up 16 percent, while the Economic Support Fund, which is used to achieve political and military objectives, particularly in Israel and Egypt, comprises about 17 percent.

The remaining third goes largely toward bilateral economic and food assistance to the developing world and the transition economies of Eastern Europe and the former Soviet Union. Most of this development assistance—the money we spend on democracy building, economic development, environmental protection, agricultural research, disaster relief, health and population issues—is administered by the U.S. Agency for International Development (USAID).

A vital factor linking all the components of our foreign assistance budget is that most of the money is spent right here in the United States. In fact, 80 percent of the total foreign assistance budget goes for goods and services that the U.S. Government buys from businesses all across America. In 1994, more than \$10 billion in foreign assistance was spent on American products and services. This supports about 200,000 U.S. jobs.

You may wonder just how tax dollars travel from your pocket to help a foreign country. The government takes about \$44 from the average American family's taxes each year for foreign assistance. Assuming the family has four members, this works out to \$11 per person—about the price of a movie ticket and a small bag of popcorn. That's a lot less than we pay for many other items in the federal budget: The average family member pays about \$220 for health and human services and over \$230 goes for interest on the federal debt.

Moreover, the \$11 used for foreign assistance is not just sent by overnight express to Ghana or Mexico. About \$9 of it is spent in the United States, on goods made and services provided by American companies. In 1994, the U.S. Government bought tarps for disaster relief and temporary housing in Africa from a small business in Maine called Cormier Textile Products. Similarly, workers for Caterpillar Inc., in Clayton, North Carolina and Minneapolis, Minnesota made road-building machines for projects in Mali. Overall, in 1994, foreign assistance funding was used to purchase \$475 million worth of goods and services in California alone—supporting almost 10,000 American workers.

In Michigan, almost 1,000 people rely on the foreign aid budget for their livelihoods. Some of them work at Ford Motor Company. Others work at Upjohn, a 100 year-old pharmaceutical company that sells the U.S. Government the medicines needed to carry out many of our disaster relief efforts—from ibuprofen to antibiotics.

Approximately 60 cents of the \$11 in taxes used for foreign assistance is spent on food that is grown right here by America's farmers. Farms across the country are benefiting from the "Food for Peace" program, which involves U.S. Government purchases of wheat, sorghum, soybeans, and oils for use abroad. For farmers in Kansas, this meant that \$74 million worth of their agricultural products were sent to developing countries in 1994. In the same year, Washington state farmers sold almost \$210 million of Food for Peace wheat and oils for use abroad.

The \$35 million that farmers in Nebraska received from the foreign assistance budget for their products in 1994 is a small percentage of the state's total farms sales, which Plattsville farmer Roy Smith estimates at over \$3 billion. But he points to the longer-term effect of the Food for Peace purchases. "After the Korean War, we provided Korea with a lot of wheat, corn, and soybean oil," says Smith. "As a poor country, they needed that to survive, but as they got richer, they became good customers for our farm products because of the appetite that was developed in those early years." Roy Smith admits that if the Food for Peace program were cut, farmers might not feel the effects the next year, or even the year after, but he worries that it would eventually come back to haunt them. "You've got to have buyers or you don't have a business, and taking away this money would gradually erode our customer base."

The purchase of U.S. agricultural commodities by Food for Peace doesn't just provide employment for the farmers that grow the crops, it provides jobs for many Americans involved in transporting the goods to their final destination and distributing them upon their arrival. For example, in 1994 the U.S. Government purchased \$43 million of Missouri wheat, rice, feedgrains, soybeans, cotton, and other agricul-

tural goods. Those purchases generated an additional \$10 million in port services and shipping charges for companies headquartered in Missouri. And Texas transportation companies received \$92 million that same year under Food for Peace, shipping agricultural goods from all over the Midwest and South for distribution abroad. If, as Kansas wheat farmer Roy Smith fears, the foreign aid budget is cut, it will hurt average working Americans more than the citizens of any foreign country.

THE FOREIGN ASSISTANCE PAYOFF

The jobs of hundreds of thousands of Americans are directly affected by the size and shape of the foreign assistance budget, but the money that isn't spent on U.S. goods and services before making its way abroad helps America, too. The effects on the U.S. economy may be slower, but in the end, the resulting growth is even more dramatic.

There are three important ways that foreign assistance makes our country strong and prosperous.

(I). It increases our exports, and creates jobs, by developing the economies of poor countries so that they are able to buy goods from us.

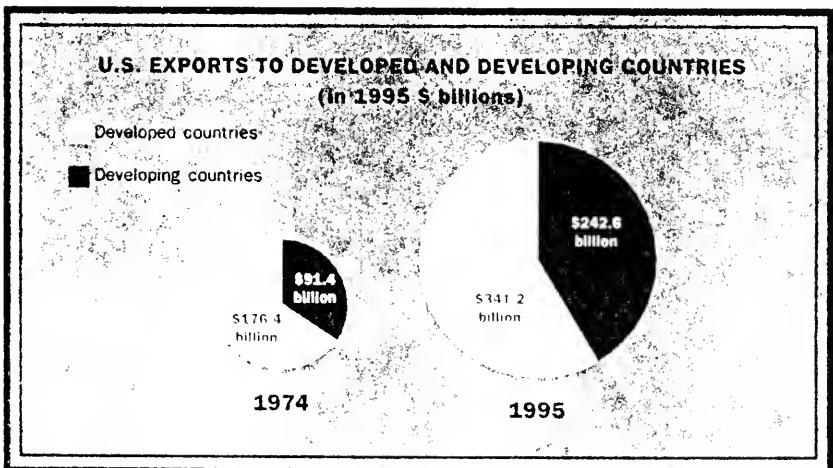
(II). It increases the number and quality of our trading partners by helping countries that are undergoing difficult transitions achieve political stability.

(III). It protects our own economy from the ravages of disease, environmental destruction, and overpopulation by treating these global problems at their source. The twentieth century offers many valuable lessons about our relationship with the rest of the world. The danger lies in ignoring those lessons.

I. JOBS, JOBS, JOBS

Although the United States once provided almost two-thirds of all the foreign assistance in the world, in the last decade we've seen an almost 40 percent decrease in our foreign assistance budget, in real terms. This is a dangerous moment to be dropping out of the world scene, because if there's one thing we know for sure, it is that the American economy is growing today mainly because other countries want our products and services. Today, exports account for 10 percent of the entire U.S. economy—double the level of only a decade ago. And the export business is the fastest-growing part of the economy. In 1983, the jobs of five million workers depended on U.S. exports. Today, that number has reached 12 million.

Which countries buy American? Naturally, we have strong trading relations with our neighbors, Canada and Mexico, and with our Western European allies, but by far the fastest-growing markets for U.S. goods are in the developing world. In 1995 alone, U.S. exports to developing countries rose by 11.8 percent. Between 1990 and 1995, exports to developing countries increased by nearly \$100 billion—from \$146 billion to \$243 billion. Because every \$1 billion worth of exports generates 20,000 U.S. jobs, that export boom supported roughly 1.9 million jobs in the United States.



We are now getting far more out of developing countries than we ever put into them in the form of foreign assistance. For example, total U.S. economic assistance

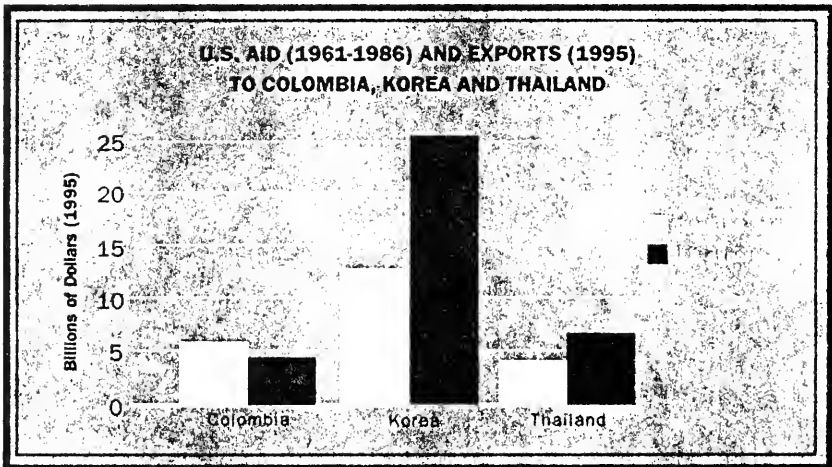
to Latin America between 1947 and 1995 came to a little over \$30 billion. Yet, in just one year, our exports to Latin America are now two and one-half times that amount.

A BRIGHT FUTURE

One of this century's indisputable lessons is that nations only prosper to the extent that they engage economically in the world. If the United States can heed this lesson, our economic growth in the next century is almost assured. By the year 2000, four out of five people in the world will live in developing countries. If current economic growth rates in, say, Africa are sustained—and if we continue our modest assistance programs to that continent—the United States could export \$50 billion worth of goods and services each year to Africa alone by the year 2025. In constant dollars, this is almost three times what we export today, and it represents over a million future jobs for Americans. Put another way, it could mean a return of \$600 per American family. If we could help Africans achieve even more dramatic growth, the return to each family could reach \$2,000 annually.

Already, with market growth rates ten times those of traditional U.S. markets in Europe and Japan, developing world markets are boosting U.S. exports in several sectors important to our economy: high-value goods, agriculture, and services. When we export high-value goods, such as computers, energy and environmental systems, and communications equipment, we not only create more jobs, we create high-paying jobs that keep America on the cutting edge of critical technologies. And, in an age when many U.S. farms are struggling to keep afloat, the increase in exports to developing countries is nothing short of a godsend.

We now export more to South Korea in just one year than we gave that country in foreign assistance throughout the 1960's and 1970's.



Developing countries are also increasing their demand for services provided by U.S. companies—everything from financial services to retailing, from higher education to entertainment, hospital services to tourism. The service sector of the U.S. economy is growing rapidly: Within ten years it may equal, if not exceed, the merchandise trade. And this is a good thing for the United States, because Americans in the service sector tend to earn more than they do in traditional manufacturing jobs.

MARKET CREATION: THE WORK OF GOVERNMENTS

Markets for American products do not just "appear." They are created by myriad forces—and no economist has been able to come up with a magical prescription for the process. But thanks to our work in a group of developing countries in Asia, we are learning more about what is needed to create strong and viable markets.

The "East Asian miracle," as it has come to be called, refers to the spectacular growth in at least eight economies in East and Southeast Asia. The United States helped guide these countries through an experiment in the 1960's and 1970's, which taught us that economic growth has two major components. One is the integration

of a country into the world economy. This means breaking down protectionist trade barriers, putting state-owned industries into the able hands of the private sector, and reforming tax and investment codes to provide fertile soil for foreign and domestic investment.

The other component, although no less important, is often overlooked: investment in human capital. The countries that the U.S. encouraged to invest in human resources—mainly through education and training—are now blessed with more productive and enterprising citizens. This in turn has meant better customers for U.S. goods: The very countries where the United States helped institute education reforms during the 1960's and 1970's are now among the top importers of U.S. goods and services.

Most of the foreign assistance that we spend on developing countries today goes toward making them good customers tomorrow. U.S. economic assistance helps build the kind of physical and human infrastructure necessary to foster trade and attract private investment. In this way, the U.S. Government lays the groundwork for America's private sector.

Based on what we've learned about economic development, U.S. foreign assistance now focuses on six key elements of reform. Each of these elements, naturally, has important implications for the countries we are assisting, but the returns to the U.S. are equally significant.

1. Encouraging reforms in overall economic policy

When we help an economy reform by opening it up to U.S. trade and investment, we acquire a new group of potential customers.

In the Czech Republic, for instance, the U.S. Government has assisted in the transition from a command economy to a free market system. Since these reforms began in 1990, the United States has helped the Czech government create a healthy economic environment for investors, one which includes a balanced government budget, low inflation, and low unemployment. In fact, the Czechs have closed almost \$2 billion in deals with foreign investors—30 percent of which went to American companies. And with over 10 million mostly urban and well-educated consumers, reforming the Czech economy has meant an 11 percent increase in U.S. exports between 1993 and 1994.

In the Philippines, the United States has encouraged the government to remove burdensome trade regulations, reform the financial sector, and build links between U.S. and Filipino businesses. These reforms, in addition to the country's ratification of the General Agreement on Tariffs and Trade, have meant a dramatic expansion of trade. As reforms took hold in 1992, American exports to the Philippines increased 28 percent from 1992 to 1993. This rate was nearly matched in 1995, and it is now estimated that for every 1 percent increase in the growth of the Philippine economy, the United States sees a 5-percent increase in its exports to that country.

Finally, USAID's Housing Guaranty Program has helped many private U.S. investors gain entry into emerging capital markets. The program extends guarantees to American investors who make loans to developing countries for housing and environmental infrastructure projects. With U.S. Government backing, many investors have established a foothold in countries as diverse as South Africa, Indonesia, Morocco, Chile, Poland, the Czech Republic, and Hungary. The program has leveraged close to \$3 billion from private investors for housing and community development projects, while related technical assistance programs have helped establish market-oriented policies, lending institutions, and secondary mortgage and municipal bond markets in developing countries.

2. Reforming trade policy

With U.S. economic growth so dependent on exports, we have a real interest in helping other countries dismantle laws and institutions that prevent free trade.

The United States helped Ethiopia to eliminate state control of imports and freight transport, and encouraged the government to liberalize the pricing and marketing of fertilizer. As a result, private sector imports of fertilizer doubled between 1993 and 1994, allowing U.S. companies to export \$18 million in fertilizer and vehicles to Ethiopia in 1994.

In Guatemala, the United States has encouraged the development of a variety of new export businesses, such as specialty fruits, vegetables, flowers, and plants. The resulting economic growth has created an outward-looking middle class and thousands of jobs, increasing the buying power of poorer Guatemalans. The Guatemalans' preference for American products—a result of our long-standing presence in the country—has meant a 19-percent increase in U.S. exports every year since 1989.

3. *Helping privatize state-dominated economies The dismantling of state-run industries—and their transition to privately owned businesses—is not only an essential ingredient of a true market economy, it is an important means of attracting foreign investment.*

Helping a country to privatize opens up new investment opportunities for the United States (as in the Czech Republic), and creates an entire private sector with which to trade. In Poland, U.S. privatization efforts have focused on the telecommunications sector. With an initial investment of \$173,000, the U.S. has helped create community-owned telephone systems that are serving thousands of Polish families. The project has resulted in purchases of more than \$3 million worth of U.S. goods and equipment—a 17 to 1 multiplier effect.

In Indonesia, there have been even more dramatic results: A \$3 million U.S. Government investment to support privatization of the energy sector has led to a \$2 billion award to an American firm for Indonesia's first private power contract. In fact, the U.S. foreign assistance budget has made U.S. dominance in the global market for private energy possible.

4. *Establishing fair business practices*

U.S. companies cannot operate successfully abroad in countries that lack fair business codes, viable stock markets, sensible tax codes, and the rule of law. Foreign assistance helps create the stable and transparent business environment that U.S. companies need in order to do business.

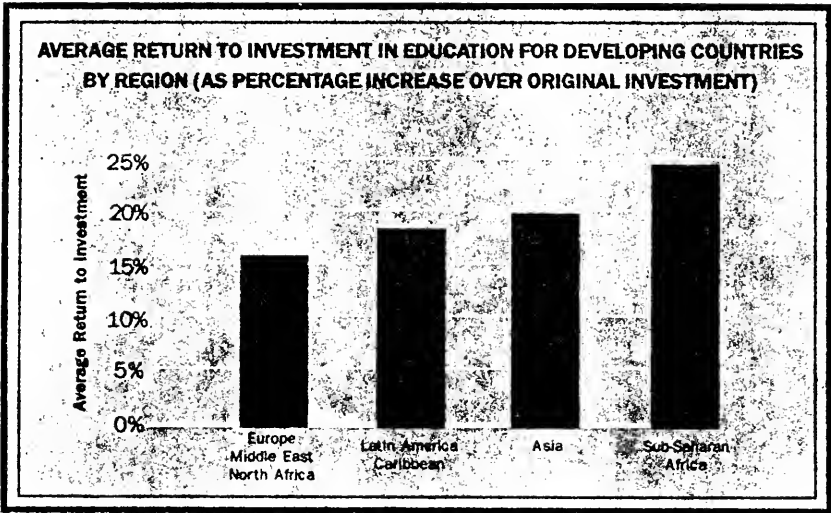
Indonesia's commercial code dates back to the 1860's and is written in Dutch. We are helping the Indonesian government rewrite that code to reduce the barriers to private investment and decrease the risks and costs associated with business transactions. Indonesia requested our assistance in a broad range of economic areas, including tax reform, the development of commercial law and business services, and the examination of government procurement policies. It should come as no surprise that, with new legislation in place, U.S. exports to Indonesia are expected to grow from \$3.3 billion in 1991 to over \$6 billion by the year 2000. We are helping Russia and the states of the former Soviet Union make similar changes in their business practices.

5. *Educating a new class of consumers*

When the United States helps educate a population, we develop a solid middle class with a vested interest in seeing economic reforms succeed—and the purchasing power to buy American goods.

Poor people make poor customers. And nothing keeps poor nations poorer than illiteracy. Basic education has been shown to be the most essential ingredient for economic growth: Each year of schooling beyond the third grade can increase wages by up to 20 percent—much more than any investment in roads, dams, or bridges. South Korea's economic success is attributed in part to the revolutionary education reform that the United States helped introduce in the 1960's. With our help, universal primary education was made a central focus of South Korea's economic development program. The result has been annual growth rates of about seven percent since the 1960's and an export market for U.S. goods that increases by over 12 percent each year.

Indeed, investments in education have produced extraordinarily high returns in developing countries in all regions. These returns, expressed as a percentage increase over the original investment, range from a low of 15 percent in Europe, the Middle East, and North Africa, to a high of nearly 25 percent in Sub-Saharan Africa. Among 22 Asian, African, and Latin American countries, the rate of return to primary education averages 27 percent. And as the incomes of these newly educated citizens rise, so will our exports to them.



George P. Kareklas, *Return to Investment in Education in Developing Countries*, Washington, D.C.: The World Bank

6. Building small businesses

The development of micro-enterprise and small businesses can rapidly spur economic growth. By making small loans (often less than \$100), community-run lending programs administered by the U.S. Government expand small businesses and increase per capita income in developing countries.

Americans know the importance of small businesses. They are the foundation of our communities, and of our national wealth. U.S. Government efforts to build small enterprises in the developing world through loan programs help us in several ways. These programs create new jobs in poor communities. Increasing incomes in these countries means that more people will import more goods. And if we've given them some seed money to start up banks from which small businesses can borrow, they are more likely to buy American goods.

In Bolivia, Niger, Bangladesh, and Senegal, U.S. microenterprise development programs have helped start just such a process. Micro-enterprises help sustain the small businesses that may already be importers of U.S. goods, encouraging them to import more. The Bolivian Banco Solidario became the first full-fledged commercial bank in Latin America dedicated to microbusiness. The bank now serves about 44,000 small Bolivian businesses, with loans averaging about \$200 each. Since 1990, exports to Bolivia have risen 34 percent. In Niger, U.S. foreign assistance has helped more than 100,000 families organize into 150 new cooperatives, disbursing \$4.5 million in small loans, with 95 percent repayment rates, assisting over 21,000 small new businesses and creating approximately 120,000 new jobs. This has meant a near quadrupling of U.S. exports to Niger between 1988 and 1995.

In short, emerging markets just don't "emerge" out of thin air; they result directly from our assistance programs, which foster an environment in which American trade and investment can prosper in developing nations. Already we are benefiting from a new generation of trading partners, many of them former assistance recipients.

Withdrawing from the world by reducing foreign assistance, therefore, would mean more than lost opportunities for new jobs at home now, it would mean fewer jobs in the future. The overriding economic lesson for the twenty-first century is that the U.S. economy is only as strong as the ties we forge with other countries. We will create more, higher-paying jobs only if we continue to help other countries grow stronger economically as well. The returns to the United States are clear: Worldwide, 43 of the 50 largest buyers of American farm goods today are former recipients of U.S. food assistance. In the 1980's alone, U.S. market share in Latin America grew to 57 percent, but in the six countries where we concentrated our assistance, the U.S. share was a whopping 71 percent.

Developing countries are the growth markets for a new century. If the United States is not there now helping these countries to prosper, another country will be

and American jobs will go elsewhere. Shouldn't we be doing more, not less, to prevent this from happening?

II. STABLE DEMOCRACIES MAKE GREAT TRADING PARTNERS

A second important lesson of the last fifty years pertains to the relationship between democracy and economic prosperity: It pays to invest in the stabilization of democracies around the globe. In fact, historical experience suggests we should be doing a lot more of it. Chaos is the great enemy of trade—indeed, of economic development. We have much to gain by nurturing struggling democracies, and much to lose if we neglect them. Political stability helps to create secure investment opportunities and prosperous trading partners. Growing trading partners are able to buy more American products, which means more jobs for Americans.

The United States has a long history of ensuring political stability around the world and it has paid off handsomely. Our modern foreign assistance program began with the 1947 Marshall Plan, which helped rebuild Western Europe after World War II. The height of the program came in 1949, when the United States provided more than \$50 billion (in today's dollars) in aid—at the time, well over three percent of America's gross domestic product (GDP). Compare this to the current foreign assistance budget, which weighs in at less than two-tenths of one percent of GDP.

It is inconceivable today, but there was a moment in 1947 when the U.S. might have wavered, when we almost chose not to tackle the seemingly monumental task of reconstructing Europe, still devastated from the war. America itself was physically and psychologically exhausted. Although we had learned the importance of engagement in the world, we were in the mood to retreat, to focus on domestic concerns and forget about our allies across the ocean. But some had the courage to decide otherwise; they knew the stakes. Could the United States afford to live with a whole continent of countries teetering on the edge of collapse, its economies destroyed by war, political institutions wracked by self-doubt, and societies plagued by civil unrest? With only one-fifth of the public behind him, President Harry Truman made a commitment to help Europe, and today European countries are democratic and prosperous as a result. They also are staunch allies and excellent trading partners.

In Korea, American leaders knew the stakes. President Dwight Eisenhower realized that, as tired as the country was after the Korean War, we faced the choice of helping to create a stable and democratic regional player or risking continued conflict on the Korean peninsula. Few today realize that forty years ago, South Korea was a rural and largely illiterate peasant society. American assistance focused on not only building a modern physical infrastructure, but also helping South Korea to develop an excellent educational system. Today, of course, it is a major producer of high-technology products and one of the United States' fastest-growing export markets—not to mention an aid donor itself. South Korea now buys U.S. goods each year worth triple the amount of assistance we provided in the decade after the Korean War.

Today, yet another group of countries is struggling to emerge successfully from a difficult post-war transition. The countries of Central and Eastern Europe need our assistance, not to rebuild roads and bridges, but to open up their societies, political systems, and markets as they make the transition from communist states to democracies. Again, the stakes are enormous, and again, many Americans would rather retreat within our borders and reap a "peace dividend" from the Cold War's conclusion.

If we heed the lessons of the past and choose to assist the countries of Eastern and Central Europe to create new institutions and legal frameworks and to establish policies conducive to trade and investment, these countries will be able to function effectively in the world economy. Already, the benefits to the United States are clear: U.S. trade with the region has more than doubled since 1986, and has the potential to multiply dramatically. Private U.S. investment in the region, previously non-existent, has risen to nearly \$14 billion. By the year 2010, this region will contain an estimated 421 million well-educated consumers—a market well worth the relatively minor investment we are now making. History has shown time and again that the risks of inaction are high, while the benefits of assistance are great.

III. OUR STAKE IN THE WORLD

The East Asian miracle taught that involvement in the world economy is the key to economic growth, even more so for developed trading nations like the United States. But the interdependence of nations means dangers as well as opportunities.

American businessmen can fly all over the world to secure trade and investment agreements that increase jobs at home. But the Ebola virus is also just a plane ride

away. American families are increasingly concerned about purchasing "environmentally friendly" products. But in 15 years, more emissions will enter the U.S. environment from the developing world than from processes and products within our own borders. And we may think that overpopulation remains a problem only for a few African and Asian countries. Yet migrants from Latin America have already put severe strains on social services in parts of the United States. How would our grandchildren cope with a mass influx of people desperately searching for food and safe drinking water?

Interdependence is a double-edged sword. Modern technology makes close economic relationships with other countries possible. It also makes us vulnerable to the growing pains of developing societies. It is essential to continue to devote some foreign assistance to eradicate deadly disease, stem the tide of environmental destruction, and control the world's population growth. These global problems are our problems, too.

HEALTH

If there is one thing that the AIDS epidemic has taught us, it's that diseases are oblivious to national borders. And diseases can cripple economies: Estimates put the global cost of HIV/AIDS at \$500 billion by the year 2000. Using foreign assistance to help eradicate disease means that developing economies can perform at their most productive levels, increasing their economic growth rate and accelerating their ability to purchase U.S. goods. It also saves the United States money directly—\$120 million in the case of smallpox—by enabling us to avoid vaccinating our own population or conducting border checks.

Just as the foreign assistance budget backed the successful international campaign against smallpox, it is working hard now to eliminate polio by the year 2000. Polio has already been wiped out in the Western Hemisphere, and we are now helping to immunize children in the rest of the world to make sure that polio never kills another American child again. It is the foreign assistance budget, too, that helps us stem the threat to the United States of infectious diseases like tuberculosis, AIDS and the Ebola virus.

ENVIRONMENT

Americans have become increasingly aware of the fragility of the environment. So much so that we are now willing to spend approximately \$150 billion a year combating pollution and global warming at home, because we know that a healthy environment is essential for our future prosperity, and for the living standards of our children.

Environmental degradation is becoming less and less a product of our own negligence and more and more the result of urbanization and environmental mismanagement in developing countries. Chemical emissions in Poland destroy "our" ozone layer, too, and forest depletion in Madagascar contributes to global climate change. We know this, and yet only a fraction of what we spend at home—four-tenths of one percent, to be precise—is spent overseas to protect Americans against environmental threats. This is especially unfortunate because we can get more bang for our buck in developing countries: Americans get four times as much pollution relief per \$1 spent in Brazil as we do trying to wring the last bit of emissions out of industry here at home.

In addition to being cost-effective, protecting the environment abroad could mean the creation of millions of high-paying jobs in the United States. The market for environmental goods and services—from pollution monitoring devices to water-treatment technologies to air quality control mechanisms—is already \$300 billion, and it is growing by about eight percent a year, mainly in developing countries. The market in the former Soviet Union alone is expected to grow by more than \$60 billion over the next three years. By the end of the decade, the global market for environmental goods and services is expected to reach \$500 billion, mostly in developing countries. This increase could result in another 10 million American jobs.

POPULATION

The world's population is increasing by one Mexico a year. This will have a strong impact on the United States, probably not next year or the year after, but in the coming decades. The problems caused by overpopulation—itsself a product of poverty—are numerous. The faster a population grows, the fewer people can access increasingly scarce resources, like electricity, clean water and food, and social services, such as education, health care, and sanitation. This can lead to political instability, and often armed conflict, as people fight for basic needs; resource depletion and en-

vironmental degradation ensue. We've seen this occur repeatedly in recent years—think of Ethiopia, Rwanda, Haiti, Sudan, and Algeria. One consequence, floods of refugees, can affect us and our trading partners directly. The other consequences, lost opportunities for economic development, become evident soon enough but are impossible to recoup.

Foreign assistance dollars in Kenya are responsible for one of the most dramatic declines in fertility ever recorded. The total fertility rates in Kenya—the number of children a woman can be expected to bear in her lifetime—dropped from 8.1 in 1977 to 5.4 in 1994. U.S. exports to Kenya more than doubled during this same period, partially because slower population growth meant an increase in Kenya's per capita GDP, and higher per capita incomes usually result in a higher level of imports. Over the past 35 years, the average number of children per family in the developing world has been reduced by one third, from six children to four. By devoting resources in the foreign assistance budget to slowing population growth, we are investing in our own future.

By assisting developing nations that are fighting against overpopulation, disease, and environmental degradation, the United States not only encourages their economic development, and therefore our own economic growth, but makes sure that the problems they face today don't become our problems tomorrow.

FOREIGN ASSISTANCE: INVESTING IN OUR FUTURE

The United States has been providing assistance overseas for nearly 50 years now, and we've learned a number of lessons from it. We now know how to help developing economies grow; implementing this wisdom creates jobs in the United States. We also know that investments in political stability around the world yield high rates of return. And we know that a host of new threats in developing nations can cause serious problems for the United States, not the least of which are economic in nature. We know all these things, and yet some still want to cripple the best instrument we have for achieving economic growth, the foreign assistance budget.

The relatively small amount of money we spend on foreign economic assistance—less than one percent of our total budget—serves as an engine of our future economic growth. In addition to the hundreds of thousands of American workers who owe their jobs to the purchase of goods and services used in foreign assistance programs, millions more benefit when these aid recipients turn into paying customers. Whether it is the farmer in Nebraska, the tractor builder in Indiana, or the computer engineer in Seattle, Americans are increasingly dependent on the global economy for their livelihoods.

Other developed countries are in similar situations, deeply aware that increasing participation in the world economy is the key to economic growth and prosperity at home. U.S., European, and Asian companies are vigorously competing for the world's emerging markets, upon which future jobs depend. Our children will either suffer from our loss or reap the benefits of our victory in this struggle for markets in developing regions.

Although it is ultimately the private sector that will determine the winners and losers, national governments have the influence and the resources to create favorable environments for their nation's companies. The policy reforms encouraged by the U.S. Government can determine the pace of a developing country's economic growth and hence the speed with which U.S. companies can prosper in its markets. By helping countries to reform their economic policies, liberalize trade, privatize industries, educate and train workers, and build small businesses, the U.S. Government paves the way for future sales by U.S. companies. And by engaging nations in the initial phases of their economic development, the U.S. conditions these countries to look for American products—increasing our exports, our growth, and the number of our new jobs.

Thirty years ago, most East Asians were as poor as Africans. They did not become rich from charity—private or otherwise—but because the U.S. Government, in many cases, persuaded their governments to adopt sound economic policies. Ghana and South Korea were not far apart economically in 1960. Several years later, with the help of American know-how, technical assistance, and policy reforms, South Korea's economy took off. Ghana went in the opposite direction and hit bottom in 1983. Since then, the United States and the World Bank, in particular, have helped Ghana get back on its feet, but the United States has paid a price: Years of missed export opportunities have cost an untold number of American jobs.

Today, the countries of Eastern Europe and the former Soviet Union are the next potential "tigers." With minimal—mainly technical—assistance, these new markets will grow rapidly. We should be there when it happens. With highly educated con-

sumers and physical infrastructure largely in place, these countries are already increasing imports of Western goods. We need to make sure that more of those goods are American than German or Japanese. The United States has an economic imperative to stay engaged in the world.

If Eastern Europe is the present, Africa is the future. Its per capita income today is 80 percent of the per capita income of Malaysia, Indonesia and Thailand 35 years ago, and Africa has four times the number of people those Asian tigers had then. At its current growth rate, the total African market would amount to \$267 billion in today's dollars by 2025. Even if we do no more than maintain our current 10 percent share of that market, this growth would create a million new jobs for Americans. If we can increase that share, the returns will be even greater. If we can increase the growth rate, by helping African countries to fight disease yet stem population growth, to educate their people, and to adopt policies that encourage investment and rapid economic growth, the benefits for Americans could be tremendous.

HOW MUCH SHOULD WE INVEST FOR FUTURE GROWTH?

In the past, some advocates of foreign assistance have argued that the United States should invest a certain proportion of its national income in developing countries. They point out that several advanced nations provide over one percent of their GDPs for foreign economic assistance, while the United States devotes less than two-tenths of one percent. While useful as a measure of what a nation sets aside for foreign assistance, the GDP target suggests to some that foreign assistance is a gift, to be bestowed by the world's richest on the world's poorest.

As we have seen, however, foreign assistance is an investment—a means of creating future markets for American goods and services, and therefore of creating jobs in the American economy. Instead of looking at foreign assistance as a sort of tithe, we should consider how the level of our foreign assistance today affects our exports and private investment in recipient countries tomorrow. Our competitors have clearly done so: Most of them are making a far more prudent investment in their future economic growth.

The United States spent relatively more on foreign economic assistance in the 1960's and early 1970's than it does today. The economic activity we are now seeing in the developing world—a steady rise in U.S. exports to developing countries as well as an increase in U.S. private direct investment in these countries since the mid-1980's—is tightly linked to the work the U.S. Government carried out in these countries in the 1960's and early 1970's. Foreign economic assistance then ranged from three to six-tenths of one percent of our gross national product. The burgeoning trade and investment activities we are witnessing now could not have occurred without the foundation that was laid then.

The fast-paced, technology-driven world in which we live has conditioned us to expect economic efforts to yield immediate results. But you cannot build a school or a hospital in Ghana one day and see an increase in U.S. exports to that country the next; nor can you devise a new tax code for Poland and expect private direct investment to skyrocket overnight. The greatest challenge in the development process is to change human behavior: New business partnerships must be forged in response to an improving business climate, a generation of young men and women must be educated and introduced to the work force. Small enterprise development can be a slow and painful process in a country unfamiliar with market economics. These things take time, but the payoffs to the U.S., in the end, are enormous.

We've seen remarkable growth in the U.S. economy in the last 20 years, and a large part of that growth is due to trade and investment with partners groomed by our foreign assistance. It would be wrong-headed for us to rest on our economic laurels now. If we decide that the American economy is doing just fine without the stimulus provided by economic assistance abroad, we will be stunting the economic prospects for our children and their children after them. U.S. foreign assistance programs are currently at their lowest levels, in real terms, in over 50 years. The economic consequences in the United States of a continued decline in U.S. foreign assistance could be serious. Indeed, in the next twenty years we could see a steadily declining share for American products in the markets of the future.

Ensuring a healthy American economy requires a partnership between government and business. Business, naturally, has the larger role, but the government can and must facilitate the process, because it alone has the resources and influence necessary to develop human resources, build infrastructure, open export markets, and solve such global problems as environmental degradation and disease.

It doesn't take a huge amount of foreign assistance to leverage American business—just look at the last twenty years: The relatively modest amount of economic assistance we gave in the 1960's and 1970's has helped achieve a massive increase

in direct investment in the developing world, and an even larger growth in U.S. exports to those countries in the 1980's and 1990's. Why wouldn't we want to repeat this performance? We can, but we must do more than arrest the decline in foreign assistance that we have seen over the course of the last decade. We must reverse the trend. At the very least, our goal should be to match the mean level of total U.S. economic assistance of the 1960's—about \$18 billion a year in constant 1995 dollars, an increase of about 50 percent from this year's expenditures.

Of course, this money must be used wisely. It must be used to facilitate structural economic reforms and open markets for U.S. goods and services. It should be used to educate people and help them start small businesses. And we need to spend more to help the developing world combat environmental, health, and population problems before they become our own. U.S. foreign assistance must also be targeted geographically, at countries that have the greatest growth potential. Just as U.S. economic assistance in the 1960's helped to create the tigers of East Asia in the 1980's, and just as the U.S. bolstered the emerging economies of Latin America in the 1970's, we must now look to the economic frontiers of the future: Eastern Europe, the new republics of the former Soviet Union, the Caribbean nations, and Africa. Their growth will be our gain.

PREPARED STATEMENT OF THE ALLIANCE FOR INTERNATIONAL EDUCATIONAL AND CULTURAL EXCHANGE

As an association of over 60 non-profit organizations comprising the international exchange community in the United States, the Alliance for International Educational and Cultural Exchange represents a diverse national constituency. Alliance members successfully administer foreign assistance programs around the world for the United States Agency for International Development (AID). Collectively, we believe international education and participant training programs to be among the most cost-effective components of U.S. foreign policy.

Alliance members administer education and training programs across a broad societal spectrum—basic and higher education, development education (Biden-Pell), agriculture development, small business/microenterprise, technology, journalism, child survival, and democratization programs, particularly in the Newly Independent States and Eastern Europe. These programs and activities, funded by foreign aid dollars, indisputably advance the long-term national interests of the United States by fostering democracies and market economies, and by diminishing potentially dangerous environmental and public health threats.

At home, foreign assistance creates jobs and advances American economic well being. By law, nearly all U.S. foreign assistance must be spent on American-produced items. More than 80 percent of all AID's contracts and grants go directly to American firms, academic institutions, private organizations, and specialists throughout the United States. This foreign aid translates to 200,000 American jobs annually, according to Department of Commerce estimates.

The emerging foreign markets of today are immense. They are enormously important to our future well-being. To ignore the developing world is to risk losing our share of the most important markets of tomorrow. America's economic future hinges on regions of the world where AID involvement is greatest.

Four out of five consumers will live in the developing world by the year 2000. Developing countries are the fastest growing markets for U.S. exports. Over the last five years, U.S. exports to the developing world have grown at the astonishing rate of \$20 billion a year, leading to more than three million jobs. Further growth opportunities into new markets will be stunted if people are too poor to afford American goods and services or uneducated in the uses of American products.

AID's economic assistance to developing countries has helped create growing markets for U.S. goods and services, making possible millions of jobs for Americans. Foreign assistance fosters a pro-investment environment for American companies in developing countries by helping to establish fair business codes, viable commercial banks, and reasonable tax and tariff standards. Foreign assistance helps create stable and transparent business standards necessary to operate in a country. In short, U.S. foreign assistance programs create a healthy environment for investment, trade, and foreign capital to flourish. That's why it's no surprise that 43 of the top 50 consumer nations of American agricultural products were once U.S. foreign aid recipients.

Education plays a unique role in this process. Education is the crucial prerequisite for developing nations to achieve the social and economic goals that support our interests as well as their own.

EDUCATION LEADS TO ECONOMIC GROWTH

There is now a large body of evidence from many countries demonstrating the direct linkage between education and economic growth. Whereas a population with a low level of education has little or no capacity for increasing productivity, an educated labor force can make effective use of new technology, engage in entrepreneurial activity, and be responsive to market demands and changes.

Investments in education have produced extraordinarily high returns in developing countries. Returns on investments in physical capital are considered successful if they provide returns of 10 percent, returns on basic education investments on average exceed 20 percent. Currently, AID notes a return on the original investment in Sub-Saharan Africa of 25 percent.¹

Unlike many other development investments, education dollars are regularly matched by countries on a ten to one basis. Recipient countries, for example, generally pay for schools and for teacher salaries. AID funds innovations to encourage girls to stay in school, community-based adult literacy programs, integrated approaches with health and nutrition for early childhood development, and new learning technology applications. The most successful AID education programs focus on education for girls and women, which lags far behind men's education for a variety of reasons. The female literacy rate for developing countries is three-fourths of the male rate. This problem contributes significantly to high birth rates and a loss of economic productivity. The rate of child mortality is twice as high for uneducated mothers as compared to mothers with a basic education.

Because of their success, these activities frequently end up leveraging long-term investments with the World Bank or other regional development banks which aim to make changes in education over the long haul sustainable. American aid for these projects both leverages dollars with multi-national institutions, and creates conditions which help to foster new prosperity.

In 1995, the House of Representatives first earmarked limited resources to basic education and children's health. The sponsors of the amendment that led to the appropriation, Representatives Amo Houghton (R-NY) and Tony Hall (D-OH), pointed to the direct link between support for basic education and the development of strong trading partners. South Korea, Indonesia, and Brazil are examples of the success of basic education investments leading to dramatic economic growth. The Alliance supports the \$98 million earmarked in the House this year for basic education.

The value of educational investments also is evident in higher education. The United States reaps at least as many benefits of overseas higher education as the sending countries—spending on living costs and tuition revenues ricochet back to communities and states. According to statistics developed by the Institute of International Education (IIE), over 450,000 foreign students in the United States bring in nearly \$7 billion annually, making higher education our fifth largest service "export" and generating some 120,000 jobs. In the longer term, foreign students who learn from us—and teach us about their own cultures—become important long-term partners in a variety of political and economic realms. To visualize the potential economic and political impact of this process, one need only look at Latin America and East Asia, where dramatic economic growth and democratic development have coincided with the rise of a generation of political and technocratic leaders educated in the United States.

PARTICIPANT TRAINING PROMOTES TRADE LINKAGES

AID brings students, businesspersons, and civil servants from the developing world to the U.S. to receive training in universities, industries and other private sector entities, labor, state and local governments, and community organizations. Since its inception, AID has trained over 300,000 individuals in the United States—benefiting local economies in small towns and large cities across the country. More than any other type of foreign aid, participant training forges cross-cultural relationships ultimately allowing U.S. companies to penetrate new and emerging foreign markets. AID's emphasis is on highly specialized, technical training geared toward the development needs in the participants' home countries.

Alliance member organizations work to help individuals gain the capacities needed to be self-reliant and to develop strong political, academic, economic, and social institutions. These efforts also often have commercial pay-offs. While participating in a training project at the Federal Reserve Bank in Washington, D.C., Stefan Slavova and Peter Ignatiev, economists with the Bulgarian National Bank, trained

¹George Psacharopoulos, *Returns to Investment in Education: A Global Update*, Washington, DC: The World Bank, 1994.



on an advanced computer program. When they returned home, they persuaded their Bulgarian employer to switch to the U.S. system. The Bulgarian National Bank is negotiating with U.S. computer vendors to install the new system, which will provide Bulgaria with short-term economic forecasts needed to manage its burgeoning economy.

Due in part to participant training, American market penetration into developing economies for environmental and agricultural goods and services is growing. Foreign assistance dollars have led to a \$600 billion-a-year market for U.S. environmental goods and services in the developing world. Agricultural research funded through foreign assistance programs, in many cases using the American land grant college and university system, has brought new technologies to U.S. farmers and resulted in millions of dollars worth of improved yields. Agricultural technologies developed through AID's Collaborative Research Support Program to increase food production overseas have resulted in enormous benefits for U.S. farmers. For example, AID purchased an estimated \$812,000 of Florida wheat, sorghum, and beans for use in food aid programs. Shipping and handling of the food aid brought the state additional revenue to the tune of \$75 million.

Participant training programs also advance democratic institution building. One of the most successful contractors contributing to the Middle East peace process is the America-Mideast Educational and Training Services, Inc., (AMIDEAST). An AID-funded AMIDEAST democratization program has recently enjoyed tremendous success. The Institutional Development Project works with the Palestinian Authority to strengthen public institutions serving the West Bank and Gaza. Project experts helped draft basic procedures, outlining management, personnel, and financial systems for the 25,000 staff members of the Palestinian National Authority. So far, more than 800 Palestinian officials at all levels have participated in U.S.-sponsored training and planning seminars, workshops and conferences.

Through the Russian-American Partnerships for Independent Newspapers (PIN) program, Sister Cities International is providing Russian newspapers with U.S. media management methods, computers, and Internet access to assist Russia's fledgling independent press. Sister Cities has arranged management-level exchanges between 20 U.S. newspapers and their Russian counterparts.

As these examples indicate, education and training are critical elements of an effective development strategy that serves American goals and long-term interests. As the overall budget for development assistance has decreased in recent years, Congress has played an important role in encouraging AID to maintain at least a modest level of support for education and training. We will appreciate your continued efforts to ensure that AID devotes adequate resources to human resource development through education and training. International education and participant training programs are integral, indeed the first step, to promoting U.S. interests in sustainable economic growth and democratic governance. These modest investments will pay off many times over as the foreign beneficiaries of the programs assume leadership positions.

Thank you for your leadership in the foreign operations legislative arena and for your thoughtful consideration of these concerns in today's informal Foreign Operations hearing.

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