

HOW CAN THE U.S. BUILD AN
INTERNATIONAL SYSTEM THAT PROMOTES
GOOD GOVERNANCE, DEVELOPMENT, AND
POVERTY REDUCTION?

HOW CAN THE U.S. PROMOTE SUSTAINABLE
DEVELOPMENT AND ECONOMIC GROWTH IN
DEVELOPING COUNTRIES?

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The Honorable Barack H. Obama
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Dear President Obama,

“Our challenge, our generation's unique challenge, is learning to live sustainably in an extraordinarily crowded world.”ⁱ The recent financial crisis has added to this challenge by threatening to undo efforts made to promote sustainable development and reduce poverty in the developing nations. According to the 2009 Millennium Development Goals (MDG) Report, an estimated 55 to 90 million more people will be living in extreme poverty than had been previously anticipated prior to the crisis.ⁱⁱ In light of this, World Bank President Robert Zoellick recently reiterated the need for the developed nations to maintain their commitments to developing nations.ⁱⁱⁱ Today more than ever, the U.S. should take advantage of its unique position to promote sustainable development globally.

Since the 1987 Brundtland Report, the United Nations has acknowledged the importance of promoting sustainability. The report defined sustainable development as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs.”^{iv} In recent years, Goal 8 of the MDGs has reinforced the need for international partnerships to establish sustainability through “co-operation.”^v

Given the importance of fostering sustainable growth, the U.S. should enact a three-pronged policy approach to development. Primarily, sustainable development should be understood in economic terms. Sustainable economic growth requires that

markets be made more accessible to those in developing nations such that they are better able to participate in the global economy. However, it is important to note that sustainable development cannot be understood without addressing both its ecological as well as socio-political components.

The first and most important step towards promoting sustainable growth and reducing poverty in the developing countries is to increase market accessibility. This can be accomplished through four significant steps. First, the U.S. should work with global institutions like the World Trade Organization (WTO) to ensure fair trade. Next, markets must be opened up to those living in extreme poverty. In order to open up markets to this “bottom billion,”^{vi} we must promote social entrepreneurship. Finally, the poor must be given access to credit through specialized finance agencies. However, it is of utmost importance to recognize that markets are not a panacea and that foreign aid is still necessary for development.

In order to open markets to those in developing nations, the U.S. must first promote “responsible globalization”^{vii} and work to reintegrate low-income workers into global commodity chains. Under current rules of agricultural free trade, developing nations are unable to compete against wealthy governments who subsidize their own products and dump artificially low-priced goods onto the markets of poor countries. This practice creates an inherently unbalanced marketplace that stifles sustainable growth. The problem is highlighted by the plight of Ethiopian coffee farmers who have been impacted by a 30% price drop in coffee over the last twenty years as a result of subsidized dumping. Meanwhile, retail coffee profits have increased 166% over the same period.^{viii} One solution to this problem is to implement a system of “globalization from below”^{ix} whereby local governments work with the WTO to “regulate trade in the interest of

delivering social benefits”^x rather than pure economic benefits. Another solution is to “institutionalize fair trade over free trade”^{xi} and to limit the dumping of subsidized goods.

Re-structuring the rules of global trade isn’t enough to ensure economic growth. The U.S. must also work to actively integrate the “bottom of the pyramid”^{xii} into the global economy if it wishes to promote sustainable development going forward. With one billion people living in extreme poverty,^{xiii} experts have wrestled with the question of how to get the poor onto the “first rung”^{xiv} of the development ladder. Utilizing market based solutions, business can bring about development through critical infrastructure improvements. For example, the telecommunications company Vodafone proved the efficiency of opening markets to the bottom billion when it extended its mobile services to rural Kenyans. It created hundreds of jobs for workers who were needed to operate the mobile services, while generating a profit.^{xv} Although prior thinking ignored the commercial potential of the bottom billion, new evidence suggests that the “creative capacity of the world’s poorest people”^{xvi} can lead “to an explosion of innovation”^{xvii} and subsequently economic growth.

In order to capitalize on the purchasing power of the bottom billion, the U.S. needs to encourage entrepreneurship through “creative capitalism.”^{xviii} Creative capitalism relates to the bottom of the pyramid concept by encouraging companies to expand their boundaries into new markets. For the system to prove effective, the U.S. must encourage business to adopt a “triple bottom line”^{xix} that incorporates profits as well as social and environmental gains. There must also be collaboration between the governments of developed and developing nations in order to ensure that market conditions are ripe for entrepreneurial investment. The promise of investment can put pressure on governments of the developing world to promote open markets and good

governance. The American government must move to advance more instances of creative capitalism as it spurs economic growth for both the developing and developed worlds and is “a sustainable way to reduce poverty in the world.”^{xx}

In order to facilitate integration of developing nations into the global economy, citizens must be given the capacity to consume through easier access to credit. Casas Bahia for example, a \$1.2 billion company that caters to the bottom billion, provides credit through a passbook system which allows consumers to pay for purchases in installments. Not only has this system improved the lives of low-income Brazilians, it has also contributed to the overall growth of the economy by employing over 20,000 workers.^{xxi} Another increasingly popular method of providing credit is microfinance. The model, first introduced by Muhammad Yunus in Bangladesh, has allowed the poor to finally gain access to the “exclusionary systems of finance”^{xxii} through the “democratization of capital.”^{xxiii} The Bangladesh model has been successful because it works on poverty alleviation through asset-building, value chains, and microcredit loans. Successful microfinance endeavors require governmental subsidization. As such, the U.S. must actively support these systems if it wishes to promote sustainable economic growth. It should also work with the World Bank to create specialized credit agencies for those in developing nations.

With a plan for increased market access for the poor laid out, the final step is to understand that markets can and will fail. Former Labor Secretary Robert Reich argues that free markets have actually contributed to vast inequalities in wealth.^{xxiv} Therefore, aid should be given to developing nations to level the economic playing field and to fix market failures, but it must be given under certain and limited circumstances. Aid has, for the most part, failed in Africa by reducing savings, creating inflation and fostering

dependency.^{xxv} Therefore, any aid that is given must not be driven by narrow political interests but must instead stem from a direct local need. Communities must be given a greater voice to direct smarter aid in areas that desperately need it. The U.S. should encourage the developing nations to adopt mandates such as the City Statute in Brazil, a good example of an ordinance that actively calls for the legal-political role of citizens in community development.^{xxvi}

While sustainability is primarily understood in terms of market accessibility, it must also be understood in terms of ecological sustainability. Thomas Pogge of Columbia University argues that all people have the same right to natural resources, yet only a few have access to them.^{xxvii} Worse still, the byproduct of these natural resources, environmental pollution, is shared by all. “Through disproportionate emissions of greenhouse gases alone, the rich may have imposed climate damages on the poor greater than the developing world’s current foreign debt.”^{xxviii} Leaders in the developed nations must set an example for the rest of the world by engaging in responsible, environmentally sustainable practices. The developed nations may also consider investing in a global fund dedicated to providing sustainable green technologies for the developing world.

The final step for sustainability calls for providing greater access to public goods such as infrastructure, healthcare and education. Wealthy countries can reach out to developing nations by investing in efficient rain-led irrigation, promoting clean water treatments and leading education initiatives in information technologies that train citizens of the developing world to be more competitive in the global economy. Ultimately, global institutions such as the World Bank must work with local governments of developing nations to come up with tailored solutions. A one-size-fits-all Washington

Consensus on development, conceived by politicians on Capitol Hill without the help of local insiders, cannot create sustainable economic growth.^{xxix}

The United States, in collaboration with developing nations and the UN, is in a unique position to promote an international system of development by first and foremost opening markets, and then moving to promote ecological sustainability and access to public goods. However, with only five years until the deadline for MDG 8, time is of the essence. In the words of UN Secretary General Ban Ki-Moon, “Time is short. We must seize this historic moment to act responsibly and decisively for the common good.”^{xxx}

Notes

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