TWELVE

How the United States Can Help: Opening Markets and More

Our fair-growth tools depend largely on domestic policies and practices in Latin America. But what happens at the global level and what rich countries do also matter. Some rich countries show a stronger commitment to development than others. The United States, whose policies and practices probably matter most for most countries in Latin America, ranks in the middle of the twenty-one OECD countries whose "commitment to development" is assessed annually by the Center for Global Development.[1] The United States has been increasing its spending on aid since 2001, in particular to help Colombia cope with its civil conflict, and along with the United Kingdom and other OECD donors, it has financed a major program of debt relief for Nicaragua, Honduras, and Bolivia. But beyond aid and debt relief, the support of the United States and the rest of the outside world for increasing opportunities for Latin America's poor and middle-income majority has been sparing.[2]

1. See CGD's Commitment to Development Index online at www.cgdev.org.

2. Periodic financial crises, for example, have been a special problem in Latin America because of its open capital markets, and the costs have been especially high for the region's poor and middle-income households in terms of jobs, school drop-out rates, and even infant mortality. In the subsequent good years of low global interest rates and high commodity prices, the collective international effort to reform the international financial architecture has focused almost solely on stepped-up programs of IMF surveillance and increased transparency and reporting by developing countries of their financial, debt, and banking situation.

To illustrate the potential for outsiders to make a difference, we concentrate in this chapter on concrete examples of how the United States could advance the ideas and the reality of fair growth in Latin America.[3]

Trade Agreements with Help for the Losers

Most Latin American governments have made progress in reducing policy biases that in past decades undermined agricultural growth, hurting the rural poor especially.[4] In the process, Latin American economies have generally become more export-oriented and open to competition from international trade. Meanwhile, however, the industrial countries, including the United States, continue to protect their own "sensitive" markets, especially in agriculture—a sector in which Latin America has comparative advantages and therefore has the potential to create more jobs for the poor and less educated.[5] Protection and subsidies are greatest (as a share of farm receipts) for nongrain crops such as sugar, fruits, and vegetables and for milk and meat products—all labor-intensive commodities in which Latin American countries could specialize more than they do if rich

3. Many of the proposals for what the United States can do are from Birdsall and Hakim (2007).

4. Forty percent of poor Latin Americans live in rural areas. Past policies penalized agriculture and other labor-intensive sectors in favor of heavy industry, thereby hurting the poor. Protectionism, price controls, and overvalued exchange rates, among other interventions, meant high effective taxes on agriculture, with resulting urban income gains more than offset by income losses in the generally poorer rural areas.

5. OECD countries spend about $100 billion a year in trade-distorting support to their own agricultural sectors, although farm producers and workers make up less than 5 percent of their labor force. When the gains of OECD farmers from the price-raising effect of tariff and tariff rate quotas are added to direct government support (in order to calculate the so-called total support estimate), the transfers to agriculture in high-income OECD countries are estimated to have amounted to US$337 billion a year in 2002–04. Actual government payouts—for example, subsidies and other trade-distorting payments as defined in Roodman (2005)—averaged about US$89 billion a year in 2002–04 (OECD 2005b). Agriculture in particular has been the sticking point between the developing and advanced economies in the Doha round—and it still is as this book goes to press in late 2007. On agriculture in the Doha round, see Elliott (2006). Estimates indicate that the OECD countries and the developing world would be US$120 billion better off from free trade in agriculture alone. Cline (2004) estimates that agricultural liberalization would generate developing country gains of about US$40 billion and industrial country gains of around US$80 billion. Industrial country protection in agriculture is far higher than protection of textiles and apparel, making agriculture the most important sector to liberalize.

country markets were more open.[6] In addition, the U.S. is protecting its corn-based ethanol producers who cannot compete with more energy efficient sugar-based ethanol producers in Brazil and elsewhere in the region. Indeed, given the region's agricultural assets, the potential is tremendous for production of biofuels, and thus of agriculture-based energy exports, to meet increasing global demand for nonfossil energy sources.

With the multilateral Doha trade round and the Free Trade for Americas Agreement stalled, bilateral and plurilateral free trade agreements have become the only recourse for Latin American governments that are eager to lock in better access to the U.S. market. Eleven such agreements had been signed as of late 2007 (three requiring congressional approval in the United States). They are spurring exports and investment and encouraging better economic management in the region. But according to even their strongest supporters, the terms of the agreements have been inflexible and tight-fisted, undermining rather than supporting inclusive growth. The United States, for instance, over the objections of every government in Latin America, continues to restrict exports of agricultural products, especially sugar, and to limit apparel exports through burdensome rules of origin.[7] At the same time, the United States resists any reduction in its support for its hugely subsidized grain products, which are displacing the corn and rice sold by Latin America's unsubsidized and unmechanized peasant producers.[8]

With a fair growth agenda, the United States would worry more explicitly about whether Latin America's poor and middle-income majority benefits (and by how much relative to the rich) from the trade agreements it negotiates.[9] A better U.S. trade policy would focus on increasing the

6. In the United States, estimates show that the support provided to sugar, as a percent of farm receipts, is higher than for any other major product. A small number of sugar cane and beet growers (less than one-half of 1 percent of all U.S. farms) benefit by as much as US$1 billion a year from the artificially high sugar prices maintained by the government through sharp restrictions on imports (Elliott 2005; General Accounting Office 2000).

7. Bhattacharya and Elliott (2005).

8. Papademetriou and others (2003).

9. Estimates of the actual impact of completely free trade on reducing poverty in the region are modest, from declines in the number of the poor by 2015 of between just 5 million and more than 15 million. The 5 to 15 million is relative to a base of 120 million poor, calculated by using the international poverty line of US$2 a day. The estimates of fewer people living in poverty take into account static and dynamic productivity effects (the 15 million includes also a dynamic induced-investment effect). See Andersen, Martin, and van der

number of winners and compensating and helping potential losers. For example, to increase the number of winners, agreements could include U.S. financing for the training of workers and technical assistance to small firms—a form of trade adjustment assistance to trading partners. Reducing the number of losers would require that the U.S. government stand down big agribusiness, pharmaceutical, and other interest groups that traditionally have hijacked trade negotiations, often disregarding the real long-term interests of even U.S. producers and consumers.[10]

The United States also could do more to explicitly ensure that its foreign aid programs reach small farmers in the region (who, without resources and technical inputs, have been losing out on trade opening) by using aid to compensate them for the competitive advantage U.S. farmers get from subsidies, tariffs, and other barriers. Aid programs also could support trading partners' efforts to increase agricultural productivity. In addition, trade-related aid programs could be extended to countries that have not yet signed bilateral trade agreements with the United States, as long as they show a commitment through their own expenditures to education, health, and other programs that help ensure that the benefits of more open trade markets reach their poor and middle-income majorities.

Helping Migration Help Those Left Behind

Migration from a relatively poor to a relatively rich country is without question the single best route out of poverty for the millions of people who face limited prospects in their home country. Opening its U.S. labor market to more people from Latin America (and other developing countries), especially poor and middle-income people with relatively limited skills, would be good not only for the additional immigrants themselves. It

Mensbrugghe (2006) and Cline (2004). Those estimates refer to completely free trade, including among the countries of the region, and not just to access to other markets, as envisioned in the current Doha round of multilateral negotiations. They are relatively modest estimates because of the fact that completely open trade would create losers as well as winners, in the absence of complementary domestic safety net, education, and other development programs and policies.

10. Though politically contentious, it can be done, as suggested by the recent agreement between the congressional leadership and the administration to loosen strong intellectual property protections if they impede policies to promote public health.

would trigger an increase in many benefits for those left behind, including remittances from relatives who have emigrated, greater incentives for families to invest in their children's education ("induced human capital"), and a greater likelihood of emigrant-financed local investments.[11] The potential for change at home through remittances from abroad is illustrative.

Remittances from low-income migrants in the United States are now Latin America's largest source of external capital. The $60 billion-plus in annual remittances is forty times the amount of U.S. aid in the region, and it is making a huge dent in rural and urban poverty.[12] Remittances improve the living conditions of poor families and help them reduce the risks that they face. And unlike foreign aid, remittances often go directly to families in places that are difficult to reach with development assistance.

The United States government could make it official policy to enhance the social impact of remittances. One step would be for the U.S. Treasury to use its bully pulpit to press the financial community to encourage U.S.-based senders and Latin America–based receivers to open bank accounts to facilitate the process.[13] The immediate payoff would be lower costs for

11. See Prichett (2006) and Kapur and McHale (2005) for discussion of these potential benefits and a broader investigation of international migration and labor mobility issues.

12. ECLAC-CELADE (2006); IOM (2005); World Bank (2005a); ECLAC (2006a). In some places (for example, Honduras, Nicaragua, and El Salvador) remittances more than double the incomes of the poorest 20 percent of the population, significantly increasing their purchasing power and standard of living (Inter-American Dialogue 2004). In many small countries, as many as half of those in receiving households would be living under the poverty line without that support. Remittances also are shown to improve income distribution in receiving households in Mexico, El Salvador, Ecuador (urban areas), Guatemala, Nicaragua, and the Dominican Republic. Acosta and others (2007) finds that the flow of remittances to Latin America tends to have an equalizing effect on income distribution in the home country because remittances are directed to a larger extent to households in the lower quintiles of the income distribution. Adams (2005) finds that households receiving remittances in Guatemala tend to spend more on investment goods such as education, health, and housing than do households receiving no remittances. See López-Córdova (2006) for evidence from Mexico. Edwards and Ureta (2003) finds that in El Salvador higher remittance income seems to help keep children in school longer than other types of income. And while capital flows fluctuate, remittances have increased even during recessions, providing a vital safety net for the region's poorest citizens. In addition to remittances, migrants also send donations collectively through hometown associations—organizations formed by immigrants abroad to raise funds to help the development of their hometowns (see Orozco 2006b). For a less rosy view on remittances, see López and Fajnzylber (2007).

13. In Mexico a commercial alliance between the National Savings and Financial Services Bank (BANSEFI) and dozens of savings and credit institutions—called L@Red de la Gente—provides remittance transfer services in low-income rural and urban areas not covered by the

sending remittances, putting more money in the hands of recipients. Bank accounts would open the way for new financial opportunities (direct deposit, free cash checking, credit) for Latin Americans, further expanding their ability to save, borrow, and invest.[14] The U.S. Treasury could also target its technical assistance in the region to help Latin American bank regulators and banks find ways to end the long-standing presumption that banking is only for the well-heeled.[15]

From a War against Drugs to a War against Poverty: Land and Jobs in Coca-Growing Regions

More than half of all U.S. "aid" to Latin America (about $750 million of $1.4 billion in 2006) supports Washington's antidrug campaign in the Andean region, predominantly in Colombia. The eradication of coca plants has long been the mainstay of that effort, but eradication by itself cannot produce lasting results; no matter how much of the coca crop is eliminated, small coca-growing farmers will return to coca cultivation when they cannot find other sources of employment. The failures of U.S. policy are most obvious in Bolivia, where the singular focus on coca eradication contributed to loss of employment and livelihoods and to growing resentment in rural areas, thereby helping in 2006 to elect President Evo Morales, whom voters saw as a champion of resistance to unjust U.S. programs.

In Colombia, the United States has finally begun to shift a share of its antidrug support away from the single (and unrealistic) goal of coca eradication

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financial system. The clients of L@Red de la Gente are encouraged to open regular bank accounts once their remittance has been paid. But such initiatives are the exceptions rather than the norm. Orozco (2006a).

14. In Latin America fewer than two of every ten people report having an account in a financial institution. Among remittance recipients, the share of bank accounts is larger. In El Salvador, 31 percent of recipients have bank accounts, while only 19 percent of the general population does (Orozco 2006a). López and Fajnzylber (2007) shows that at the microeconomic level, remittances increase access to deposit accounts, but that the use of credit by recipient households remains unchanged. Converting more remittance senders into bank account holders would further reduce transfer costs, with the added benefit of offering wider access to financial services (see Orozco 2006a).

15. Remittance-receiving countries also can help by removing legal and other barriers to competition, for example, by allowing a wider range of savings and credit institutions to provide money transfer services (Mexico has made progress in this area), and they can motivate banks through tax and other incentives to reach out to remittance senders and recipients, further enhancing links between remittances and financial services.

and toward development and job creation. But much more could be done, there and in Bolivia, including establishing comprehensive land distribution programs (see chapter 7) and encouraging rural enterprise development that targets indigenous and other landless peoples.

In Middle-Income Countries, Help Engage Poor Minorities

Most of Latin America's poor live in middle-income countries that no longer receive large infusions of foreign aid from any major donors. For example, the Millennium Challenge Account, an innovative U.S. foreign assistance program established by the Bush administration in 2004, serves no more than five or six of Latin America's smallest and poorest countries, which together account for less than 5 percent of the region's poverty-stricken families. In other countries, U.S. aid need not be massive; it just needs to be smart. In southern Mexico and northeast Brazil, for example, U.S. aid programs could concentrate on developing and supporting local innovations designed to reach and engage the poor, especially members of Afro-descendant and indigenous groups.[16]

Support Reform and Innovation in Hidebound School Systems

The dismal quality of education remains the Achilles' heel of economic and social development virtually everywhere in Latin America, despite significantly increased spending on schooling in the last two decades. In country after country, local and national governments are struggling with hidebound regulations, rigid educational bureaucracies, self-serving

16. Some of this already is being done. For example, the Inter-American Foundation, a small and little-known U.S. government program, provides small grants directly to the poor in nearly every Latin American country. Such programs generate knowledge about what works that local governments can then use to imitate and extend successful programs. Given the foundation's success over many years, the United States should scale up its funding and activities. Senator Robert Menendez has proposed legislation to establish a Latin America–wide social development fund that would pool resources from the countries of the region with those of the United States and Canada and the multilateral development agencies. For example, such a fund could be used to engage vulnerable populations in efforts to educate girls. See Lewis and Lockheed (2006) for evidence that girls in indigenous communities in Latin America are far less likely than boys in their communities and other girls to attend school. They find that nearly three-quarters of the 60 million girls not in school in developing countries belong to ethnic, religious, linguistic, racial, and other minorities. For case studies of girls' poor access to education in Guatemala, see Hallman and others (2007).

unions, and regressive expenditure patterns. U.S. funding for education is tiny compared with government spending. It should go to the champions of serious reform in the region to help catalyze the changes discussed in chapter 9. In addition, the United States could expand financing, and reduce barriers such as visas, for Latin American students and scientists seeking access to the country's university-based research and training.

Help Latin America Deal with its Wave of Crime and Violence

Crime is as devastating to the poor in Latin America as unemployment and discrimination. Latin America leads the world in kidnappings. Its homicide rate is twice the global average. Youth gangs have thrown several Central American countries into turmoil. Mexico is using its army to battle narcotics dealers and corrupt police. Brazil's two largest cities, São Paulo and Rio de Janeiro, have been terrorized by drug gangs. Everywhere, it is the poor that bear the brunt of Latin America's pervasive and escalating criminal violence, which is aggravated in many places by the corruption, disorganization, and inadequate financing of police forces and judicial systems.

The United States can best help Latin American countries stem the tide of crime by pushing the World Bank and the Inter-American Development Bank to work with countries on police reform. Signing on to the U.N. protocol on small arms trafficking would also help, at least by signaling serious concern. Finally, the United States could end its practice of deporting convicted felons to their country of origin, regardless of how long they have resided in the United States. Such deportees today are leading the vicious youth gangs that have become so destructive in parts of Latin America.[17]

A concluding note: The main front in the battle for equitable growth in Latin America must form inside each of the countries in the region. Outside measures can complement but not substitute for a fair growth agenda within the region. Today more than ever, the most important outcome of a robust U.S. strategy to support inclusive growth may not be what it accomplishes, but what it encourages those countries themselves to do.

17. United Nations (2007).