TASC

Trade, Aid & Security Coalition

American Leadership for Global Development

How Trade and Investment, New Rules on Climate Protection, and the Changing Role of Women in Developing Countries Can Drive Economic Growth and Reduce Global Poverty

POVERTY OVERVIEW

OVERVIEW: Deep poverty rates have dropped by half in a single generation. But almost a fifth of the world's 6.6 billion people still live in deep poverty. Good policies and a bit of luck offer us a chance to cut poverty further in the next decade; but there is an equally realistic prospect that man-made disasters—this year's financial crisis, accelerating climate change, a potential revival of protectionism—could instead push hundreds of millions back into poverty. The decisions rich-world governments, especially our own, make this year can make this a permanent change for the worse, or ensure that recovery from crisis also brings a renewed commitment to end poverty.

FACTS AND BACKGROUND: The rich, in the familiar saying, are different from you and me: They have more money. The poor are different too: They have less life. Average life expectancy in low-income countries is 60—eight years below the world average, and 19 years below life expectancy in the rich world. Why? Look at a family budget to understand.

The most widely accepted definition of 'extreme poverty' is the World Bank's count of people living on $1.25 per day or less, in 2005 dollars. The Bank's estimate is that in 2005, 1.37 billion people were deeply poor. To live on this sum is to have no reliable income, to be at constant risk of hunger, to have no money for medicine, and to be less able to care for children. Close to home, Haiti provides both an example and a case study in the potential of rich-country policies to help:

> Haiti's per capita income is $450, or $1.23 per person – almost exactly the threshold for deep poverty. A typical five-person Haitian family has $6 per day. This is enough to buy each family member two bowls of rice a day (at 27 cents per bowl, the price before last year's sudden spike in rice prices), to spend 15 cents per person on water and $1 for shelter, with seventy cents left over a tap-tap ride to a job site. This leaves no money for health, clothes, or education. But their troubles, at times, can be eased quickly and dramatically. If an eldest daughter can find a job at one of Port-au-Prince's 27 export factories, the family's life is transformed: her starting pay, $5 a day, doubles the entire family's income and provides food security and new clothes immediately.

Most are Asians, with South Asia having the highest total number of poor people. The poverty rate is highest in Africa, however, where 51 percent of people are deeply poor. In the Americas absolute poverty rates are lower, but high in a few countries—Haiti, Bolivia, Nicaragua in particular—and many rural regions. Everywhere, most extremely poor people live in rural areas, though especially in Asia many are moving to large urban and semi-urban slums.

In the last generation, poverty rates fell faster and more deeply than ever before. The Bank's 1.37-billion estimate for 2005 was down from 1.9 billion in 1980, and by 2008 its count was 1.15 billion. In 1980, half the developing world's people were deeply poor. Now the figure is 25 percent and falling.

The impact is clear. Since 1990, the world's poor countries have raised girls' literacy rates from 56 to 69 percent, cut child mortality rates by a quarter, raised immunization from 58 to 76 percent of children, and raised life expectancy from 51 to 60 years. In East and Southeast Asia, the transformation has been genuinely revolutionary. In 1981, 78 percent of this region's people were deeply poor; by 2005 the figure was 16 percent. Credit for this achievement goes to a combination of effective health and education, functioning internal markets, peace among the region's countries, and success in trade.

And though Asia's progress has been fastest, it is not unique. And before this year's crisis, deep poverty rates had dropped in every major region, falling from 8 to 4 percent in the Middle East, from 13 to 8 percent in Latin America, and from 53 to 51 percent in Africa. Setting aside war-torn countries and failed states as uniquely difficult, sound policies could cut deep poverty half worldwide, and eliminate it entirely in China, Southeast Asia, the Western Hemisphere and the Middle East.

But the next decade could also see poverty revive quickly and powerfully. The sequential disasters of 2008 – first a massive spike in food prices, then the financial crisis – have already returned 115 million people to poverty. The world's failure to respond effectively would make their loss permanent. A revival of protectionism would deepen poverty further, by blocking Haitians—and Cambodians, Bangladeshis, Kenyans, South Africans, Indians and Chinese—from higher-income work. And climate change, whose effects will come fastest and be most destructive in poor countries, can destabilize rural and coastal societies home to two billion vulnerable people.

TOWARDS POLICY: Americans are not uniquely responsible for ending poverty, nor uniquely capable of making it worse. But as the world's political leader and largest economy, our decisions will be more important than those of any other country. The most critical commitments include –

- Rejecting protectionism, and instead ending light-industry tariffs and farm-product quotas that block exports from poor countries, thus stifling urban job creation and cutting rural income.

- Sustaining and broadening a foreign aid program targeting the education, public health and trade capacity-building fields that can do most to ease poverty.
- Enacting comprehensive climate change legislation that not only reduces our greenhouse gas emissions dramatically but also helps developing nations pursue climate-compatible growth, including by improving their resilience to unavoidable adverse climate impact

The choice is ours. We can decide these issues are too difficult and politically controversial, and leave them to others. Or we can act now—and in doing so, help tens of millions live a decent life.

THE CRISIS AND THE POOR

OVERVIEW: Poor countries did not cause the financial crisis, but their people will suffer most. According to the World Bank, the crisis has already pushed 115 million people back into deep poverty, raising the world's count of the very poor by almost ten percent in six months. Worse may lie ahead. As of early 2009, poor countries' income from trade, remittances, foreign direct investment and development aid are all dropping. This implies higher rates of malnutrition, HIV/AIDS, child labor, hunger and infant mortality—as well as political instability and possible revivals of radicalism—in the next five years. An energetic rich-world response, through official aid and private charity, can ease the worst effects of this crisis. Commitment to avoid protectionism and keep aid levels up will prevent these losses from becoming permanent.

FACTS AND BACKGROUND: The crisis will cost poor countries hundreds of billions of dollars in lost exports and remittances. U.S. imports from the least-developed countries alone are likely to drop from $35 billion in 2008 to $20 billion this year. According to the International Labor Organization, tens of millions of poor-country jobs will vanish, raising developing-world unemployment by as much as 35 million this year. The consequences are already dire—a hundred million more people, for example, will suffer from malnutrition—and the crisis will set back hopes to reduce poverty for years. Some examples:

- *Sub-Saharan Africa*: Sub-Saharan Africa depends on sales of natural resource goods and farm products. As prices of these goods tumble – Cote d'Ivoire's cashews, for example, bring in half the money they did last year – and remittances and aid decline, African growth has been cut by two-thirds. World Bank research found that income losses are already forcing families to choose between education and work for children, with girls usually the first to be pulled out of school. Shockingly, the World Bank predicts that "as many as 700,000 more African infants could die before reaching their first birthday as a result of the crisis."

- *Cambodia:* After normalizing trade with the US in 1996, Cambodia developed a successful garment-export industry, known worldwide for high labor standards. Last year, Cambodia's 340 factories employed 360,000 young women from rural districts and produced $2.4 billion of Cambodia's $14 billion GDP. Each of these workers sends about a third of her income home, raising her rural family's food security from two months to one year. Since the crisis, orders have collapsed, 80 factories have closed, and 80,000 workers have been laid off. The Cambodian Economic Association predicts a rise in rural hunger beginning this July.

- *Central America:* Dependent on the U.S. market for agricultural exports and clothes, and even more so on remittances from Central Americans living in the United States, Central America will be hit harder than any other Latin American region. Lost remittances are likely to reduce rural and slum household incomes by 12 percent – the equivalent of six weeks' worth of income – while a 33 percent drop in clothing exports forces mass layoffs in San Salvador, San Pedro Sula, Managua and other towns.

More generally, the crisis worldwide has is already threatening politics across the developing world. Admiral Dennis Blair, Director of National Intelligence, in testimony to Congress in February pointed to low-level instability in at least forty countries, and termed the financial crisis the worst current threat to American national security.

TOWARDS POLICY: The crisis' toll in poor countries will have direct economic effects on families and workers. This in turn presages deteriorating political conditions, and potential new security threats. Some urgent actions that could improve living conditions and stabilize politics in poor countries:

- Aid programs designed to ensure that countries suffering from sharp reductions in natural-resource income do not have to close schools and clinics.
- Trade preference reform to open rich-country markets for clothing and food, ensuring that the crisis does not close off the opportunities countries like Cambodia have had to develop and ease poverty through exports.
- Temporary adjustment support for poor-country export workers (pending recovery of orders) provided through international agencies like the World Bank and from the private sector.

Most important, however, is steady commitment by the world's major economies to policies that will prevent the crisis from worsening and speed recovery: strong fiscal stimulus to prevent economic collapse, commitment to the G-20's principle of avoiding protectionism, and helping the most vulnerable in all countries.

U.S. TRADE REGIME

OVERVIEW: Most American tariffs—especially those that most directly target poor-country goods—are antiquated policies dating to the 1920s, and no longer protect employment. Obsolete as job protectors, they nonetheless remain effective as ways to lower living standards for low-income American families and damage development hopes in many poor countries. Reform would bring benefits at home and abroad.

FACTS AND BACKGROUND: Most of America's remaining trade barriers are on light-industry products like clothes, shoes, household linens and luggage. These four industries account for about 6 percent of total imports, but have tariffs ten times the average rate and raise more than half of all tariff revenue. Poor families in the United States—especially single-mother families—spend more money than rich and middle-class families on these goods, so the tariff system hits them harder than their wealthier neighbors. And as these products are especially important to poor countries, the high tariffs on these goods make our trade system tougher on poor countries than rich ones. Meanwhile, while employment in the U.S. has grown, employment in high-tariff industries has been declining steadily for two generations. It is now down by almost 90 percent from the levels of the 1960s. No effort to change this trend, including maintaining tariffs, the global quota clothing system on clothes from 1974 to 2004, and more recently a quota on Chinese imports, has had any effect on employment trends.

Employment	1970	1990	2000	2004	2009	Change
Total private	58 million	91	112	111	110	+92%
Clothes	1.36 million	0.88	0.47	0.27	0.17	-87%
Shoes	0.21 million	0.08	0.03	0.02	0.01	-96%
Luggage	0.05million	0.03	0.02	0.01	0.01	-80%
Home linens	0.08 million	0.07	0.05	0.05	0.03	-65%

Though failing as a job protector, the tariff system is effective in depressing trade from poor countries by raising their prices. It allows goods from rich countries specializing in high-tech products in fairly freely, and is even easier on oil-producers. But poorer countries relying on agriculture and light manufacturing face very tough treatment. Low-income countries in Asia and the Muslim world are singled out for the worst treatment.

COUNTRY	2008 Imports	Tariff Penalty	Average Rate
Cambodia	$2.4 billion	$407million	16.9%
Bangladesh	$3.75	$574	15.3%
Sri Lanka	$2.0	$243	12.4%
Pakistan	$3.6	$358	10.0%
Indonesia	$15.7	$856	5.4
China	$337.0	$10,187	3.0%
India	$25.9	$760	2.9%
WORLD, NTR only	**$1,624 trillion**	**$25.7 billion**	**1.6%**
Japan	$139	$2,363 million	1.7%
Germany	$96 billion	$1,382	1.4%
Brazil	$30.1 billion	$396	1.3%
United Kingdom	$58	$400	0.7%
Russia	$26.7	$64	0.2%
Saudi Arabia	$54	$49	0.1%
Nigeria	$38	$0.4	0.01%

TOWARDS POLICY: America's trade regime is in some ways perverse, failing to protect jobs but effectively lowering living standards for poor people and damaging the hopes of low-income countries for job creation and growth. The good news is that fixing the problem is easy. America has scrapped most tariffs for low-income countries in Latin America and Africa. With some political investment but no employment impact, it could do the same for the poor countries in other parts of the world.

DUTY-FREE, QUOTA-FREE TRADE POLICY

OVERVIEW: Neither trade, nor any other single factor alone, is enough to create sustainable development and reduce poverty. Instead all countries require a blend of conditions. These include internal and regional peace and security; functioning local and regional markets; environmental health; effective basic public services such as primary education, public health, and well-maintained infrastructure. With these conditions present, trade in manufactured goods and farm products has helped poor countries all over the world – El Salvador, Cambodia, Bangladesh, Haiti, Lesotho, Ethiopia and dozens more poor countries – raise rural incomes and create good-paying urban jobs, especially for women.

But trade policy in almost all big economies tilts against these countries. Each major country imposes its highest barriers on the food, clothes and light goods poor countries are best equipped to produce. Legislation in Congress to exempt very poor and vulnerable countries from U.S. tariffs and quotas, along with negotiations in the WTO to achieve this worldwide, is the best chance to help them succeed in trade and offer their people better lives.

FACTS AND BACKGROUND: Trade policy almost everywhere—in America as well as in Europe, Japan, China and India—seems deliberately intended to hamper poor countries. U.S. trade policy is open and liberal for energy and natural resources, and for the high-tech goods and luxuries rich countries produce. But it is restrictive and tough on the clothes, value-added food, and fresh produce that poor countries can produce. The result is stark disparity, with tariffs averaging fifteen times higher than on the non-oil goods produced in least-developed countries and the comparable goods of rich countries:

Countries	Import Value 2008	Tariff Penalty	Average Rate
50 Least-Developed Countries	$8.7 billion*	$0.99 billion	11.4%
30 OECD members	$947 billion	$7.78 billion	0.8%

* Excluding oil and natural gas.

Tariff policy is not the only example. Taking sub-Saharan Africa as an example, tariff-rate quotas on sugar close markets for competitive African goods, cotton subsidies squeeze Africa’s ability to serve the textile industries of Pakistan and India, and “tariff escalation” – i.e., imposing higher tariffs on value-added goods than on raw materials - makes it easy for Ghana and Cote d’Ivoire to sell raw cocoa beans but nearly impossible for them to sell higher-value chocolate. Ugandan President Yoweri Museveni assesses the situation as follows:

> "By blocking value-added products, our partners in the world kill the following opportunities: ability to earn more foreign currency, employment, enhancing the purchasing power of the population, expanding the tax base for the governments of Africa, and the chance to transform African societies from the backward, pre-industrial states—in which they are now—to modern ones by building a middle class and a skilled working class."

TOWARDS POLICY: The U.S. Congress and the WTO are considering both national legislation and a global agreement to exempt the world's poorest countries from all tariffs and quota limits. A broad coalition of interested groups – businesses, development NGOs, academics and others – hopes to ensure passage of such a bill this year. Ideally, the legislation would combine permanent exemptions from trade barriers with broader agricultural rights and capacity-building programs to bring treatment of poor countries into line with treatment of rich countries. No time could be more appropriate than a year of financial crisis to give poor countries fair treatment.

TRADE CAPACITY-BUILDING: ESSENTIAL TO POOR-COUNTRY SUCCESS IN TRADE

OVERVIEW: The United States, Europe, Japan, Canada and other rich countries have all made at least partial efforts to reduce trade barriers on the food, clothes and other simple products poor countries produce most easily. In practice, though, this does not always work as well as most hoped. The United States' African Growth and Opportunity Act, for example, offers incentives for sub-Saharan African countries to export food and clothes. Yet lower-income and landlocked countries, in Africa and elsewhere, often lack the physical and technological capacity to compete with larger rivals elsewhere in the developing world. Targeted aid from western governments and businesses could, in many cases, make the difference.

FACTS AND BACKGROUND: Trade policies in the United States and other wealthy countries give low-income countries and regions special exemptions from many tariffs, and offer "aid for trade" to help poor-country businesses and officials understand American regulatory policies in manufacturing, agriculture and services. They have paid less attention to physical and geographical obstacles to trade success—yet these are often greater barriers to poor-country exporters than policy creates. Here are two examples:

> *Trade Facilitation:* About 75 percent of the delays and extra costs in poor-country exports are due to bureaucratic obstacles. For example, the Corporate Council for Africa reports that the cost of clearing an exported container through the ports of Abidjan in Cote d'Ivoire and Dakar in Senegal is as high as the cost of shipping it the rest of the way to Europe. Such nations could benefit from help in streamlining export and import clearances, and from technology investments like computerized cargo screening. The improvements would reduce lag times and make poor countries more attractive to buyers choosing between lower-cost goods from Africa and more expensive but faster and higher-volume goods from Vietnam or China. The OECD estimates that thorough reform of port procedures could raise Africa's GDP by one percent—the equivalent of $8 billion in income.
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> *Sanitary and Phytosanitary Standards*: Middle-income South American countries like Peru and Chile, along with South Africa, Thailand and Vietnam, are efficient farm exporters. Poorer countries, whose rural populations are largest, often find themselves unable to export farm products because their farmers and provincial officials are unfamiliar with

the "SPS" (sanitary and phytosanitary) regulations that ensure clean and safe food. Thus while Africa has market-access rights for some products under the African Growth and Opportunity Act, but African farmers outside of South Africa remain in most cases limited to selling low-value primary commodities rather than fresh produce and processed foods. Training them to meet SPS standards in fresh produce and value-added goods could help them compete with wealthier rivals and raise incomes in rural sub-Saharan African districts.

A success story – Bangladesh's success in garment exports shows that capacity-building can be at as effective as market access. Clothes make up 90 percent of Bangladesh's exports, support four million jobs, and join remittances from overseas workers as the country's major source of foreign exchange. Before abolition of textile quotas in 2004, experts often predicted its inefficient Chittagong port, plagued by corruption and slow turnaround times, would turn buyers away from Bangladesh. But with advice from the Asian Development Bank and reforms overseen by the 2007 caretaker government, the port cut wait times from twelve to two days, and cut container fees by a third. Four years later, exports have nearly doubled. The port's revival has helped Bangladesh become not a casualty but a success story of the post-quota clothing world.

TOWARDS POLICY: Relatively modest allocations of aid money to train developing-world officials and farmers in areas like these can make as much difference as new access to markets. America's $1.5 billion a year in trade capacity-building support is less than 10 percent of the foreign aid program, but is the world's largest such program and has the potential to make an outsized contribution to development. However, the aid-for-trade program has some conceptual flaws:

- It often targets middle-income countries with lesser needs rather than the poorest countries that need the help most.
- It sometimes duplicates other countries' efforts. Early in this decade, for example, EU membership candidates Romania and Bulgaria received trade capacity-building help from the US as well as the EU.

Re-targeting a significant portion of capacity-building funds to the world's poorest countries, especially those in sub-Saharan Africa, the Muslim world and the small island countries, would direct the money to the areas that need it most. Better capacity-building programs would not raise imports in general. But joined with improved trade preference programs and conclusion of a successful Doha Round, they would allow very poor countries to compete more successfully with larger and wealthier rivals. Such support should come from a mix of businesses, governments, and non-profit foundations. One priority should be leveraging private-sector resources to ensure that policy meets the needs of buyers; another priority should be improvement of legal infrastructure and the rule of law, including for labor and environmental compliance.

CLIMATE CHANGE, ADAPTATION AND GLOBAL POVERTY

OVERVIEW: Alleviating global poverty and solving the climate crisis are perhaps the defining intertwined challenges of this century. Choices surrounding climate will greatly determine the fate of the poor just as choices on the path out of poverty will greatly influence the fate of the climate. Two things are clear. First, the world must involve the poor in an urgent global effort to mitigate emissions, and do so in ways that create economic growth, improve human wellbeing and reduce climate vulnerability. Second, the international community must help shield the poor from the worst impacts of climate change because by a cruel twist of fate those who did the least to cause the climate crisis and have the least capacity to adapt are the most vulnerable to its ravaging impacts. Meeting these twin challenges of climate and poverty in a mutually supportive manner will require a substantial scaling-up of international investment, markets, development assistance, trade and other aspects of international cooperation.

FACTS AND BACKGROUND:

The Risk of Climate Poverty: According to the most recent report of the Nobel Prize-winning Intergovernmental Panel on Climate Change (IPCC), climate change will inflict damage on every continent, but hit the world's poor disproportionately hard. Climate change induced floods may reach as many as 94 million people by the end of the century and result in large population migrations. The very existence of many small island nations will be threatened. By 2020, between 75 and 250 million people are projected to be exposed to increased water stress due to climate change, with Africa suffering disproportionately. By 2020, in some African countries yields from rain-fed agriculture could be reduced by up to 50 percent. Recent development gains could be erased as up to a billion people risk falling back into poverty, with terrifying developments for the United States and the world in the form of humanitarian crises, armed conflict and even state failure.

Climate-Friendly Development: Better alignment of climate change and global development objectives will require new strategies to adapt to climate impacts and to mitigate emissions.

> *Adaptation:* Even under the most hopeful scenarios, adapting to inevitable climate change will be essential. Recognizing that underdevelopment exacerbates climate vulnerability, alleviating poverty must be a central objective of the world's climate adaptation agenda. Developing nations are

now starting to identify priority adaptation activities. The logical next step is to integrate these analyses into existing national poverty alleviation strategies to ensure resources are spent wisely with climate change in mind.[1] Agriculture and health are two promising where poverty alleviation and climate adaptation can be pursued hand-in-hand. GDP growth generated in agriculture, on average, is four times more effective in benefiting the poorest half of the population than other types of economic growth and, as noted previously, new gains in agricultural productivity are needed to offset expected declines as a result of climate change.[2] Similarly, increasing investments in health systems (including response measures for malaria, dengue fever and malnutrition) would produce immediate antipoverty dividends while also helping to manage the risk that these diseases will become more prevalent with additional climate change.

Mitigation: Although developed countries have the responsibility to significant immediate emission reductions, the climate crisis cannot be solved without emissions mitigation by developing nations. Already half of the world's greenhouse gas emissions come from developing nations. Carbon dioxide emissions from developing nations will almost double by 2030 compared to 2005 whereas emissions in developed nations will probably decline.[3] Fortunately, sound mitigation strategies can contribute to poverty alleviation. Reducing emissions from tropical deforestation, which together with other land-use changes in developing nations account for almost 20 percent of global greenhouse gas emissions, for example, could reduce the climate vulnerability of the poor and provide up to $30 billion annually for rural development.[4] While forests may provide the best near-term avenue to engage the poor in the global emissions mitigation effort, most of the growth in emissions in rapidly developing nations will come from consumption of fossil fuels, mainly coal, gas and petroleum. China and other nations have already made praiseworthy inroads towards greater efficiency of coal-fired power plants and more stringent automobile efficiency standards, but these efforts will need to be scaled up to meet climate objectives. Making sure the poor benefit from new climate friendly energy policy will be essential to make those policies fair and durable.

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[1] See Atiq Rahman, "Integration of Climate Change into Development: Multiple Benefits of Mitigation and Adaptation," paper presented at the annual Brookings Blum Roundtable, Aspen, Colorado, August 1-3, 2008.
[2] World Bank (2007), *World Development Report 2008*.
[3] EIA.
[4] Forest conservation also provides key benefits beyond climate, including stemming the alarming and irreversible biodiversity loss, with 70 percent of known terrestrial species living in forests, mostly in the tropics.

TOWARDS POLICY:

Financing Action: For reasons of equity, developing nations are looking to the developed world to help finance their adaptation and emissions mitigation actions. Several global studies peg the likely cost of climate adaptation in the least developing nations at several tens of billions of dollars per year.[5] However, the more mitigation that is done in developing nations, the less costly adapting to climate change will be. Leading estimates indicate that about $100 billion per year in additional investment will be needed in clean energy technologies in the developing world alone to stabilize the Earth's climate.[6] Debate is ongoing over how to generate this needed financing, with options ranging from global taxes on developed nations (as proposed by China) to the allocation of auction revenues from domestic carbon markets (perhaps the preferred option for the U.S. and Europe.) Whatever approach is taken, this much is clear given the scale of the resource needs – adequately addressing the problems of climate change and poverty reduction will require innovative new solutions and significant political will.

[5] UNDP 2007:192-194; Agrawala and Fankhauser 2008:69

[6] United Nations Framework Convention on Climate Change, Investment and financial flows to address climate change: an update, 2008.

TRADE POLICY & WOMEN

OVERVIEW: Trade and investment reform are especially effective ways to help women in poor countries find paying jobs, earn respect from relatives and husbands, and care for children. This is because women take so many trade-related jobs in light-industry, services and food production. Bangladeshi Nobel Peace Prize Laureate Dr Muhammad Yunus, for example, believes that:

> "The garments industry and microcredit programs like the Grameen Bank … are recognized as the two main vehicles for women's empowerment in Bangladesh."

FACTS AND BACKGROUND: In many poor countries, especially in rural areas, social attitudes are conservative. Girls have fewer educational opportunities than boys, and young men usually inherit farms, land and money. Girls and young women are expected to wait for marriage and care for children. Yet decades of development studies show that education for girls and employment for young women is one of the most effective ways to help countries develop modern and sustainable economies.

Good public services, especially in education and health, are essential to ensure equal opportunity for girls, to allow adult women to gain the skills to support themselves and their families, and thus to support long-term national development and prosperity. But trade opportunities in rich countries complement and bolster good local policies. For example, the light-manufacturing export industries of poor countries – Bangladesh and Pakistan, Haiti and Central America, Thailand and the Philippines, Vietnam, India and China – employ tens of millions of young women, able for the first time to earn their own salaries, enter marriage from a position of financial equality, and provide directly for children and extended families. Thirteen million women in the developing world work in the garment industry alone, sewing clothes for American retailers.

These jobs typically pay more than the readily available alternatives, such as domestic maid service, work in bars or hotels, or part-time informal-sector employment. In very low-income countries like Haiti, Lesotho or Cambodia, they bring salaries which are twice as high as national per capita income, or even higher. A Cambodian garment worker, for example, usually earns $800 in her first year on the job, which is double the national per capita income rate. These jobs are also often higher-quality as well as higher-paying, as employers producing for world markets face far greater pressure to ensure respect for labor rights and safe working conditions than businesses producing for poor-country domestic markets only.

Trade's potential is not limited to the apparel sector. Hundreds of millions of women in the developing world work in agriculture, and creation of opportunities, for example in value-added agricultural production, could transform the lives of these women and their families.

But this year's financial crisis is a deadly threat to young women working around the world. Falling trade means millions of lost jobs in developing countries – since last August, 80,000 of Cambodia's 360,000 garment workers have been laid off, and the figures elsewhere are almost as bad. And the International Labor Organization's report this June on child labor, *Give Girls a Chance*, reminds us that these layoff victims are only the first domino to fall. As rural families lose the support urban job-owners provide, children are going back to work—and girls are typically the first children to be pulled out from school. The ILO report warns that a hidden effect of the crisis may be a sharp increase in rural girls' child labor:

> "When families are pushed deeper into poverty and have to choose between sending their sons or their daughters to school, it tends to be the daughters that lose out. As the crisis deepens, young girls could well be among the main victims."

TOWARDS POLICY: When women benefit economically, entire societies benefit. As NGO Women Thrive Worldwide observes, women who work and earn salaries are especially "likely to spend their income to ensure food, education and health care for children," helping to create a foundation for permanent reduction of poverty.
and long-term development. A crisis with especially severe impact on poor-country women, by contrast, is likely to have do especially severe long-term to development prospects.

Governments in both poor countries and the rich world, along with businesses and NGOs need to respond now to keep as many women as possible at work, bring jobs back to some of the victims, and keep younger girls in school. Some of this is the responsibility rests principally on governments, beginning with the G-20's determination to avert a cycle of protectionist tariff hikes, and extending to support for broader and more generous trade preference programs and aid programs that help avert a collapse in poor-country public services in a period of economic stress. Business, NGO and charitable support for schools and small stipends to the families of unemployed workers with children, meanwhile, can enable vulnerable women to make it through the crisis to emerge again as family providers and contributors to economic development and the reduction of poverty.

TRADE, SECURITY AND PREFERENCES

OVERVIEW: Trade policy can make a major contribution to America's security challenges. Better preference policies in particular can provide hope and employment in poor countries, including the large Muslim states whose prosperity and success is essential to reducing the appeal of fundamentalism and extremism.

FACTS AND BACKGROUND: Trade policy has helped underpin American security since Franklin Roosevelt announced the first multilateral trade negotiations in 1945. Roosevelt believed the closure of the world economy between 1929 and 1932 had made recovery from the Depression impossible, and opened the path for the dictators who caused the Second World War. He and his successor Harry Truman believed reopening and promoting world trade would have two security benefits.

- By helping to prevent a second Depression, it would also help to prevent a new eruption of virulent nationalism.
- By encouraging economic integration, it would help great powers view one another as customers and partners, dampening political rivalry and making conflict less likely.

Trade has been part of the democratic world's security initiatives ever since, from the revival of Europe after World War II through the reintegration of Germany and Japan, the development of the European Union and its extension to the new democracies of Eastern and Central Europe, and reconciliation with China after the Maoist era.

Over these years, and especially since the end of the Cold War, conflict has become rarer, especially among the big powers participating in globalization. Thus Americans face fewer traditional security threats than in the past. More often, today's security challenges emerge from failed states and chaotic multi-state regions such as the Hindu Kush, the Horn of Africa, the Congo Basin and swathes of the Middle East. Such countries and regions can become havens for terrorists and fundamentalists, or allow pandemics and other non-traditional threats to arise. Two cases in which trade policy remains (or should become) a vital element of national strategy:

> *East Asia:* Two issues—the division of Korea and the Taiwan-China divide—remain potential sources of great-power confrontation. An amicable relationship with China, in which two-way flows of trade and

investment develop American and Chinese constituencies for good relations and careful management of differences, remains a guarantor of peace in this crucial region.

Greater Middle East: This region, spanning the Arab world, Iran and Muslim South and Central Asia, is the area in which the most dangerous current threat to Americans has arisen in the form of extremist and terrorist groups like the Taliban and al-Qaeda. Here too trade policy can be an important part of American strategy.

The region's share of world trade has plummeted by 75 percent since 1980; and throughout this decade its unemployment rate has been the highest in the world. American trade policy, however, often tilts against countries in this region. America has no region-wide policy comparable to the African Growth and Opportunity Act's Africa strategy, so security-sensitive countries like Iraq, Afghanistan, Pakistan, Lebanon and Yemen receive no meaningful tariff benefits that could help create jobs, promote growth, and cool the political temperature. In fact, as Congress debates a $1.5 billion aid package for Pakistan, the tariff system annually imposes a $360 million penalty on Pakistan's modest $3.6 billion in exports. This penalty is especially troubling as Pakistan's exports of clothes and home linens have fallen by a third during the current economic crisis, suggesting that the visible conflict in Swat Valley is matched by a potential unemployment crisis in the large Indus Valley cities where most Pakistanis live.

TOWARDS POLICY: Trade policy has an important role to play in addressing our current security challenges, just as it had in earlier eras. This year, Congress is considering a full-scale revision of America's trade preference programs, to include low-income countries now left out of the system and improve the capacity-building programs designed to ensure that low-income farmers and developing-country businesses can manage America's trade regulations. This would broaden benefits for sub-Saharan Africa, for the first time include low-income Asian and Middle Eastern countries in textile tariff waivers, and help poor-country farmers sell value-added goods as well as primary commodities. Timely approval could save tens of thousands of jobs in Pakistan, Bangladesh, Afghanistan, and the Middle East, as well as in very poor Asian countries like Nepal and Cambodia. Failure might mean a new unemployment crisis, and therefore a new source of political tension and instability in all these countries.

An enlightened, tough-minded concept of security blends traditional military and diplomatic policies with a commitment to development, open markets, and economic integration. This was the hall-mark of the great era of alliance- and institution-building in the 1940s, when Roosevelt and Truman built the UN, NATO, the Bretton Woods Institutions and the GATT system. The same broad vision is essential today, as we manage the complex problems of the Middle East, South Asia and other troubled regions.

TRADE AND AMERICA'S POOR

OVERVIEW: Life is expensive for America's poor. Bus fares eat up more of a poor family's income than a rich family's. Fees for banking and check-cashing services are higher for poor people than rich. Even grocery stores in poor neighborhoods at times sell food at higher prices than in middle-class neighborhoods. America's trade system hits our poor harder than middle-class families, wealthy people or, since tariffs on cheap life necessities are much higher than tariffs on other goods, and are passed on directly to shoppers in stores. The worst elements of the system could be fixed at little cost to the government and with no employment impact at all.

FACTS AND BACKGROUND: At $26 billion a year, or about one percent of total tax revenue, tariffs are a small part of the American tax system. But they are easily the most regressive part of the tax system. This is because they do not apply evenly to all products, but are highest on the clothes, shoes, home linens and some types of food. Tariffs on these goods have been preserved almost untouched since the 1950s, even as employment has plummeted. Four examples:

> *Shoes:* Shoes get America's highest manufacturing tariffs, ranging up to 48 percent for cheap sneakers. This means a $2.28 pair of sneakers gets a $1.09 tax at the border – more than the $1.01 tax on a pack of cigarettes, even after the recent cigarette tax increase. But shoes are barely made in the United States at all, and cheap sneakers in particular have not been made here since the 1970s. As shoe tariffs have preserved unchanged since the 1950s, shoe employment has dropped by 95 percent, from 256,000 in 1970 to 14,000 today.
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> *Clothes:* Clothing employment has also faded, dropping from 1.4 million in 1970 to 880,000 by 1990, and 170,000 today. Nonetheless, clothing tariffs remain the heart of the U.S. tariff system: clothes accounted for about 5 percent of US imports but raised $9.5 billion of last year's $26 billion in tariff money. Clothing tariffs are systematically higher on cheap goods made from lower-priced fabrics, and lowest on luxury goods made from exotic fabrics:

TARIFF RATES BY PRODUCT, 2008

PRODUCT	Polyester	Cotton	Silk
Sweater	32%	16.5%	0.9%
Man's shirt	32%	19.7%	0.9%
Brassiere	16.9%	16.9%	2.7%

Orange juice and milk: Tariffs (along with quotas and subsidies in the case of sugar and dairy) drastically inflate the price of these foods. The orange-juice tariff, at 7.9 cents per liter, raises wholesale prices by 30 percent. Dairy tariffs are even higher, with each quarter-pound stick of butter getting a 25 percent tariff.

Spoons: As with clothes and shoes, luxury household utensils are lightly taxed and cheap goods heavily taxed. Spoons are typical examples: A sterling-silver spoon has a 4 percent tariff; the cheap stainless steel spoons poorer families buy, 15 percent. Forks, knives, plates, cups and drinking glasses are much the same.

Altogether, products like these—clothes, shoes, home textiles, silverware and plates, a few types of food—raise $14 billion a year, about 60 percent of total tariff revenue. This pattern has two consequences:

(1) *High Cost to Families*: Tariffs on clothes, shoes, luggage, food, silverware, plates and drinking glasses account for about 60 percent of tariff collection, or $14 billion. The store cost of these goods is about three times the "landed cost" of the goods at the border, including payments to manufacturers, shippers and customs authorities) after magnification by retail markups and state and local sales taxes. This suggests a cost to the public of about $40 billion a year. Though any taxation of life necessities is regressive, and the tariff system is uniquely regressive. Since it taxes cheap and simple goods more heavily than expensive luxuries, it is the only American tax to impose higher tax rates on the poor than on the rich or middle-class.

(2) *Few Jobs Protected:* Most of the high tariffs no longer protect employment in the United States. They were designed in the 1920s for the economy of the early 20th century, in which about a third of Americans worked in labor-intensive factories. Since then the tariffs have stayed in place, but the employment they were meant to protect faded away, dropping by ninety percent – from 1.7 million and 3 percent of total employment to 0.2 million and 0.15 percent of total employment – since 1970.

TOWARDS POLICY: Tariff policy has been made through trade negotiations rather than domestic legislation for almost 80 years. Many of the tariffs preserved over these eight decades are now archaic, applying to goods no longer made in the United States. Options include –

- Waiving tariffs imposed on very poor countries, through preference systems;

- Eliminating tariffs on goods not made in the United States;
- Eliminating the most regressive tariffs, such as those on cheap clothes and shoes.

TRADE, REMITTANCES, AID, INVESTMENT AND CHARITY:
America's Financial Ties to the Developing World

OVERVIEW: America's financial relationship with the developing world allows poor countries to earn money in five ways: exports of goods, remittances from migrant workers, foreign direct investment, official aid programs, and charitable donations. Trade is the largest of these links—excluding all imports from China and all energy products, exports bring poor countries four times as much income as all other sources combined—though of course other financial linkages accomplish things trade cannot. This fact highlights the central importance of maintaining open markets and avoiding protectionism if poor countries are to develop.

FACTS AND BACKGROUND: Exports to the United States, excluding Chinese goods and energy, earn about $400 billion a year for lower-income countries. The four other main financial flows—remittances, direct investment, foreign aid, and charitable donations—account for about $130 billion per year. A summary, in descending order of magnitude:

Trade: $400 billion. Excluding China's manufactures and the oil flowing in from the Persian Gulf, Africa and Latin America, Americans bought $400 billion worth of developing-country goods in 2000. This places the U.S. second to the EU as a developing-country market, and provides jobs and income for a vast range of poor-country workers and farmers. Some examples:

- The $2.7 billion worth of clothes Americans buy from Honduras each year accounts for more than half of Honduras' exports to the world. Since creation of the Caribbean Basin Initiative in 1985, Honduras and Central America generally have evolved from a bloody battleground for leftist guerrillas and military dictators, into a generally stable and democratic middle-income region.
- Cambodia's $2.4 billion in clothing exports to the US makes up 20 percent of Cambodian GDP, and supports virtually all of the kingdom's industrial jobs.
- Ethiopia's $32 million in niger seed exports to the US raises the incomes of the rural farmers who grow it for cooking oil in the upland Gondar province. Americans buy almost a quarter of the national niger seed crop, using it for high-quality birdseed.

Remittances: $45 billion. Migrant workers – from Haitian dishwashers and Central American day-laborers to Filipina nurses and Lebanese grocers – send

$45 billion from the U.S. to their home countries each year. This figure is double the value of all US foreign aid, and equivalent to a third of the world's total development aid budgets. Especially effective as poverty-reduction because they go directly to families, remittances are a significant part of national GDP in Central America, the Caribbean and Pacific island states, the Philippines, Bangladesh and Pakistan. Remittances from Haitian communities in Florida and New York account for ten percent of national income.

FDI: $40 billion. Most American business investment is in rich countries. The flows to poor countries are about a sixth of the annual total. They are in a variety of industries – energy, banking, education, manufacturing – but are often highly valued by poor-country governments and economists as vehicles for development of management expertise and modern technology.

Development Aid: $23 billion. U.S. aid programs are small relative to other flows of capital. (And well below the EU's combined $60-billion aid commitments). But they provide benefits other financial links cannot. These include support for basic public services such as vaccination and education; trade capacity-building programs to improve infrastructure and help poor-country businesses and farmers manage complex trade and food-safety regulations; military exchange programs to create professional officer corps; and humanitarian relief to address natural disasters like the Indian Ocean tsunami of 2004 or the Pakistan earthquake of 2006.

Charitable Donations: $7.5 billion. American private citizens are uniquely generous, providing more than half of the world's $12 billion in annual international charitable donations. These are especially efficient and timely ways to help in natural disasters, or to provide support for particular communities.

TOWARDS POLICY: The financial crisis has placed intense pressure on many of these sources of support for the poor world. As of early 2009, for example, trade flows from the developing world were down by 23 percent. Remittance flows too were likely to drop, at a somewhat slower rate of five to eight percent. Both suggest the possibility of a sharp increase in poverty overall, with the individual drops in trade threatening severe job loss and the downturn in remittances the loss of a security cushion for many poor-country families. To avert a development catastrophe, in which hundreds of millions of people fall permanently back into poverty, Congress and the administration will need to stand firm against proposals to cut aid and set up barriers to poor-country goods. The crisis also, of course, presents an opportunity to improve both aid and trade programs, so that poor countries weather the crisis with as little suffering as possible and with the least risk of political radicalism and upheaval.

INTELLECTUAL PROPERTY RIGHTS & DEVELOPMENT

OVERVIEW: Low-income countries have assets of their own, which they can use to raise incomes and exports. One of these is intellectual property rights. IPR standards have often been divisive, with developing-country governments seeing IPR as a valuable way to attract high-quality investment but also as a concept weighted toward rich countries with large scientific and entertainment industries. More recently, however, a number of poorer countries—especially those reliant on agriculture—have come to see IPR as an opportunity to create assets and raise farm incomes.

FACTS AND BACKGROUND: With rich-world families increasingly willing to buy higher-priced but higher-quality foods, developing countries are developing and enforcing regionally distinctive trademarks and geographical indications for agricultural products. This allows their farmers to earn more money and creates a right their governments can defend at the WTO, in other international trade agreements, and through using domestic law in the developed world.

Examples: Middle-income countries were early adopters of this technique, with Thailand developing a 'geographical indication' for jasmine rice under the name "Thai Hom Malee," and South Africa doing the same for wine varieties. More recently, least-developed countries have taken similar steps, using both the geographical-indication concept favored in Europe and the American trademark law. Two cases in point:

> *Ethiopian Coffee:* Ethiopia is a landlocked highland country, whose population is eighty-percent rural. The country's farmers do not grow purely for local subsistence or national markets, though. Ethiopia is the original homeland of the coffee plant, and has been exporting coffee for centuries. Coffee now brings in 40 percent of Ethiopia's export earnings.
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> In 2004, Ethiopia's government began a campaign to trademark three regional varieties of coffee—Yirgacheffe, Harrar and Sidamo, each named for a province—in the United States, Europe, Canada and Japan. 'Specialty' coffees like these typically sell for twenty percent more than the average price. The Ethiopian government believes the trademarks will raise coffee export revenue by 75 to 100 percent over five years.
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> *Ugandan Vanilla:* Vanilla is among the rarest and most expensive food products in the world, selling for up to $350 per kilo. Native to South America, it is grown commercially only in a few Caribbean islands,

Madagascar and more recently Uganda. Uganda's vanilla beans contain an unusually high level of vanillin, which gives vanilla its distinctive taste. Uganda's government and agricultural experts hope to create a trademark for the product that will give it international recognition and steady markets, in turn creating more reliable and somewhat higher farm incomes.

TOWARDS POLICY: Intellectual-property issues have at times divided rich and poor countries. The increasing use of IPR by poor-country governments to raise the value of agricultural assets can ease some of these divisions, by ensuring that poor, middle-income and rich countries all have assets whose value worldwide depends on respect for intellectual property rights. The U.S. government and corporate community can bolster the trend, not only by enforcing laws to ensure respect for poor-country rights, but by helping low-income countries identify unique and high-quality products whose value can be raised through trademarks and geographical indications.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

OVERVIEW: Poor countries struggle not only to enter the global streams of capital and trade, but the flows of information. But rapid adoption of mobile phones in poor countries opens a chance to end the global digital divide in the next decade. Public-private help in distributing devices and in training telecom officials can yield massive development benefits to poor countries, as well as new and non-traditional export opportunities for Americans.

FACTS AND BACKGROUND: Access to modern telecommunications has extraordinary promise for the poor. Already, Internet capabilities, cell phones and text messaging help Andean farmers find the best prices and manage oncoming storms or insect plagues, and enable young Chinese women from rural provinces to find jobs in coastal cities and keep in touch with relatives at home. The poor world, though, still has little access to the internet and the services it offers.

In 2009, about 1.6 billion people are on-line, or 25 percent of the world's 6.7 billion population. This overall figure masks steep gradients dividing rich, middle-income and poor countries. In the developed world, on average, 60 percent of the public is on-line. In middle-income regions—China, Southeast Asia, the Middle East, Latin America—the figure averages about 20 percent. But in sub-Saharan Africa only 30 of 805 million people are on-line, or 3.7 percent. South Asia's figures are similar. And in least-developed countries in other regions -- East Timor, Haiti, Nepal, Cambodia, Afghanistan -- access is usually below one percent and limited to a small elite.

REGION	POPULATION	ON-LINE	INTERNET ACCESS
US, wealthy Asia, Europe, Australia/NZ	1.4 billion	820 million	59%
Latin, Middle East, China, ASEAN, India	4.0 billion	720 million	18%
Sub-Saharan Africa, other South Asia	1.2 billion	46 million	3%

Until recently, the gap has reflected long-standing geographical and governance limits. Poor countries have only weak connections to submarine cable and satellites, lack installed land telephone lines, and offer low revenue to telecom firms that might make the investments. But the rapid spread of mobile phones through the poor world, and the growing use of mobile devices to access the internet, have opened a unique opportunity to close the digital divide. Since 2002, world cellular subscription totals have risen from 1.2 to 4.1 billion, with most of the growth in the developing world. Just since 2002, 30 million

Nigerians have opened cellular accounts; and Africa already has more mobile subscribers than America; Pakistani mobile subscriptions, meanwhile, have allowed ten percent of the country's 170 million people to go on-line.

With the right support in technical assistance to telecom ministries and encouragement of telecom services competition, this can mean the simultaneous creation of a large market for exports of American services, and a major boost to development. Low-income men and women will be able to buy small-scale weather and crop price information services, helping improve the productivity of farming and find new markets, as well as to access distance education and small-scale loans so as to qualify for higher-paying salaried jobs. The public health implications may be especially important, as internet access for clinics and patients in villages and urban slums will mean much more frequent contact, fewer long and expensive trips, and better monitoring of prescriptions.

TOWARDS POLICY: The digital divide is already closing simply through the natural advance of mobile communications and wireless internet. Some assistance from rich-world businesses and governments can speed up the process dramatically, through a mix of private-sector "enlightened altruism" with pro-information, pro-trade and pro-consumer policies. Options include:

- USAID technical support for low-income countries in developing modern regulatory systems. An example from the earlier part of this decade is the U.S. Agency for International Development's Leland Initiative, which helps telecommunications regulators in Africa. In Nigeria in 2005, it helped register 25 new firms that have since provided 1.2 million new telephone lines.
- Donations or sale at cost of mobile devices to low-income households, schools and clinics. One example is the Hewlett-Packard company's work to wire elementary and high schools in Uganda.
- Services trade policies that encourage openness and support consumers. Here the U.S. government can work with poor countries to join the WTO's Basic Telecommunications Agreement, creating the internal competition and innovation that makes mobile phone and computer use affordable for low-income families.