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SPEECH



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Remarks of Jim Kolbe
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Administrator Natsios, thank you for that nice introduction. I appreciate the opportunity to speak to all of you today. Those of you here who serve on the Advisory Committee on Voluntary Foreign Aid to USAID can and will continue to play an important role in the evolution of our foreign assistance programs. The rest of you in the audience demonstrate by your presence and your professions your profound interest in seeing our efforts for the developing world be successful.

Today, I plan to discuss with you some of the broad foreign policy challenges as I see them, some thoughts on the lessons we've learned about development assistance, and my personal views on how integral foreign assistance is to the attainment to our foreign policy objectives. Finally, I want to share some recommendations with you to consider incorporating into your thinking on how the US should evolve its development strategy for the 21st century.

The decade preceding September 11th brought many US foreign policy accomplishments and challenges, including: the fall of the Berlin Wall and the drive to integrate the Former Soviet Union into the family of democratic and capitalist states, Latin America's need to sustain its movement toward greater economic growth and democracy, the engagement of China into the global trading system, and the development of a world consensus supported by US leadership focused on fighting the global pandemic of HIV/AIDs.

Today, even after all that has occurred since September of last year, we cannot and should not lose sight of those accomplishments and those challenges. Consequently, I am glad to see that a good part of your discussion later today will focus on HIV/AIDS and the Global Fund. You will also focus on public and corporate partnerships as a tactical

means to strengthening our overall development effort. And you will discuss – as I will – the most exciting and innovative idea in foreign assistance in a generation, the proposed Millennium Challenge Account (MCA).

But to set the framework of my remarks, let me acknowledge that the emotional and physical impact of 9-11 was enormous. While it did not change most of the foreign policy realities we face, it definitely changed our perceptions of those realities and very much our policy responses to them. Now, we confront escalating public expenditures for homeland security, new private sector costs to help protect critical infrastructure, and all kinds of opportunity costs as security overshadows other priorities. We must work to make sure that the President's Millennium Challenge Account does not fall victim to the war against terrorism.

In the mind of the American public, our foreign policy post 9-11 carries a sense of urgency and priority we have not seen in a decade – perhaps longer. All over America we feel a new sense of vulnerability. As we wrestle, debate, and implement programs to meet those pre 9-11 and post 9-11 challenges, our underlying foreign, national security, and international economic policy objectives remain constant. We continue to believe in and encourage personal liberty and respect for human rights, democracy, pluralism and the rule of law, and broad based capitalism as the mode of economic development.

We stand astride an important moment in recent history in so many ways. While this phrase is used all too often in public dialogue – a fact Administrator Natsios has noted -- it remains appropriate in light of what our country and others have endured or witnessed this last century. Free markets, entrepreneurialism, and an absence of large state central planning has been embraced - albeit still to varying degrees -- as the chief means by which nations will improve in the quality of life for their citizens. Individualism, markets, and democratic choice have defeated Communist and central planning ideology all over the world, for the simple reason that it was unable to meet the civic and material needs of its citizens.

Today, even as I talk about these positive trends, the House of Representatives is preparing to vote for a resolution to authorize the use of force against Iraq. The foreign policy that the President and Congress are embarking upon in this resolution are very much in the spirit of keeping this progress moving forward.

Several months ago, Brent Scowcroft, NSC advisor to former President George Bush, commented that America's future security and prosperity in the world depends on how well we can change the trend lines in parts of the world post 9-11. In his view, problems transcend the obvious tension between Islam and the West to ones focused on how the world has become more fractured and tensions among its various pieces have started to increase. One indicator of the fragmentation relates to the number of countries in the United Nations. When UN was born, it had 51 member nations in 1945. Now, its membership has swelled to 191.

However, I would note that even as the world has become more fractured into a kaleidoscope of nation states, it has become more united along key democratic and free market dimensions.

In 2001, Freedom House noted continued gains in democracy in its annual report. Measured by the degree of political and civil liberties, it found that the number of free countries has increased from 65 in 1990 to 86 in 2001. Two and a half billion people, 40% of the world's population live in these countries. The organization noted that the 40% of people living in freedom is the largest in the history of its survey (some 20 years). But with that statistic of course, we also must see the reverse which means that 60% of the world's population do not enjoy the same level of political and civil freedom as we do in the United States.

Freedom House also notes that the number of partly free countries increased from 50 in 1990 to 59 in 2001. These are defined as those where limited political and civil liberties are combined with negatives such as corruption, weak rule of law, and a dominance of one political party. Some 1.4 billion people, or 25% of the world's population, live in these countries. Despite the need to continue to push for expanded freedom, there is progress.

Although there is clearly some weakening in the belief of free markets, in developing and developed countries alike, we must see it in context. GATT at its inception in 1947 had 23 nations as original signers. Now, the WTO, its successor organization, has over 140 members. That represents a large number of nations subscribing to the principles of capitalism and global trade. Amazingly, developing nations represent 80% of the WTO. The WTO reports that international trade increased from \$1.8 trillion in 1983 to over 5½ trillion recently.

General Scrowcroft also has made some insightful comments on challenges of globalization. For some 20 or 30 countries, the prospect of globalization offers a great promise of development. For the rest, it offers just a growing divide. Simple statistics are illustrating this trend: 40 years ago the world's 20 richest countries had per capita incomes that were 20 times greater than the world's 20 poorest countries. Now that number is 37 times greater.

The term globalization gets thrown around a lot. I owe you my definition. My working description is this: the increasing integration of the world brought about through expanded international flows of trade, investment, labor, capital, knowledge, information, and technology. In essence, it is the expansion of capitalism, or of free market principles in practice.

In the minds of some, globalization remains an evil phenomenon. We just witnessed another round of protests here in Washington at the recent World Bank and IMF meetings. The target of these protests was the capitalist system itself. While the emotions and passions of these protesters stem from real concerns and fears, we must not lose sight of the fact that the US – and the international community -- have an overriding foreign

policy interest in deepening global integration and making it sustainable. Why? Because it can help generate the benefits that can allow us to attain our development and foreign policy objectives. "Is global integration here to stay?" is not -- in my view -- a question which is still in doubt. The answer is definitely yes.

As many of you know, it was only in this Congress that I assumed the chairmanship of the FO Subcommittee. It has been a terrific challenge and opportunity to play this leadership role on behalf of my party and the House chamber. I continue to enjoy the excellent working relationship I have forged with my ranking member, Nita Lowey. Despite these very partisan times and occasional disagreements, we have managed to work in a bipartisan way, and two years running have assembled an appropriations bill both of us could support.

Over these last two sessions of Congress, I sometimes think of accomplishments of the 107th Congress in the area of foreign assistance. Certainly, many in the Executive branch and you in the audience share credit in those accomplishments. And while the FY 2003 appropriation process is stalled for the time being, I am sure that when the dust settles foreign assistance levels will not be reduced from the bill's general total.

If we assume the levels in the bill adopted in the House Appropriations Committee, the child survival account will have increased from a little over \$1 billion in 2001 to \$1.7 billion in 2003, an increase of \$700 million or 60%. This large increase was accomplished even with a moderate increase in development assistance from \$1.3 billion in 2001 to \$1.4 billion in 2003, an increase of a little over \$100 million or 10%. On HIV/AIDS, funding has more than doubled in spending, growing from \$315 million in 2001 to \$786 million in 2002. Over the 2002-2003 period, if one assumes at least the House Foreign Operations level of \$250 million (an amount higher than the Senate at present) for the Global Fund, plus if \$100 million is provided from the 03 Labor HHS bill (the bill has not been written yet), then the US will have contributed \$650 million in total to the Global Fund to Fight AIDS, Tuberculosis, and Malaria.

Certainly, these are significant investments in fighting the pandemic but it is clear that much more will be necessary. UNAIDS estimates that programs in developing countries and countries in transition will need to have about \$10 billion annually to fight the pandemic by 2005 -- just three years from now. All national governments, including and specifically the US, will have to increase the amount of resources they plan to budget and dedicate to fight this disease.

However, while I personally take some satisfaction in these foreign assistance accomplishments -- as do many of my colleagues and as you should -- I can say that their impact will pale in comparison to a single vote (10 years in the making) and the continuation of one international economic policy. In my 18 years of Congress, it was the most dramatic vote I have ever worked. When first considered on the House floor, the vote was open for 48 minutes. It passed on two occasions by a single vote. In my opinion, it was the most important development assistance vote in last 10 years.

What vote and what law do you think I am referring to? I am referring to Trade Promotion Authority or TPA for short. This vote was all about the future. It gave the President the confidence to lead and gave us the best tool to shape the challenge of globalization. Why do I think that TPA vote will be more impactful than our investments in development assistance? Most of our development assistance investments will fall far short of their objective – if not completely wasted -- unless there are economic and political systems to sustain them and generate economic growth as a result. We may positively touch a few lives, but we will see little long term improvement in the quality of life for the people of the developing world. The traditional forms of assistance may make us feel good but they will not have lasting impact unless other economic tools work.

Trade promotion authority, on the other hand, can dramatically make a difference in the developing world if it is used as a powerful lever to truly generate free trade between developed and developing countries alike. But while I just identified what I thought was the most important vote in our efforts to reduce poverty, allow me to share some lessons we can use to improve the delivery of our development assistance. There are four I want to highlight:

- First, it is not the quantity of foreign assistance that is important to development.
- Second, it's all about a focus on economic growth.
- Third, we need to work more on better governance.
- And fourth, the need for a laser focus on what works. We are anything but focused right now.

Let me examine those four lessons in more detail.

Lesson #1: It Is Not The Quantity Of Foreign Assistance That Is Important.

America has given over \$167 billion (in constant 1999 US dollars) in official development assistance (ODA) to 156 countries, regions, and territories since 1980. Of those 156 countries, we have data for per capita GDP data between 1980 and 2000 for 97 of these countries. These countries received over \$144 billion in inflation adjusted ODA since 1980. These 97 countries had a median inflation adjusted per capita GDP of \$1,076 in 1980, but only \$994 in 2000. That means that there has been a decline in real terms.

No relationship – no link – is apparent between economic growth and the levels of official development assistance. One study noted that between 1980 and 2000, 23 recipients of U.S. official development assistance received amounts equivalent to one quarter of their entire gross domestic product in 2000. I'm speaking only of U.S. assistance; it does not include aid from other nations or the World Bank. Growth in per capita GDP for these countries averaged -0.16 percent, with 12 experiencing negative growth, and only 4 experiencing growth over 1 percent.

In another study, a former World Bank development economist found a similar lack of relationship. Bill Easterly noted that between 1950 and 1995, Western countries gave \$1 trillion in aid in constant 1985 dollars. He concluded, after studying investment and

growth patterns in over 80 countries in a similar time frame, "Among all low-income countries, there is not a clear relationship between aid and growth."

You should note the time frames of these studies – 20 years and 45 years. We're not talking about expecting quick results after a year or two of assistance. These are long term studies and long term results. Simply put, the focus on the amount of aid is misplaced. Tax policy, regulatory policy, anti-corruption, transparency, and the rule of law matter far more in a developing country than the amount of development assistance.

Lesson #2: It's All About Economic Growth.

Let me take a moment to review some recent success in the area of poverty reduction, other key improvements in development measures, and a quick look at the geographic areas of where we have seen success. In 1990, 29% of the world's population lived on income of less than a \$1.00 per day. In 2000, it was 23%, a 6% point drop. The absolute number of people living on less than a \$1 per day has declined even as the world population has increased. An interesting fact I would note is that this has occurred even as there was a decline of 30% in the level of official development assistance over the last decade or the same time frame.¹

Some other development indicator improvements are important to recognize as well. Between 1990-1999, adult illiteracy rates in low-income countries for males aged 15 and above decreased from 35% to 29%; and for females aged 15 and above, the figure declined from 56% to 48%. While only 30% of people in the developing world had access to clean drinking water in 1970, today about 80% have. Wages and conditions have improved as economies grow. In 1970, 35% of all people in developing countries were severely malnourished. In 1996, the figure had fallen to 18% and the UN expects the figure will continue to fall.

Why have we seen this success? The answer will be found in raising personal incomes and economic growth. It is an increase in personal incomes that enable us to achieve all of our other aspirations for the developing world. And raising personal incomes come with broad-based economic growth. Look at the big success stories around the globe; most of them did not receive US aid. China's growth has been consistent at 7% - 10% over the last decade. There has been sustained significant economic growth in countries such as Indonesia, Vietnam, Brazil, and Mozambique. Some countries have even managed to double GDP per capita, including Botswana, Chile, Thailand, and Korea. None are major aid recipients.

How do we best help countries achieve broad based economic growth? Economic growth is only possible with capitalism, investment, & trade. Trade, open financial markets, and investment are good for the poor. Empirical research of the World Bank shows that during the last decade income per capita in developing countries that have focused on capitalism and that participate in the global trading system grew more than three times faster than countries choosing not to participate.

¹ Data taken from statistics shared by Dr. Francis Rischard of the World Bank.

A key question you might ask: “Did that growth benefit that country’s society at large – or only the elites within that country?” The answer: the World Bank found that the benefits of that economic growth were evenly distributed through the population strata of those countries. As a result, the absolute poverty rates for trading nations have also fallen sharply over last 10 years. Indeed, history has shown that countries that have embraced democracy along with capitalism and participation in the global trading system have experienced the highest economic growth and generated the highest quality life for their citizens. And that of course, leads me to the third lesson.

Lesson #3: Good Governance Matters.

Free markets & trade alone are not sufficient. Case in point is Latin America where countries have been moving in a free market direction for the last decade but economic growth has remained elusive. Some have suggested that the growth of the early 90s appears to have been an aberration – a few years sandwiched between the lost decade of the 1980s and the lost second half-decade of the 1990s. As a result, popular acceptance of free markets and democracy across Latin American is less certain. However, we should not allow this failure to generate better rates of growth to affect the belief these societies have placed in capitalism.

The power of free markets as a tool of development cannot be exercised without the right policy environment. Thomas Friedman, the Pulitzer prize winning diplomatic columnist of the New York Times explains it this way: countries must have a good governance "plug" to integrate into the global economy. A poor quality or corroded plug simply will not integrate with the expectations of a global capitalist economy. A critical governance component relates to creating a corruption free environment. Corruption undermines economic growth. You cannot have sustainable development without rule of law.

This is very much true in Latin America. Historically, gross inequities of wealth and income in the region have created political environments that allow bureaucracies to manipulate the economy to benefit the few. As a result, pockets of both political and economic instability stretch from Haiti to Argentina. We should not be surprised that the incentives exist for the traditional authoritarian left or right to reverse the direction toward free markets and more effective democratic governance.

Lesson #4: The Need To Remain Focused.

At a multilateral and bilateral level, we have been ensnared in a cycle of “do everything development.” Bill Easterly, in his article “The Cartel of Good Intentions” says it very succinctly. For low-income countries, the IMF requires a Poverty Reduction Strategy Paper (PRSP). Niger’s recently completed PRSP is 187 pages long, took 15 months to develop, and sets out spending for a 5 year poverty reduction plan. The PRSP in turn must be compliant with the World Bank’s Comprehensive Development Framework, a 14 point checklist covering everything from lumber policy to labor practices. This framework covers clean government, property rights, finance, social safety nets,

education, water, arts, roads, cities, tax policy. Policy makers seeking aid must complete a litany of reports – often duplicate or similar reports for multiple institutions.

All of this is incredibly inefficient. The document emerging from the Monterrey conference contained 73 separate development recommendations, including such ambitions as establishing democracy, equality between girls and boys, -- and yes -- peace on earth. The Johannesburg WSSD Conference includes some 185 recommendations. And finally, it is present in the development and implementation of the Millennium Development Goals.

Now, with those four lessons in mind, what do I think should be the role of our development assistance? Before addressing that question, let me first take a step back and articulate how I see US foreign assistance as an integral component of our overall foreign and national security policy. I often relate our total foreign assistance – all of that in the foreign operations bill – as one leg of a three legged stool providing a sturdy US foreign policy. Each leg is essential for the stool to carry the weight of the policies projected and coming together at the top. One leg is that of our diplomatic core and intelligence services; another relates to national defense & security strategy; and the third has as its core in our foreign assistance.

Our foreign assistance in a macro-sense plays multiple roles within our foreign policy process. At its first level, the foreign assistance leg can be used a vital tool for easing the suffering of people around the world. At a more nuanced level, it can enhance health, education, and national infrastructure. In light of security challenges to the United States, we can also link the foreign assistance leg of the stool to the national security leg by using it in the form of Foreign Military Financing. But, of even more importance, it can and should nurture the structures of capitalism and the rule of law -- making it possible for the poor to participate in market economies and for poor countries to participate in the global economy.

I believe this is the role we should want development assistance to play. If experience shows that successful development is driven by a country's ability to access and use all its available resources for economic growth -- and particularly those that relate to integration in the global economy, then we must strategically align development assistance to the accomplishment of that end. Our development assistance should serve as a catalyst to help countries prepare for greater participation in the global economy.

I believe it is time to move beyond the debate on the quantity of foreign assistance to a focus on economic growth and helping countries maximize the benefits of participating in the global economy. Knowing that we have a tendency to ask developing countries to accomplish all of our bilateral objectives at the same time, it is imperative that we remain focused. That should result from a reflection on how we need to break out of the trap of “do everything development” Bill Easterly identified.

Let me conclude by giving a few recommendations for our development assistance programs. Some of these recommendations relate broadly to our programs, others

convey a sense of how I think we should develop and implement the President's MCA initiative. These recommendations are applicable to all of us who share a concern about global economic progress and social justice – in the Executive branch, the legislature, and the private or non-profit sectors.

Overall Suggestions On US Development Assistance

First, let's be sure that our expectations and definition of success are aligned with our development experience. All too often, advocates for development assistance argue that success is only a matter of additional resources. But experience tells us otherwise. Decades of development experience have demonstrated that resource transfers – without an environment of effective political economy – will generate poor results. Our policy development and our advocacy must place an emphasis on those policies that will generate success -- not simply the addition of more resources.

Second, the United States must generate a development policy that is more holistic in outlook. Two pillars must be elevated in importance. US policy must recognize trade and foreign direct investment as development tools. Economic growth must become its own objective and must be strongly integrated into the fabric of our development programs.² Historically, we have just focused exclusively on increases in foreign assistance and debt relief as the chief drivers of development. I would argue that giving developing countries access to the markets of the US, Europe, and Japan creates a self-reliant path while aid is a donor development path. Imagine if Sub Saharan Africa had an additional 1% of international markets. That would mean that this region would have \$70 billion more in resources in the form of income and revenue earned through international trade.

Our domestic discussion on development must consider the potential cost of failure in the new round of trade talks (launched in Doha) or of failure in negotiations for US free trade agreements with Central America or the countries of southern Africa. The World Bank has calculated that a successful round of global trade negotiations, coupled with related market reforms, could add a whopping \$2.8 trillion to global income by 2015 - much of it in developing countries.³

This is a message that some in the foreign assistance advocacy community will not want to hear. We have become so devoted to the assistance programs we each represent. However, as a representative of Oxfam International has said, the “playing field is not level.” It slopes down hill from developed countries. Therefore I say, if we are serious about development, we have to be serious about trade.

² This is particularly true for many African countries where HIV/AIDS is actually projected to reduce GDP growth rates making the situation of responding to the pandemic even more challenging.

³ “Faster integration through lowering barriers of merchandise trade would increase growth and provide some \$1.5 trillion of additional cumulative income to developing countries over the 2005 to 2015 timeframe.” 2002 Global Economic Prospects, World Bank, page xiii.

On the MCA initiative of the President, I look forward to receiving the details from the Administration so that it can be evaluated carefully. I was privileged to accompany the President to the Monterrey Conference where he emphasized his commitment to the developing world. While the details are only beginning to emerge, I am very supportive of this initiative because it would create a new paradigm of development assistance – one that puts a premium on making certain investments in assistance occur in a context of effective political economy.

As the Administration continues to work on this new initiative, I would offer these suggestions. It should consider offering MCA awardee countries special consideration for expedited bilateral trade preferences (like with AGOA or ATPA) or the option of negotiating a free trade agreement with the United States. It should offer developing countries the prospect of ownership of their development strategies with US assistance. In exchange for ownership, developing countries should be willing to accept the fact that MCA resources may be withdrawn if criteria for eligibility are not maintained or results not achieved. It should aim to build and re-enforce the governmental capacity of recipient countries to manage their development. In establishing the MCA, we must minimize the administrative bureaucracy and bureaucratic requirements in the delivery of assistance. Once countries qualify, the MCA should complement current assistance efforts but most importantly generate a focus on economic growth and self-sufficiency.

And finally, it should aim to make sure development and economic opportunity are extended to those currently outside the formal economy. By this I mean that the rule of law, property rights, and the ideas of Hernando DeSoto should be incorporated into the MCA as an objective and development goal. The promise of capitalism as a tool for economic development and poverty reduction can never fully be achieved as long as large populations have no stake in the capitalist mode of development.

As all of us – but particularly the administration and the Advisory Committee -- consider the FY 2004 budget, I would offer a couple of additional suggestions for your consideration. These are intended to generate debate and deliberative thought. I know they will be considered controversial but there are serious issues behind these suggestions. First, we might want to consider a one-year time out on further increases in infectious disease funding to assess the ability of USAID, private partners, and the Global Fund to effectively manage and coordinate the massive increases over the 02/03 period.⁴

Second, we might consider downgrading the role of the multilateral development banks and UN agencies (other than the Global Fund & the UN Food Program) for the next few years as we learn to utilize the Global Fund and the Millennium Challenge Account. As

⁴ This suggestion is in the context of very serious management challenges USAID & the Global Fund face broadly in the context of human resources, financial management, and procurement -- specifically in the context of absorbing and deploying massive resource increases. For more information on USAID, please see House Report 107 -663 on the FY 2003 Foreign Operations, Export Financing, and Related Programs Appropriations bill.

part of this, we might not want to renew support for Asian and African Development Funds unless they agree to provide 25% of funding as grants.⁵

In conclusion, I wish to again commend you all for your dedication to improving our foreign assistance policy. Your work and interest is essential to the improvement of the quality of life to millions of people living in the developing world. As you continue discussions and leave here today, I encourage you to think about my thoughts and suggestions. I firmly believe we are going to have to think outside the box in our development assistance programs. The reality is what we have tried in the past has not worked. In light of the challenges we face, there is a sense of urgency for new ideas and tools.

Again, thank you for the opportunity today to address you as a group.

⁵ In the agreement for the 13th replenishment of IDA of the World Bank, the USG was successful in realizing a number of advances long advocated by Congress, one specifically relating to the change allowing up to 21% of IDA's resources on a grant basis.