

Testimony for William Lane

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**SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT AND FOREIGN ASSISTANCE, ECONOMIC
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SENATE FOREIGN RELATIONS COMMITTEE

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Chairman Kaine, Ranking Member Barrasso, and members of the Subcommittee:

Thank you for the opportunity to discuss the International Affairs Budget. I am appearing today in my capacity as co-president of the U.S. Global Leadership Campaign (USGLC), an organization that brings together Republicans and Democrats, national security and foreign policy experts, and business, faith-based and community leaders all across the country. What unites this “coalition of strange bedfellows” – including a “Who’s Who” of America’s leading corporations – is the conviction that the diplomacy and development programs funded in the International Affairs Budget are vitally important for America’s economic future, national security, and global influence.

As director of Caterpillar’s Washington, D.C. office, I am cognizant of the difficult budget choices the congress has to make, especially in this onerous fiscal environment. Every government agency deserves scrutiny of its costs and effectiveness. Yet, from a business person’s perspective, the International Affairs Budget – which represents a little more than one percent of the overall federal spending – represents a smart investment in American global leadership that fuels economic growth and job creation at home.

Exports, American Jobs, and Emerging Markets

For major manufacturers like Caterpillar, it has been clear for some time that America’s prosperity is tightly bound to economic currents and trends emerging beyond our borders. Overseas markets represent 95% of the world’s consumers and 80% of its purchasing power. Trade already supports one in three manufacturing jobs, and one third of American agriculture is destined for consumers overseas.

Overall, trade supports more than 38 million jobs in the United States, and export-related jobs pay, on average, 15% more than the average wage. Studies indicate that every 10% increase in exports is associated with a 7% increase in employment.

Half of those exports today are to the developing world, and those markets will grow at a far faster pace than many of our more traditional trading partners. In sub-Saharan Africa, 17 countries have maintained rates of economic growth of 5% to 7% per year for the last decade and African economies are expected to nearly double in size to \$2.6 trillion by 2020. According to Standard & Poors Latin

America's economies grew by more than 3% last year – better than the U.S. and Europe – with countries like Peru and Chile growing in the 5-7% range.¹ These markets represent tremendous opportunities for American companies and businesses.

The Role of U.S. Government Development and Diplomacy

But we can't do it alone. Businesses succeed in overseas markets in conditions where there are stable governments, transparency, predictability, adequate financial infrastructure, free market economic policies that allow for competition, and rule of law. Those conditions are often lacking in many of today's emerging nations and require a coordinated approach that includes the development programs, diplomatic efforts, and trade promotion activities of the U.S. government.

In the past some have called for a shift towards "trade, not aid" – arguing that U.S. government programs should focus on promoting commerce rather than fostering development. Based on my experience in this area, which includes service on the 2007 HELP Commission, the real answer is "trade and aid," each of which are mutually supporting.

In these countries the road to development – and the investment, commerce, and trade that follow – may begin (literally) with a road. Here I am referring to the basic infrastructure that must be improved and, in some cases, created from scratch using machinery and expertise often supplied by companies like Caterpillar. In fact, more than half of Caterpillar's exports now go to non-OECD countries, primarily in the developing world.

In all, effective development programs funded in the U.S. International Affairs Budget spur economic reform, advance the rule of law, improve governance, and raise standards of living – building more peaceful, prosperous societies that desire - and can afford - American products and services.

For example, the Millennium Challenge Corporation (MCC) provides economic assistance to developing nations based on a competitive selection process in which the countries must show a strong commitment to ruling justly, investing in their citizens, and economic freedom. The U.S. Agency for International Development (USAID) supports programs that help countries improve their business regulatory environments and open their economies to foreign competition.

The International Affairs Budget also supports the multilateral development banks (MDBs), including the World Bank, the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, and the European Bank for Reconstruction and Development. MDB loans come with conditions, such as strengthening transparency, promoting good governance, and improving the investment climate, that open developing markets to U.S. goods and transform them into more reliable trading partners.

¹ <http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245350590911>

Colombia Case Study

The story of Colombia, which has endured a narcotics-funded insurgency for decades, provides an excellent example of “smart power” in action to advance American interests and prosperity.

In 1999 the U.S. and Colombia began a multi-faceted partnership called “Plan Colombia” involving security, developmental, and governance assistance.

Back then, the country was engulfed in drug-related violence and lawlessness. In fact, about 11,000 Colombian towns had no government presence at all. Since then, substantial improvements in the equipping, training and professionalism of the Colombian security forces led to a dramatic decrease in violence and the drug lords and their associated guerrilla groups effectively lost control of the countryside they had dominated for so long.

At the same time, U.S. governance and development assistance helped Colombians build infrastructure, medical care, education, and competent judges and police who respected the rule of law and human rights. USAID assisted rural farmers in developing alternative crops to the coca plant, and with the help of the Colombian government, we have seen a sharp decline in the smuggling of Colombian narcotics into the United States.

Since Plan Colombia began the country’s GDP has averaged close to 4.5% growth and now ranks as the 4th largest economy in Latin America. U.S. trade with Colombia has tripled since 2000, reaching over \$14 billion in 2011. The U.S. is now Colombia’s largest trading partner and our exports include machinery, oil, agricultural products, organic chemicals, and plastics. The free trade agreement that went into force last year is expected to add billions more to annual commerce between our two countries.

Colombia is one of the top ten export markets for Caterpillar, and their booming mining industry presents the potential for still further growth. The more trucks and tractors we sell overseas, the more jobs are created in places like Peoria where those vehicles are manufactured.

These kinds of results are not limited to Colombia. In Vietnam, a trade-acceleration program funded by the USAID led to the revision or enactment of more than 100 laws and regulations over the course of a decade. The USAID program cost roughly \$1 million, and since 2001 U.S. exports to Vietnam increased more than 700 percent.

Public Private Partnerships

In spite of all the progress made in recent years, American goodwill, innovation, and resources are still needed to address the world’s most pressing humanitarian and developmental problems. Consider that millions of children die prematurely every year from preventable diseases, tens of millions of children are not attending school, and more than a billion people are without clean water or basic sanitation. These afflictions are holding back entire regions of the world – the regions with the most quickly growing populations – from being secure, productive participants in the global economy.

As Bill Gates has said, “Investing in the world’s poorest people is the smartest way our government spends money.”

One of the more promising developments in recent years has been the increasing use of private-public partnerships to provide foreign assistance in more effective and creative ways.

In 1969, 70% of financial flows to developing countries came in the form of official development assistance and the remaining 30% from private sources. Today, those ratios have more than reversed, with over 80% of financial flows coming from private sources.

The U.S. government uses these partnerships to get the maximum impact of scarce public funds by leveraging the creativity, innovation, and core business resources of the private sector to promote economic growth and opportunity.

For example, last year Coca-Cola – the largest employer in Africa – has committed several million dollars on the continent as part of a new partnership with USAID and the Peace Corps to expand sustainable access to clean water.²

In Central America Wal-Mart has partnered with USAID to help farmers in Costa Rica, Nicaragua, Honduras, Guatemala, and El Salvador in diversifying their crops to meet real market needs.

In these and many other cases, a modest investment of public funds in partnership with the private sector can substantially improve standards of living in the developing world, all of which leads to more promising trade and investment for American companies doing business in these countries.

Conclusion

In a ferociously competitive international business climate, the U.S. government’s International Affairs Budget is one of the most cost-effective instruments we have to provide a vital link between America’s businesses and workers and some of the fastest-growing overseas markets. In this environment the U.S. cannot unilaterally disarm, leaving our business at a distinct competitive disadvantage.

Programs such as the Overseas Private Investment Corporation, the Export-Import Bank, and the U.S. Trade & Development Agency – all funded by the International Affairs Budget – are essential to maintaining a level playing field for our companies doing business around the world, boosting U.S. exports overseas and creating more American jobs at home.

These efforts and other forms of international engagement require adequately funded and staffed U.S. embassies, targeted and accountable governance, development, and security assistance programs, and effective export credit and trade promotion agencies – capabilities threatened by deep cuts to the International Affairs Budget. Yet, these programs have in fact been cut nearly 20% in the past three years.

² <http://www.peacecorps.gov/resources/media/press/2129/>

Too much is at stake to diminish U.S. global leadership and competitiveness in a world that is only growing more interconnected and interdependent – as well as more turbulent – virtually every day.

On behalf of the hundreds of companies that are members of the U.S. Global Leadership Campaign, we strongly encourage the members of the Subcommittee to support the investments contained in the International Affairs Budget – for a more secure and prosperous America, for a safer and better world.

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