Remarks by
Ambassador Karan Bhatia
Deputy U.S. Trade Representative
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Introduction

Thank you, Bill [Ruckelshaus] for that kind introduction. And thank you for your vision and hard work to make the Initiative for Global Development and this important annual summit a reality.

It is a pleasure to be here today and a privilege to participate on a panel with such distinguished public servants and business leaders. I want to acknowledge, in particular, Secretary Evans, who was my first boss when I joined the Administration five years ago, and who set an example of dedication and decency that inspired all of us who worked for him at the Department of Commerce. Let me also acknowledge Ambassadors Randy Tobias and John Danilovich, whose tremendous efforts at USAID and the Millennium Challenge Corporation work hand-in-glove with our agenda at the U.S. Trade Representative's office of promoting global development and alleviating poverty through international trade.

It was not that long ago that the work of the US Trade Representative's office – and of trade negotiators around the world – would not have been readily connected with poverty alleviation. Not so any more. Two weeks ago, I was in Asia, meeting with the trade ministers of China, India, Vietnam, Indonesia, and Cambodia, among others. As recently as two decades ago, this group would hardly have accepted the proposition that trade has a role to play in poverty reduction. This time much of the discussion focused not on whether trade-oriented growth strategies made sense, but on how fast and how aggressively tariff and non-tariff barriers could be reduced – in their own countries and abroad. Around the world, what was once a controversial hypothesis has now become commonly accepted: that, when it comes to confronting poverty, the most powerful weapon in the world's arsenal is international trade. By unleashing the creative forces of businessmen and women … by reducing artificial legal and regulatory barriers to trade … we create opportunities for industrious humans to lift themselves out of poverty. And so, to quote our President this morning: "to alleviate poverty, we must increase trade."

The Case for Trade as Development Tool

Now it's well known that we trade wonks love our data. I promise not to overdo it. But let me offer just a few illustrative facts and figures in support of some basic principles that prove the President's statement:

-- *Free trade spurs economic growth.* As the President noted this morning, the World Bank has estimated that, in the 1990s, per capita real income grew three times faster for developing countries (5.0 percent) that significantly lowered trade barriers than for other developing countries that did less (1.4 percent). Importantly, the income gains were enjoyed by people at all income levels. The faster growth rates from expanded trade in the globalizing countries resulted in income gains for the poor that was at least proportionate to other income groups.

-- *Those countries that have participated in trade have reduced poverty; those that have not have seen poverty grow*. Columbia University economics Professor Xavier Sala-y-Martin estimates that the number of people globally living in poverty declined by 350 million over the last three decades. China, a country that has aggressively opened its markets and expanded its trade, saw poverty decline by 377 million. Poverty in Africa, on the other hand, increased by 227 million. The nations of East Asia and of Africa began the postwar period sixty years ago with roughly similar prosperity. Yet the Asian nations are today far more competitive because they entered the world trading system more thoroughly and more effectively.

-- *The potential of trade to alleviate poverty far exceeds that of aid*. According to the Blair Commission on Africa, Africa's current share of world trade is only 2%, down from 6% in 1980. If Africa were to increase that by just one percentage point – to 3% -- it would generate additional export revenues of $70 billion, which is nearly three times the amount of current annual assistance to Africa from all donors. Or, to take another estimate, the World Bank has predicted that global free trade in goods alone would raise developing countries' income by $142 billion in a static measurement or $259 billion in a dynamic model. This would lift as many as 500 million people out of poverty.

I raise these facts and figures not just to make the case that trade helps to alleviate poverty. Clearly it does. And, just as clearly, aid plays an essential role in fighting poverty… a role that in many circumstances trade cannot play. But these numbers do demonstrate, I believe, that trade must be <u>the</u> economic priority in promoting global development and poverty alleviation. Or – to quote our President – our strategy to defeat extreme poverty must "begin with trade."

<u>Developing Countries Must Opt for Free Trade</u>

The prioritization of trade has to occur first and foremost in developing countries themselves. That means several things.

First, developing countries themselves must continue and, indeed, step up the pace of market-oriented internal reforms and engagement with the global economy. Simply stated, there is no substitute for political will on the part of leaders in developing countries to undertake the sometimes tough choices needed to foster trade-friendly environments. There are some encouraging signs here, with a number of least developed countries unilaterally lowering tariffs, reducing regulatory barriers to foreign trade and investment, developing institutions designed to promote rule of law, and increasing the transparency of their political and legal systems. During last week's forum on the African Growth and Opportunity Act, I heard ministers from 37 sub-Saharan African nations speak eloquently of their interest in using trade to expand their economies and reduce poverty.

Still, we have a ways to go. And ironically, we have the furthest to go in opening developing country markets to exports from other developing countries! Over 70 percent of the duties paid by developing countries are paid to other developing countries. To take just one example: 60 percent of the exports from developing countries going to Brazil are subject to tariffs greater than 15 percent.

Economists at the World Bank estimate that low- and middle-income countries would realize 50 percent of their potential economic gains from global free trade, by the elimination of their own barriers, with no further liberalization in high income countries.

Second, developing countries need to prioritize trade in their national development plans. Which means prioritizing the creation of trade-facilitating infrastructure, efficient and noncorrupt customs systems, and clear and transparent regulatory regimes. Here too, there are some positive signs, as we have seen increasing receptivity by developing countries to prioritize these types of projects in their development agendas. This is also an area in which we would urge you – the private sector – to work with the developing countries in which you invest. In many ways, you are in a better position to explain to our developing country partners the geometric returns that can derive from the building of a road or the upgrading of a port and how that will enable the country to compete in a competitive global environment.

<u>U.S. is a Leader and Partner in Development</u>

Prioritizing trade as a development strategy also imposes responsibilities on us in the United States. To date, the United States has played a leading role in assisting countries to join the community of trading nations and in serving as a reliable partner for any country that seeks to develop and prosper though trade. We need to remain true to that commitment.

First, we need to keep our own markets open. With very low average tariffs and a variety of preference programs – such as GSP, AGOA, ATPA and CBI – to afford many least developed countries a leg up, with few nontariff barriers, and with easily accessible markets, the United States today is the most open economy in the world to products of developing and least developed countries. The World Bank's Global Monitoring Report laid that out in a survey in which getting a low score was a good thing. The lower the score, the more open your markets are to goods from the developing countries. When it comes to importing goods from the world's poorest countries, the United States scored a 5, Canada got a 6. The EU scored a 13 and Japan was at 21. So we're doing well. But we have to remain vigilant. The siren song of protectionism has been heard more loudly recently and it needs to be resisted – not just for the sake of global development, but for the health of our own economy.

Second, we need to stay at the vanguard of trade liberalization, bilaterally, regionally and globally. We're working actively on all three fronts. Bilaterally, we are using every tool at our disposal to lower trade barriers and increase investment, including FTAs such as the one we recently concluded with Peru, or WTO accession agreements like that we concluded with Vietnam, or Trade and Investment Framework Agreements like that we signed just last week with Rwanda. Through agreements such as these we are lowering tariffs, reducing costly red tape and customs barriers, and promoting economic reforms that will encourage trade and investment. We're working regionally as well, with groups from the developing world such as CAFTA, COMESA, and SACU. And, of course, our largest priority remains the Doha Development Agenda – the round of multilateral WTO trade negotiations that offers a once-in-a generation opportunity to lower trade barriers, grow trade, and alleviate poverty.

If I can pause for a minute on the subject of Doha – we are at a critical moment in the Doha negotiations, with widespread expectation that a deal, if one is to be had, must be reached in the next month or so. What is fundamentally at issue is the question of whether – in the cause of getting a deal – we and the world will settle for a weak agreement … for "lesser ambition," in the parlance of the WTO … for a deal that does not really reduce applied tariffs, especially in the critical area of agriculture where the bulk of the benefits to developing countries are to be found. It is our view at USTR that doing so would betray the promise of Doha – the promise to help lift millions out of poverty by opening markets and liberalizing trade. We cannot and will not betray that promise.

Third, the United States is working actively – within the Doha Round, in our bilateral negotiations, and unilaterally – to strengthen the capacity of our developing country trading partners to participate effectively in the global trading system. Under the rubric of "trade capacity building" or "Aid for Trade," the trade and development agencies of this Administration are all working to increase the capacity of developing countries to participate in trade negotiations; improve transport, energy and other trade-generating infrastructure; implement trade agreements; involve small and medium businesses and rural areas in international trade; and provide adjustment assistance when appropriate.

Our commitment in this area remains unequaled. At the global trade ministerial held last December in Hong Kong, the United States and other wealthy countries stated their goal to increase "Aid for Trade" so as to assist developing countries – and in particular the least-developed – in taking greater advantage of the global trading system. The U.S. seeks to double its spending in this area – from $1.3 billion in 2005 to $2.7 billion by 2010. As Ambassador Tobias and Ambassador Danilovich explained this morning, we are actively working to improve how the United States provides development assistance, and integrating trade into U.S. development programs more comprehensively is part of those efforts.

For us to be successful in this area, partnerships are a must: government/government; government/private sector, civil society/government, civil society/private sector and private sector/private sector.

We need to work with developing countries in ensuring that their national development plans, including their Poverty Reduction Strategy Papers, include trade. We need help from the non-government organizations to bring creative and effective approaches to address the many needs of our partners in developing countries. And, perhaps above all, we need the help of the private sector – the businesses that are investing resources in actually bringing trade and investment to bear. Indeed, creating solid business-to-business linkages is, I think, the long-term solution to the integrating trade into the development strategies of many countries. Ideally, we want to see countries "grow out" of development assistance.

As business leaders with a clear commitment to development, you have a unique perspective on what works and what does not work in trade and in development. We need to benefit from that perspective. We need to work together to bring a holistic approach to reducing poverty by growing trade – one that encompasses policy reform, private sector growth, investment in people, good governance, and effective development assistance. Today's summit, I hope, will generate both dialogue and action on all these fronts, to the benefit of people around the world.

Thank you.