Development, Trade, and Democracy

BY WILLIAM ANTHOLIS

With international trade and aid reform stalled, the next President will have his hands full. There is a way, but is there a will?

The world's economic powers—the United States, European Union, and Japan—keep saying that they have three shared goals: promoting global development, advancing the global trading system, and strengthening democracy. They have actually sketched a straightforward policy route to advance all three goals. The roadmap for advancing development, trade, and democracy is in place.

Yet while they have drawn the roadmap, they have not yet chosen to start the engine, let alone step on the accelerator. If things do not change soon, they will probably need a tow.

What is missing? The political will to get moving. The Doha Round of world trade talks, launched in 2001 with its promising "Development Agenda," is on the verge of collapse. Sizeable increases in foreign assistance, promised in 2002 at the United Nations' Monterrey Summit, are also unlikely to be fulfilled. And without any progress on either of these two, the economic powers are not likely to get developing country buy-in for the political reforms that are needed to ensure that trade and assistance are used effectively.

Regardless of the 2004 American presidential election, political will is not likely to come from political leaders. Support is fading for trade, aid, and real democratic reforms. Since these three policy challenges are increasingly interrelated, new coalitions across all three areas are needed.

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THE NEW ROADMAP: TRADE, AID AND POLITICAL REFORM

A decade ago, it appeared that rich countries had a common policy paradigm for development. A Washington Consensus—urged by the International Monetary Fund and the World Bank—pushed for by developing countries to balance their budgets and adopt more open trade policies. Countries would be "open for business": ready to engage the global economy, and ready to allow market disciplines of foreign competition and lower prices to improve efficiency and productivity. The Asian Tigers—Korea, Thailand, Indonesia, and the Philippines—embraced these policies and demonstrated that double digit growth could be achieved.

The 1997 global financial crisis crippled the Washington Consensus. The Thai bhat infirmity quickly spread to Korea and Indonesia and then jumped oceans, hitting Brazil and eventually Russia. International investors began to find disturbing economic decisions based on political cronyism. They discovered that shaky local banks were filled with non-performing loans. "Sure bets" became large liabilities. And beyond financial spreadsheets, outsiders discovered threadbare social safety nets, as newly formed middle classes quickly crumbled into poverty.

Industrial country policymakers began to understand that the road out of poverty required new policy and institutional milestones. These included solid regulatory environments and transparent accounting systems. They also included social policies: vibrant education and health systems, homeownership, and clean and efficient energy and transportation systems.

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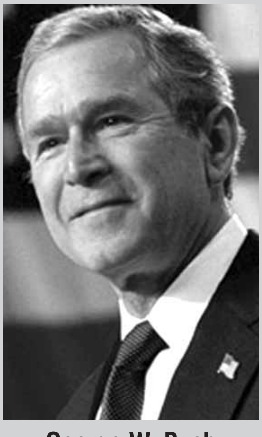
A three-part strategy began to emerge among policymakers in wealthy democracies.

First, fighting global poverty should be a top shared priority. In 2000, these governments launched the Millennium Development Goals—a list of priority benchmarks for improving the conditions of the 1.2 billion people who live on less than $1 per day. Two years later, at a UN Summit in Monterrey, Mexico, they

Collapse of the U.S. Free Trade Consensus?



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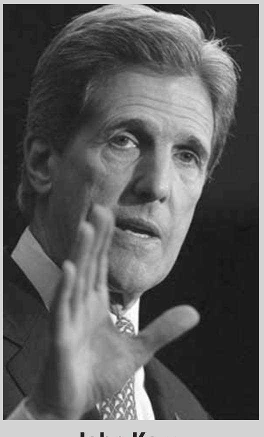

KERRY-EDWARDS 2004, INC. FROM SHARON FARMER

John Kerry

President Bush arguably has been the most protectionist President from either party since Herbert Hoover. And while **Senator Kerry** has a generally pro-trade voting record, his pledges to hunt down "Benedict Arnold CEOs" who send jobs overseas are a significant set-back from Bill Clinton's embrace of the global economy.

Indeed, the old pro-trade and pro-development coalitions have failed—thanks in part to there being no clear global security imperative for the United States to remain the strongest advocate for open markets.

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U.S. Trade Representative
Robert Zoellick

Did His Efforts Misfire?

The lack of political will in the rich democracies has made the developing country democracies even less interested in embracing the long road of reform. This became obvious and urgent with the collapse of the WTO talks in Cancun last September.

Oddly, the leading industrial countries sought to blame others for the collapse of the round. U.S. Trade Representative **Robert Zoellick**—the man most responsible for launching the Development Agenda at Doha—now took aim at Brazil and India, referring to them as “will not” countries.

Zoellick misfired. Brazil and India had just completed historic decades of economic reform. In the 1990s, India had cut its tariffs by nearly two-thirds; Brazil had cut its tariffs in half. While this led to dramatic economic growth, nearly three quarters of a billion people remained in poverty in those two countries alone. Unemployment officially stood at 12 percent in Brazil and 10 percent in India—but with so many self-employed urban and rural poor these numbers only scratched the surface of despair. Patience in liberalization began to fade dramatically. Brazil’s new Labor Party government kept the pro-market reforms of its predecessors, but would not move on further trade liberalization until industrial countries moved first. India’s right-of-center BJP government also felt the need to proceed cautiously in Cancun—and for good reason, as they would lose at the polls seven months later in part because they had not sufficiently paid attention to the needs of the poor.

—W. Antholis

pledged to double development assistance to meet these goals—promising to increase total donor assistance from just above $50 billion to over $100 billion.

Second, they looked again at trade policy—but this time they were forced to focus on barriers to their own markets that directly hurt export-ready developing countries. Since the late 1990s, industrial democracies had called for a new Millennium Round of global trade talks. Their first attempt to launch such a round failed miserably at Seattle. The colorful and eventually violent street protests made “Seattle” a code-word for anti-globalization efforts. But that effort failed largely because rich countries did not have a sense of how angry developing countries had become.

Aware of these concerns, the United States and Europe tried again—this time successfully. In 2001, at the World Trade Organization ministerial in Doha, they agreed to a “Development Agenda” for world trade talks, where further liberalization would help alleviate persistent poverty in the developing world. In particular, developing countries had pushed for an end to trade-distorting farm subsidies. OECD governments currently pay their farmers about $86 billion each year, the vast majority of which is trade-distorting; total support to farmers, including indirect measures, totals $235 billion. Developing countries argued that they simply could not compete with these cash outlays.

Third, both rich and poor countries came to understand that promoting good governance in the developing world was as critical as either assistance or market access. Much of this was a pragmatic response to the cronyism and corruption that had made Asia’s economic success a house of cards. “Transparency” and “accountability” became the new buzzwords. Wealthy governments joined with advocacy groups such as Transparency International and local affiliates to press for reform.

This became most visible at this year’s G8 Summit where—amidst calls for addressing poverty and trade—the leading industrial democracies together focused on

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political reform in the broader Middle East, an area that holds perhaps the world's greatest concentration of lack of trade, persistent poverty, and lack of democracy. But the roots of that approach had been at least four years in the making, stretching back to the political reform conditions that became a central part of IMF and World Bank loans, bilateral trade agreements, and even regional trading pacts such as the New Economic Partnership for African Development (NEPAD).

WILLS AND WILL NOTS

The stated goals of transatlantic governments, however, have collided sharply with political realities on both sides of the Atlantic. And the lack of political will in the rich democracies has made the developing country democracies even less interested in embracing the long road of reform. This became obvious and urgent with the collapse of the WTO talks in Cancun last September.

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Zoellick and his team also blamed non-governmental organizations for raising expectations among developing countries. Several NGOs certainly celebrated the failed negotiations. In particular, they lobbied very hard against industrial country subsidies in key sectors such as cotton, putting the United States on the defensive. But the most important of these groups, Oxfam, thought the demise at Cancun was troubling, and had worked behind the scenes with some U.S. negotiators to save the talks.

The European Union's Pascal Lamy was more diplomatically circumspect. He blamed the WTO itself, saying that the negotiating system had become "Byzantine"—especially for the fact that any single, small, poor developing country could veto an agreement. Searing criticism, coming from Europe's top trade bureaucrat whose negotiating authority was constantly challenged by a veto from France.

What was really lacking was political leadership from Europe and the United States. Lamy could not convince France to significantly cut farm subsidies. Though he has made much progress in the last year since Cancun, France still opposes the cuts. President Jacques Chirac of France and Chancellor Gerhard Schröder of Germany have managed to block any cuts in the Common Agricultural Policy until at least 2013. The political roots of such a coalition seem odd, given that Schröder's Social Democratic Party has almost no agricultural constituency. Indeed, they were quite complex, caught up both in geopolitics and in the Byzantine inner workings of Europe's own eastern enlargement. Schröder had early opposed any American initiative in Iraq. At the 2002 European Summit—the November prior to the Iraq war—Schröder was desperate that

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Germany not be isolated in opposing the United States. So together he and Chirac agreed to forestall any change in Europe's CAP—its largest domestic program—even though the European Union's new Eastern entrants strongly desired such change.

The United States was no less complicit. Zoellick had long been the most staunch reform advocate, but as the 2004 presidential elections approached, trade issues had become highly charged politically. The $180 billion of subsidies in the 2002 Farm Bill, the imposition of steel tariffs earlier that year, and the inability to keep the trade round moving have shown that in a politically divided nation, the fear of alienating key constituencies in pivotal Midwestern industrial and farm states far outweighs a rhetorical commitment to free trade. President Bush arguably has been the most protectionist President from either party since Herbert Hoover. And while Senator Kerry has a generally pro-trade voting record, his pledges to hunt down "Benedict Arnold CEOs" who send jobs overseas are a significant set-back from Bill Clinton's embrace of the global economy.

Indeed, the old pro-trade and pro-development coalitions have failed—thanks in part to there being no clear global security imperative for the United States to remain the strongest advocate for open markets. In the United States, the post-World War II coalition consisted of pro-trade exporters and internationalist members of Congress. Since the end of the Cold War, however, that coalition has narrowed considerably. President Clinton's initial success in gaining approval for NAFTA and the WTO—completed just after the collapse of the Soviet Union in 1991 and Yeltsin's defeat of the Russian Communists in 1993—gave way to an inability to gain fast-track negotiating authority and to launch the Seattle Round.

Political support for development assistance also seems to have suffered from the same lack of political will. Rich countries currently provide $57 billion for development aid, a moderate rise compared to past years, but only half of what is required to achieve the Millennium Development Goals. At Monterrey, the United States pledged to increase development assistance by $5 billion per year over current levels of about $13 billion, a 47 percent increase. Other countries followed suit. Japan pledged an 18 percent increase of $1.7 billion above its annual $9.2 billion. The European Union's biggest economies also pledged significant increases: 33 percent for Germany, 29 percent for France, 40 percent for the United Kingdom, and 80 percent for Italy. These pledges would amount to an annual increase of $7.9 billion above the $19.3 billion these countries already spend.

If countries actually meet their pledges, however, this will only add about $14.5 billion—or less than one-third of what the United Nations and World Bank estimate is needed to meet the Millennium Development Goals. Worse still, it seems unlikely that any of these funding levels will be met. For instance, President Bush pared back his original $5 billion pledge to $1.3 in this year's and $2.5 in next year's budget submissions. It seems unlikely that the U.S. Congress will embrace as much as half of this request.

With trade and aid reform stalled, external incentives have vanished for political reform in poor nations. Establishing effective, transparent and accountable governments may be the most important steps needed for moving nations from poverty to prosperity. While some South American and African governments have made this a top priority for regional organizations, external incentives can help get nations past a tipping point. Why has South Africa not more aggressively dealt with an oppressive Zimbabwe to its north? Why did Brazil and other Latin countries refuse to focus on Venezuela's growing political tumult? Relatively good governments lack real incentives to push political reform on their neighbors. With a failure at Cancun last fall, and with American negotiators unwilling to discuss agricultural protections at the regional level, African and Latin American countries forcefully reject taking on political reform of their neighbors as a top priority.

FINDING THE WILL

Winston Churchill famously said that democracy is the worst form of government, except for all the others. Like it or not, democracies such as the United States, Europe, and Japan are going to have to demonstrate political will—particularly to emerging democratic powers of India, Brazil, and South Africa.

Recent public opinion surveys indicate that broad majorities in the leading democracies are ready to support both development assistance and broader trade agreements. With respect to the former, Republican poll-

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ster Bill McInturf has found that Americans are willing to support considerable increases in development assistance, if targeted toward concrete objectives such as clean water, improved access to education, and the eradication of diseases such as HIV-AIDS. With respect to trade agreements, John Audley's recent survey in France, Germany, the United Kingdom, and the United States showed broad support further trade agreements. Large majorities feel that trade helps make their own economies more competitive, and that trade is the most effective way for developing countries to help themselves. Support for trade agreements is further enhanced if the agreements include protections for workers rights and the environment, and if trade organizations are transparent and accountable.

However, mass publics do not move trade agreements. Active political coalitions do. New coalitions are needed to address trade and development challenges—coalitions that combine a focus on development, trade, and democracy. In the past, each of these causes has had their own supporters. Trade agreements happened because exporters banded together with importers of raw materials. Development assistance happened because charitable organizations pushed for targeted aid or relief assistance for specific humanitarian crises. And a few internationalist thinkers in both political parties—working through groups such as the National Democratic Institute and the International Republican Institute—ran democracy-building programs.

This balkanization of political support is no longer sustainable. Non-profit and philanthropic groups have been among the first to notice within their own ranks. Pro-development groups led by organizations such as Oxfam and DATA (the advocacy group founded by Bono) are joining forces with a number of other charities—including conservative religious ones—to form "One Campaign" for greater development assistance. But more dramatically, these groups have also embraced a pro-market rhetoric, rightly seeing that trade reform can be a powerful engine for development. And they have also come to see that transparency and accountability in poor countries are not just critical to helping them deliver assistance services, but they are critical development policies as well.

Exporters and other businesses would seem to have a sound economic incentive to join with them. From a purely trade-oriented perspective, global trade talks on industrial goods and services are not likely to move forward unless the demands of developing countries are met on agricultural products. Moreover, human development in emerging markets should be a prime business opportunity for industrial country exporters. Development assistance for basic human needs—clean water, education, health—makes real economic sense. Beyond that, even, building positive corporate brand names can be enhanced by effective, mutually beneficial partnerships with NGOs—particularly those NGOs that consistently receive high marks in public opinion surveys.

Perhaps most importantly, the potential losers from trade must be addressed in an honest way. American and European governments have not fully explored the kinds of adjustment programs for farmers and workers that will be required to wean them off current protections. The Bush Administration, for instance, chose to impose steel tariffs in 2002, when it just as easily could have addressed steel union concerns by guaranteeing the health care costs for retired workers. Attention to job training for those displaced by trade agreements has been laughably small, with only $65 million devoted to it in the last fast track legislation. And real programs should be developed and debated for shifting farm subsidies into environmentally advantageous alternatives—both to demonstrate actual alternatives for farmers, and to demonstrate to developing countries that these are not trade-distorting subsidies in green clothing. Significantly greater creativity is required.

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The question remains: Will democracies respond to the challenge of trade and development? Clearly, the road ahead is a long one. Governments have succeeded in finding the road, but have lacked the political will to step on the gas. That motivation may have to come from their citizens. ◆