Center for American Progress

The Progressive Priorities Series

Global Equity:

An Action Plan for Global Economic Opportunity

Progressive Ideas for a Strong, Just, and Free America

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The Progressive Priorities Series: An Action Agenda for Progressive Policymakers

by the

Center for American Progress

As a new presidential term and a new Congress begin, the Center for American Progress has launched the Progressive Priorities Project to provide policymakers and the public with a positive vision for progressive policymaking supported by a series of new and bold policy ideas in priority areas identified by American Progress. *Global Equity: An Action Plan for Global Economic Opportunity* is the eleventh of more than a dozen papers in the series that American Progress will issue over the course of the coming weeks. In addition to providing broad policy recommendations, each of the papers in the series proposes specific steps that policymakers can take to achieve the broader policy goals. Each of the papers is posted on our website as they are released at www.americanprogress.org, and all of the papers in the series will be compiled and published as a book early this year.

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is "of the people, by the people, and for the people."

Global Equity:
An Action Plan for Global Economic Opportunity

Executive Summary

In a world rife with tensions—between the world's most powerful and powerless nations; between democracy and authoritarianism; between vast technological innovation and grotesque deprivation—America has both the opportunity and obligation to lead. But it is dangerously simplistic to chart our course in terms of a struggle between good and evil. Rather, the future will be largely determined by our success—or failure—in ensuring that an increasingly economically and technologically interconnected world is more united than it is divided.

To meet this challenge, the Center for American Progress provides a blueprint for fundamentally transforming the scope and manner of U.S. economic engagement with the developing world. It calls for new U.S foreign assistance legislation, including the creation of a single Department for International Development Cooperation, under which the current myriad of foreign aid programs would be consolidated; a new development policy focus to ensure support for the emergence of capable, democratic states; and reinvigorated global trade negotiations to enhance market dynamism. Our security demands that we rise to this challenge, and our own prosperity will be enhanced by a world that is comprised of capable states, functioning economies, and healthy producers and consumers.

Introduction

In a world rife with tensions—between powerful and powerless countries, between democracy and authoritarianism, and between vast technological innovation and grotesque deprivation—America has both the opportunity and obligation to lead. It is dangerously simplistic to chart our course based on a struggle between good and evil. Indeed, the future will more likely be driven by our success—or failure—in ensuring that an increasingly integrated world is more united than it is divided.

The president must lead America's reengagement with the world, and in leading ensure that global economic integration is driven by both an inherent logic and a fundamental ethic. His challenge is to narrow the gap between rich nations able to project power and influence and poor countries that have been unable to accumulate wealth or reap the benefits of globalization. Our security demands that we rise to this challenge, and our prosperity will be enhanced by the economic stability that a world comprised of capable states, functioning economies, and healthy producers and consumers can foster. But there also is a moral imperative at stake. Our commitments to human dignity, equity, and freedom from need can be realized only if we make every effort to transform them from ideals to reality. We need a new consensus rooted in the understanding that the management of globalization cannot focus solely on organizing for the accumulation of capital, but also must include ensuring that access to and the benefits accrued from global economic integration are more equitably shared.

The president must be prepared to undertake bold measures that extend well beyond tinkering with an approach to foreign aid that was crafted 45 years ago. To meet today's challenges, the administration must champion a strategic development policy, provide the resources to support it, and integrate the various overlapping and often contradictory aid agencies, programs, and initiatives into a single agency imbued with a strategic mission and diverse capacities.

We must transform fundamentally the scope and manner of U.S. economic engagement with the developing world. We can move toward that goal by immediately pursuing three key objectives. First, we must update U.S. foreign assistance legislation, strike new institutional arrangements, and develop new financing instruments that reflect the complexity of the world today and provide the United States with greater agility in responding to those complexities. Second, the United States needs a new development policy designed to support the emergence of capable states that are able to engage fully in the global economy, enhance regional stability, foster economic stability, and counter transnational threats posed by terrorist and criminal networks, disease, and environmental degradation. Third, the United States should launch an initiative aimed at reinvigorating global trade negotiations to enhance market dynamism and encourage more equitable competition, and thereby set the stage for the more equitable distribution of trade benefits.

To position the United States to marshal its enormous capacity and authority behind a progressive strategy that can enhance our security and foster increased economic stability while at the same time setting the stage for greater global equity, our approach must be guided by:

- **A commitment to protecting our national interests and our core values by investing significant budgetary resources in the developing world.** Foreign aid should be a tool for making strategic investments in a safer and more equitable world, and not simply a reward for allies or palliatives for the world's poor. Foreign aid and trade benefits are the tools with which the United States can help to develop functional economies, knit together regional markets, and ensure that a majority of the world's countries are equitably engaged in the global economy. To assist the world's poorest countries to engage in globalization as competitive players and not simply as beggars, we must invest in structural change by shifting the current paradigm from simply compensating for state weakness to investing in the creation of capable and democratic states, transparent and effective institutions, and a sustainable human resource base. Rhetorical commitments to reducing poverty and expanding the benefits of trade must be reinforced by political will and backed with significant resources.

- **A commitment to leadership to leverage cooperation and change.** Forging a new consensus at the World Trade Organization, increasing global commitments to the Millennium Development Goals agreed to by world leaders in 2000, and using foreign aid effectively to consolidate peace and counter crisis all require multilateral engagement. Collective donor action, meanwhile, has the benefit of maximizing resources, reducing transaction costs, and lessening the burden on developing countries by harmonizing diverse and sometimes conflicting donor policies. During the last four years—in Iraq, in the global fight against HIV/AIDS, and in international forums called to increase development financing—the United States has chosen repeatedly to make unilateral announcements, apparently designed to challenge other wealthy nations, instead of coordinating and using major new aid initiatives to leverage similar commitments from other donors. Reversing this course is critical.

- **A commitment to ensuring that trade works for the developed *and* developing worlds.** In an era of fast-moving change, the fact that globalization has not yet led to meaningful gains for the world's poor has undermined trade negotiations, hampered economic integration, and increased north-south tensions. By demonstrating that U.S. policies are driven by a commitment to shared values, the United States can break the current international trade impasse, forge a consensus at home, and set the stage for globalization driven by both economics and by ethics. Significantly, a new approach will also yield greater benefits for more people, thus enhancing global security, economic stability, and prosperity.

CURRENT STATE OF PLAY

The United States is pursuing an incoherent set of policies that lack strategic focus and have little meaningful impact on global poverty, long term stability, and growing inequality. The facts speak for themselves. Three of the world's six billion people live on fewer than two dollars per day, and more than a billion survive on half that amount. An estimated 115 million children are not in school, and 40 million people are suffering from AIDS. More than 50 countries are poorer today than they were in 1990. Against this backdrop, the disparity between the world's rich and poor is increasing. The world's ten wealthiest nations, which constitute only 14 percent of the world's population, are more than 75 times richer than the ten poorest and account for 75 percent of global GDP.[1] With the rise of the Internet and satellite television, globalization is making this divide more visible, including to those on the bottom.

Even with significant expansion, global trade has yet to yield sustainable benefits for a majority of the world's poorest countries. Low-income countries account for only three cents of every dollar generated through exports in the international trading system, and although 45 percent of America's exports are to the developing world, our investments in those markets are paltry.[2] Less than 1 percent of the total global flow of foreign direct investment is going to the world's least developed countries.[3]

The CIA forecasts that existing tensions in the Middle East will be exacerbated by "demographic pressures . . . to provide jobs, housing, public services, and subsidies for rapidly growing and increasingly urban populations."[4] The lack of effective institutions in resource rich countries will continue to exacerbate problems and they "will foster political, ethnic, ideological, and religious extremism, along with the violence that often accompanies it."[5] As was made evident by al Qaeda's use of Afghanistan as an operational base, weak states also pose a major challenge. "In dozens of developing countries," notes the final report of the Commission on Weak States and National Security, "the term 'state' is simply a misnomer. Governments are unable to do the things that their own citizens and the international community expect from them: offer protection from internal and external threats, deliver basic health services and education, and provide institutions that respond to the legitimate demands and needs of the population."[6]

While we allocate substantial expenditures for defense to protect America, we make only paltry, disorganized and non-strategic investments in improving the conditions that give rise to a host of threats ranging from terrorism to disease and environmental degradation. Even with recent increases, the United States this year will spend $15.88 billion on non-military foreign aid (excluding Iraq) as compared with $450 billion on defense.[7] As more than 1500 nongovernmental organizations wrote to President Bush on the eve of the 2004 G8 Summit, "It is difficult not to question the balance between the allocation of funds for national security and for international development, neither of which is likely to be achieved if the other fails."[8]

The end of the Cold War and the attacks on September 11 have made clear that we must urgently transform our military and adapt our intelligence system to meet the threats we now face. Efforts to address these needs have begun. But despite growing recognition that global poverty, economic disparities, and weak states constitute a modern threat to American security, there has been no parallel effort to modernize our foreign aid strategy or instruments to address these threats. As a result, we are relying on an outdated, incoherent system geared to the past. Signed into law in 1961 and amended countless times since, the 2000-page Foreign Assistance Act includes 33 objectives and 75 priorities. Dissatisfaction with the effectiveness of foreign aid has led Congress and successive administrations to add layers of rules, regulations, and guidance to the operations of the U.S. Agency for International Development (USAID), resulting in a paralyzed bureaucracy that is increasingly unable to demonstrate either effectiveness or efficiency.

The Bush administration has overseen the proliferation of aid agencies, programs, and administrators but failed to charge any single agency or cabinet member with responsibility for managing one of the most powerful tools in our foreign policy arsenal. The administration has diminished USAID's role, created a new aid agency—the Millennium Challenge Corporation, established a new office in the State Department to oversee the President's Emergency Program for AIDS Relief, developed new aid instruments managed by the White House for complex emergencies and famine-affected countries, and enhanced significantly the role of the Department of Defense in managing foreign assistance. As development advocates have observed: "the administration is dispersing responsibilities and resources so widely that the delivery and impact of foreign aid may well fall short of expectations, both in countries of strategic interest and on a global basis."[9]

Meanwhile, the Bush administration has not acted on the challenges posed by the world's weakest states. The president's Millennium Challenge Account (MCA) was presented as an antidote to weak and failing states, but in fact the foreign aid investments made through the MCA are targeted to well-governed countries. With the exception of Afghanistan, only a tiny portion of U.S. foreign assistance is allocated to weak states. Though the term "failed state" was coined for Somalia, which is wracked by poverty and provides ungoverned access to terrorists, we provide that country less than $1 million per year in development assistance.[10]

Finally, though successive administrations have advocated a strategy that includes aid *and* trade, little has been done to ensure that aid and trade policies are mutually reinforcing. Responsibility within government for aid and trade is divided between agencies and rarely coordinated. In some cases—including our agricultural subsidies program—U.S. positions on trade actually undercut our stated developmental objectives.

Progressive Policy Recommendations and Action Items

Given the scope of the challenge, the administration must be prepared to lead a global effort to dramatically reduce global poverty and chart a new and more equitable course for global trade. To win support for that leadership role, the president must start at home by setting the stage for a new relationship between the United States and the developing world by launching a strategy carried out by revitalized and focused institutions working coherently together, guided by new development policies, and geared towards maximizing the benefits of globalization for the world's citizens.

The president should immediately use to the power of his bully pulpit to enlist the support of the American people and signal to the international community his willingness to lead, by reframing the issues and laying out a new vision. He must make the case that the "war on terror" is being waged *against* terrorism but also *for* a world in which the rule of law prevails, a majority of the world's countries are united around common interests, and more of the world's people live in peace and prosperity. He must persuade the American people that success requires increased spending for homeland security and defense to counter immediate threats, but also much greater investment in development and trade to counter the long-term threats we face. He should reframe the currently divisive trade debate and set out a vision of a global trade regime that provides benefits to working families at home and abroad. Finally, he must appeal to Americans' strong desire that our country be respected around the world and that our values prevail.

In particular, the president should move forward on four broad fronts. He should work to transform foreign aid; support capable, democratic states; reinvigorate global trade negotiations; and ensure policy coherence.

Transform Foreign Aid

Permanent authorization for foreign aid derives from the Foreign Assistance Act. At the height of the Cold War, most of the developing world was ruled by dictators, and U.S. foreign aid reflected the need to enlist anti-communist allies. It focused almost exclusively on states and the pursuit of strong bilateral ties. No new foreign aid authorization has been enacted since 1985, as legislators have instead opted to overcome policy and budgetary disputes by dealing with foreign aid issues through the relevant Senate and House appropriations committees.[11] Past attempts at reform have focused on who controls foreign aid programs, and thus have exacerbated tensions between the executive and legislative branches, fueled an adversarial relationship between the Agency for International Development and the State Department and, most importantly, failed to address the task of determining what institutions, policies, and tools we need to address the challenges of the 21st century.

In today's world, we need a foreign aid policy that reflects a host of new threats—ranging from terrorism to disease to environmental degradation—that transcend borders. Moreover, global stability and the structure of our economy demand that we expand the scope and benefits of global trade to the developing world. The president must confront these challenges, and lead a bold reform effort that: takes into account the equities of multiple government agencies; enables the executive branch to operate with flexibility and speed; and provides for appropriate congressional oversight. Specifically, to succeed on this first broad front, the president should pursue the following four efforts:

1. The president should immediately appoint a Task Force mandated to draft a new Foreign Assistance Act in order to enlist the support and involvement of a broad range of stakeholders from the outset.

The Task Force should be comprised of high-level representatives from USAID, the Departments of State, Treasury, Commerce and Defense, the Office of the U.S. Trade Representative (USTR) and the Office of Management and Budget. It also should include four representatives appointed by the ranking majority and minority leaders of the House and Senate. To ensure broad congressional engagement, House and Senate leaders should be encouraged to establish working groups, comprised of representatives of each of the committees with jurisdiction over the so-called "150 account," which covers the international affairs budget. These working groups should both provide suggestions to the Task Force as well as review the proposals issued by it.

The Task Force should be directed to incorporate the following elements into its draft legislation:

A. The consolidation of foreign aid programs under a single Department for International Development Cooperation headed by a cabinet-level Secretary. There is no single agency or official with overarching responsibility—or authority—to formulate development policy or to manage U.S. foreign aid investments. Consolidation is necessary to maximize the impact of foreign aid. Cabinet-level representation is required to ensure that development receives the high-level attention it warrants. American foreign aid programs are currently spread across agencies and unevenly weighted. The relatively independent Millennium Challenge Corporation (MCC), for example, is regarded as the crown jewel of foreign aid, while the more bureaucratized USAID has been treated by successive administrations as an afterthought. Global funding for HIV/AIDS is spread across four agencies: the State Department, the Department of Health and Human Services (HHS), USAID, and the Centers for Disease Control and Prevention. The disaggregation of foreign aid has yielded strategic and efficiency costs.

The new department would bring together under one roof what is now USAID, the MCC, the Office of Global AIDS Coordinator, and a number of other aid programs currently administered by State, HHS, and other agencies. The new department would assume overall responsibility for U.S. international development policy and programs, as well as coordinate closely with the Treasury and State Departments, which would retain authority over policies towards the international financial institutions and security assistance, respectively. The new department should, however, have the authority to program Economic Support Funds, or security assistance, consistent with development goals.

B. Budgetary flexibility. Mirroring the proliferation of aid instruments across government agencies, foreign aid allocations in the 150 account are spread across a number of objectives and programs, with the result being that in most countries, program priorities have been legislatively determined before U.S. government field personnel undertake even a preliminary analysis. Moreover, conditions placed on aid programming, particularly with regard to Development Assistance (DA), are such that it can take as long as 24 months to program funds after they are allocated, and there are more restrictions covering what cannot be done than there are incentives for innovation. As a consequence, strategic opportunities are frequently missed.

To move swiftly and with greater efficiency, the new Department for International Development Cooperation should be allowed greater budgetary flexibility. So as to ensure appropriate congressional oversight, the Department should provide quarterly reports to Congress and seek congressional approval for special provisions afforded to countries designated as “good performers.” Specific provisions that would increase flexibility include:

- Line-item contingency funding, set at no more than 10 percent of the aggregate budget, to allow for prompt investments in transitions or other targets of opportunity. By releasing funds that are otherwise tightly programmed against specific objectives, the department could respond swiftly to both opportunities and challenges, ranging from post-conflict transitions to preventive investments designed to shore up weak states.

- The equivalent of "notwithstanding authority" for DA funds allocated to countries with a satisfactory performance record of at least three years. Easing the considerable contracting, procurement, and reporting requirements governing DA would allow the department to make longer term investments in countries that are performing well and reduce significantly the time required to program funds.

- Consistency in proposal, programming, and reporting requirements for humanitarian, transitional, and development assistance. Currently, humanitarian assistance provided by the Office of Foreign Disaster Assistance, post-crisis aid managed by the Office of Transition Initiatives, and development aid programmed by regional bureaus each have distinct and inconsistent requirements. Harmonizing these requirements would allow aid recipients, and particularly nongovernmental organizations (NGOs), to prevent interruptions when implementing programs in countries moving from relief to development.

- Authority to pool resources and harmonize aid delivery with other bilateral donors. Specific bureaucratic requirements presently preclude the United States from harmonizing aid requirements—such as reporting—with other donors, and also prevent the United States from combining its aid with that of other donors to foster greater consistency in aid implementation. Removing these restrictions would reduce transaction costs and lessen the burden on developing countries.

- Increased flexibility for balance of payments support to "good performers." Current arrangements preclude balance of payments support except to a tiny minority of countries and instead require that aid be "projectized," or delivered in support of specific activities. With greater flexibility, the United States could empower countries that are performing well to allocate resources according to their national development priorities, and also help to reduce the burden on governments forced to manage multiple donor programs.

- The easing of restrictions on tied aid, consistent with agreements reached in the Organization for Economic Cooperation and Development (OECD). At the OECD's Development Assistance meeting in April 2001, the United States agreed to—but has still yet to implement—the recommendation that foreign aid be "untied," or freed from the provision that aid inputs be procured only from the donor country.[12] The procurement of goods in the recipient country allows for faster delivery and the opportunity to leverage our aid by investing in the recipient country's private sector.

- The significant reduction of congressional earmarks. Earmarks added to aid appropriation bills reduce aid effectiveness by predetermining aid priorities, restricting flexibility, and, in some cases, allocating taxpayer dollars to programs that have no relevance to the developing world. A cap on earmarks would significantly enhance aid program effectiveness.

C. A grant facility for indigenous NGOs. The new Foreign Assistance Act should include a special grant facility for indigenous NGOs that provides a streamlined approval process, umbrella grants that can be used to provide smaller grants to community-based organizations, and reporting requirements that reflect local capacity while also meeting reasonable demands for accountability. An expanded indigenous NGO sector in the developing world has increasingly compensated for state weakness and, more importantly, served to mobilize and respond to the needs and aspirations of local communities. However, their ability to secure and utilize foreign aid is constrained by bureaucratic demands, and these organizations are required to meet an extremely high bar to obtain U.S. funding.

2. The administration should demonstrate American leadership by increasing our share of international development financing to 0.7% of GDP by 2015.

Foreign aid is not the solution to global poverty, but it is a necessary component of a strategy designed to increase the capacity of the world's poorest countries and people to improve their economies, engage in global trade and, over time, reduce their dependence on the developed world. This level of funding is within our means; under the Marshall Plan, the United States committed 2.5% of GDP during three years.[13] But even as overall federal spending has increased, U.S. foreign aid levels have fallen dramatically since the end of the Cold War, from an average of 0.2% of GNP to approximately 0.14% in 2003.[14]

Despite growing international consensus that the world's wealthiest countries should allocate 0.7% of GDP to international development, and even with the increases in aid levels under the Bush administration, the United States remains last out of 22 OECD donors in official foreign aid as a share of national income.[15] In terms of aid levels as a share of GDP, Sweden ranks first among the world's donors while the United States ranks last.[16] By contrast, the British government recently agreed to a 9.2 percent increase in foreign aid over the next three years, or an increase from 0.34% to 0.47% of Gross National Income (GNI). The government also announced its intention to make additional increases aimed at achieving the 0.7% target by 2013.[17]

By moving towards a goal of 0.7 percent of GDP by 2015, the United States would make a genuine commitment towards doing its share and, specifically, to meeting the Millennium Development Goals agreed to by the UN General Assembly in 2000 and endorsed by the United States at that time.[18] The eight goals—ranging from halving global poverty to dramatically increasing gender equality—cannot be met unless and until donors, including the United States, significantly increase overseas development commitments.

Non-military foreign aid allocations for FY 2004, exclusive of Iraq, constitute approximately 0.14% of GDP; by including the $18.44 billion allocated for reconstruction in Iraq, the percentage of GDP for 2004 rises to .31% of GDP. Assuming that aid levels remain constant, reaching the 0.7% goal would require an increase of approximately $34.68 billion, or the doubling of current total non-military aid levels.

Additional assistance should be allocated towards the proposals outlined in this chapter, including contributing the U.S. share towards paying down the debt in Heavily Indebted Poor Countries (HIPC) countries; creating an initiative for weak and failing states, including a contingency fund for rapid response; providing full funding for the Millennium Challenge Account and the President's Emergency Program for AIDS Relief;[19] the provision of disaster management grants; creating the Africa Trade Fund; and creating an indigenous NGO grant facility window.

3. The new administration should increase debt relief in support of this expanded commitment.

The Heavily Indebted Poor Countries Initiative has allowed the write-off of $50 billion in developing countries debt stock and shifted $1 billion annually from debt service payments to investments by developing countries in health, education, and other social sectors.[20] It has not, however, led to the resolution of the debt crisis. As a first step, the president should announce his support for the proposal made by the U.K.'s Chancellor of the Exchequer, Gordon Brown, at the September 2004 annual meeting of the World Bank and International Monetary Fund (IMF). Under this proposal, G7 countries would commit to proportional pay-outs made in annual installments to provide 100 percent debt relief for 33 HIPC countries, and the IMF would revalue its gold reserves to ensure that its real value is reflected on its balance sheets.[21]

4. The administration should move to rationalize the distribution of foreign aid to reflect a better balance between short-term strategic imperatives and longer term investments in our security and economic prosperity.

The United States currently provides foreign assistance to 150 countries. Over $27 billion of the approximately $34 billion allocated for foreign aid in 2004 (including Iraq) goes to key countries in the Middle East, allies in the war on terrorism, and the participating countries in the campaign to control narco-trafficking in Latin America. Less than $7 billion—or roughly 30%—is being invested in more than 135 of the world's low- and middle-income countries.[22] While immediate national security interests will always demand a high percentage of aid investments, the United States should strive to achieve a 50:50 ratio by 2010 to ensure that we can meet short-term strategic demands while also making the meaningful investments required now to ensure our economic prosperity and security in the future.

Support Capable, Democratic States

At present, the primary policy goal of development assistance is to promote sound macroeconomic policies. Critical as this may be, there is also a need to focus on state capacity across sectors to promote security, economic stability, and greater global equity. The administration should incorporate capacity assessments into the planning and program development processes to determine a country's capacity to: build and sustain democratic institutions; provide a macroeconomic environment that is conducive to increased trade and greater equity; ensure the security and rights of citizens; and provide for social development. This approach is consistent with the philosophy driving the Millennium Challenge Account, which aims to consolidate the gains made by countries that are investing in their people, promoting economic reform, and ruling justly. Moreover, it is consistent with an approach to weak and failing states that aims to fill critical gaps in security, capacity, and legitimacy.

The administration and Congress should work together to ensure that a new policy focus on capacity building guides all foreign aid investments. Specifically, they should:

A. Launch a major initiative to respond to the challenge posed by weak and failing states. The rise of extremism across the developing world and the ability of terrorist and criminal networks to exploit state weakness in Africa, Asia and Latin America make clear the threats posed to the United States by weak and failing states. The initiative should be consistent with the recommendations of the Commission on Weak States and National Security and based on three goals:

- Invest in prevention by promoting opportunities for broad-based growth and poverty reduction, including through increased market access; by supporting legitimate and democratic institutions through better targeting aid, improving U.S. sanctions policy and addressing the link between the extractive industries and local corruption; and by providing effective U.S. assistance to police and military forces.

- Seize opportunities by allocating resources and expertise to surge capacities unencumbered by bureaucratic constraints; by providing prompt and symbolic "peace dividends" in areas such as debt relief to boost the legitimacy and prestige of struggling governments; by supporting the development of dependable regional peacekeeping capacities; and by backing up active and sustained diplomatic efforts.

- Organize for success by establishing an integrated development strategy implemented by a single cabinet-level development agency and by building an effective information and intelligence strategy that devotes increased resources to monitoring key weak and failed states.[23]

B. Modify the Millennium Challenge Account. The MCA provides grants to countries considered "good performers" according to criteria established to judge their commitments to economic reform, social sector investment, and the rule of law. While the basic approach is sound, the MCA's impact is limited by the small number of countries that qualify and by shortcomings in the selection criteria. Three key revisions would expand the MCA's coverage, increase the ability of the MCA to consolidate gains made in some of the world's poorest countries, enhance regional economic integration in the developing world, and allow greater investments in democratization.

First, the criteria should be modified to include a country's commitment to democratization (in addition to the rule of law) and to allow for the provision of additional points to so-called economic anchor countries whose markets are strong and diverse enough to support the development of regional markets. Second, no less than 15 percent of the MCA's overall budget should be set aside to assist "near miss" countries that almost meet the criteria but require additional, specific investments to qualify. Third, MCA eligibility should be reserved for low-income and low-middle-income countries, and prohibited for countries that receive more than $250 million annually in U.S. foreign assistance from other accounts.

C. Reorient the President's Emergency Program for AIDS Relief (PEPFAR). Announced as a $15 billion five-year program (but funded at slightly less), PEPFAR can and should be used to leverage better international coordination, foster more strategic investments in fighting the global AIDS pandemic, and signal that the U.S. favors good science over ideology. In the short term, the president should:

- Announce his intention to increase the United States contribution to the Global Fund for AIDS, Malaria, and tuberculosis (TB), from $547 million to $1.9 billion,[24] so long as that amount does not exceed 33% of total donor contributions;

- Immediately sign an Executive Order rescinding the "global gag rule" covering other aid accounts. The rule prohibits U.S. funding to any entity that provides abortion services or counseling or advocates for a woman's right to choose and its imposition has resulted in the closure of health care facilities in many poor countries;

- Shift policy from an exclusive emphasis on abstinence to one that includes safe sex education; and

- Authorize the program to purchase and buy generic drugs, consistent with regulations developed by the World Health Organization, but without the current time-consuming requirement that WHO-approved drugs be re-approved by the Federal Drug Administration.

Over the longer term, the president should reorient the program towards two primary priorities: supporting long-term research and development and addressing the long-term impact of the epidemic across sectors, with the goal of increasing the capacity of affected governments and their citizens to manage and plan for the structural impact of this AIDS pandemic and other health crises that may arise in the future. For legitimate reasons, the international response to the AIDS pandemic is focused on lowering infection and death rates. Though laudable, this limited objective drives a response that is more oriented to emergency relief than to development. While the epidemic is killing literally millions of people, it is also undermining the very fabric of societies and the capacity of governments: death rates are highest among able-bodied producers; critical institutions ranging from the military to educational systems are being ravaged; and the management of national budgets is being undermined by the need to make increased investments in health.

D. Expand the scope of humanitarian assistance programs to include substantially greater investments to prevent, mitigate, and manage disasters. As long as there is poverty, man-made and natural disasters will continue to have enormous impacts on the developing world. In light of this, the administration should issue a directive requiring that 10 percent of funding for the Office of Foreign Disaster Assistance be set aside for transferring disaster management expertise to local responders. This would mean, for example, that the United States could help create and invest in a regional Institute for Disaster Management in Nairobi, Kenya, which has been the central hub for relief operations in Ethiopia, Somalia, Rwanda, Burundi, Tanzania and the Democratic Republic of the Congo at various times during the past decade.

E. Invest in the capacity of the world's poorest emerging markets by creating an African Trade Fund linked to the African Growth and Opportunity Act (AGOA). Passed in 2000 with strong bipartisan support, AGOA has created jobs and expanded exports for more than 30 eligible countries by providing a broad range of trade benefits.[25] The ability of countries to exploit the opportunities afforded by AGOA or to attract foreign investment, however, has been uneven, in part because of critical capacity gaps. The president should direct the U.S. Trade Representative to convene representatives from the Departments of Labor, State, Treasury and Commerce, USAID, and the trade agencies (*i.e.*, Export-Import Bank, Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency) to develop a comprehensive African Trade Fund to provide training to all AGOA-eligible countries in: assessing regional competitiveness; identifying new markets; gaining access to U.S. and other financial markets; meeting phyto-sanitary and other guidelines; meeting core labor and environmental standards; developing new credit facilities for small and medium enterprises; and improving revenue collection.

Reinvigorate Global Trade Negotiations

The president must make clear that he can both deliver to constituencies that are currently at odds on trade and chart a course that answers legitimate domestic and international concerns. Significantly, he must move away from "competitive liberalization" and its focus on multiple bilateral trade agreements targeted to relatively small markets and instead shift toward making a genuine commitment to multilateral trade arrangements. To signal a new approach, the president should:

1. Propose a "grand bargain" on agricultural subsidies at the next round of World Trade Organization (WTO) talks by agreeing to act innovatively upon the recent WTO ruling on U.S. cotton subsidies.

In response to these developments, the president should announce that the United States intends to transfer funds previously allocated to cotton subsidies to incentive-based investments in the research and development of clean biofuels and offer developing countries assistance in diversifying their energy policies in exchange for their agreement to a six-year deadline for the transition. Such a "grand bargain" would provide the first step towards overhauling U.S. agricultural subsidies policies in preparation for the 2007

Farm Bill, with significant benefit to our domestic competitiveness and considerable gain for the developing world.

Protectionism and subsidies by industrialized nations cost developing countries approximately $24 billion annually in lost agriculture and agricultural income, while trade-distorting measures displace more than $40 billion of net agricultural exports annually from developing countries.[26] New research suggests that the elimination of tariffs and other barriers globally would "lift at least 500 million people out of poverty during the course of 15 years; create long-term economic benefits to developing countries of $200 billion per year; and enable industrial countries to convey approximately twice as much gain to developing countries as they currently provide through foreign aid."[27] Meanwhile, the benefits to the United States also are significant, as the production of biofuels would open up a new competitive agricultural sector and, over time, reduce America's dependence on foreign oil.

Earlier this year, the WTO ruled against the United States and in favor of Brazil when it determined that U.S. cotton subsidies are in fact export subsidies and not, as the United States contends, production subsidies. Brazil's victory signals a day of reckoning for a policy that sustains the U.S. agricultural sector but provides for little of the innovation that might render domestic agriculture globally competitive. The landmark legal case also marks a fundamental shift in the balance of power within the WTO, where developing countries have begun to assert their positions more effectively in the "Doha Development Round" of international trade talks, which began in 2001. To address this shift, and also to pave the way for more constructive negotiations in the Doha Round, the president should propose to Tony Blair that representatives of the "G20," the developing countries that have joined forces in WTO negotiations, be invited to the June 2005 G8 meeting for consultations on the next trade round.

2. Appoint a high-level panel comprised of labor, business, and development community representatives to outline the concrete steps to be taken by the United States in support of the International Labor Organization's (ILO) World Commission on the Social Dimensions of Globalization.[28]

Comprised of representatives of labor, business, government, and NGOs from the developed and developing worlds, the ILO Commission has put forth concrete recommendations that take into account the need for balance between global governance and national priorities, reflect the need for productive yet equitable markets, and foster coherence between economic and social objectives. The European Union has already issued a report outlining how it is now implementing and how it intends to implement the Commission's recommendations, but the United States has not responded in detail.[29] Given the Commission's success in forging a common vision shared by labor, business, wealthy and poor countries, the United States has an opportunity to promote greater consensus at home and abroad by outlining its plans for implementation. The high-level panel should be appointed immediately and be required to report within 120 days so that consultations can be completed within the executive branch and with Congress as soon as possible. Members should include representatives of organized labor, the domestic agricultural sector, major as well as small and medium business enterprises, former government officials, NGOs, and academic experts.

3. Mobilize export credit agencies to expand the role of small- and medium-sized American enterprises and increase local investment.

The share of America's GDP that comes from exports has tripled since 1960, and small- and medium-sized businesses in the United States have expanded significantly their share of export credit agency facilities since that time. At present, the export credit agencies of the OECD countries together provide in the range of $70 billion per year in debt capital. Despite these facts, the Bush administration has reduced the budget of the Export-Import Bank by 25 percent, even while the United States counts on the developing world for 45 percent of our total exports. To expand the benefits to small- and medium-sized American businesses and to the emerging private sector in the developing world, the administration and Congress should reinstate Export-Import Bank funding and restore it to FY2001 levels.[30]

Furthermore, in a manner consistent with the Commission on Capital Flows to Africa's recommendations, the Department of the Treasury, the Department of State, and the Export-Import Bank should mount an aggressive campaign to secure OECD agreement to: (1) extend repayment terms from 10 to 20 years for the world's least developed countries (LDCs); (2) raise the credit ceiling for local costs in LDCs from the current 15 percent to 50 percent of the export value, thus increasing financing for critical projects in infrastructure and other sectors where local costs are high; and (3) offer guarantees and loans in local currency for LDCs.[31] Taken together, these steps would expand U.S. exports while increasing the volume of capital invested in the developing world.

4. Launch a public-private partnership with major financial firms to create Global Development Bonds to generate increased capital investments in the developing world.

The president should immediately instruct the Department of the Treasury to determine the viability of Global Development Bonds, a concept developed by the Energy Future Coalition, that would provide a new class of debt securities that could be created by any country with a capital market and would increase the percentage of development financing provided by the private sector.[32] Treasury should be mandated to consult with representatives of the U.S. financial markets on the development of these bonds, and to work with Congress on authorizing OPIC to provide risk insurance as soon as practicable. The use of these bonds would engage capital markets more broadly in the developing world by providing a securitized, rated, and tradable product that uses private sector market enhancement mechanisms and limits government involvement to political and foreign exchange risk management.

Ensure Policy Coherence

The president should create a joint National Security Council-National Economic Council directorate within the Executive Office of the President. The directorate should be staffed by experts with experience in the Departments of State, Treasury, and Defense, the Agency for International Development, the Office of the U.S. Trade Representative, the Office of Management and Budget, and the intelligence community. Its mandate should be to liaise with the Task Force created by the president to draft a new Foreign Assistance Act, manage its review by relevant agencies and by principals, and over the longer term, coordinate development and trade policies to ensure that the government can more effectively and systematically promote mutually enforcing policies across departments.

Endnotes

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[17] HM Treasury, Department of International Development, UK Aid Budget, *available at* http://www.hm-treasury.gov.uk./documents/international_issues/international_development/development_aid_budget.cfm (last viewed Dec. 16, 2004).
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[19] Contrary to the major announcements that launched the MCA and PEPFAR, President Bush has consistently requested less funding from Congress than is necessary to meet his pledges. In the case of PEPFAR funding, Congress has actually increased funding to levels greater than those requested by the White House. Meeting President's Bush's original commitments would entail a combined $1 billion increase in FY2005, with $800 million allocated to the MCA and $200 million to PEPFAR. To meet his stated future goals, total MCA funding for FY2006 should be $5 billion, and total PEPFAR funding should be $4.5 billion.

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