Perspectives on the Americas

A Series of Opinion Pieces by Leading Commentators on the Region

"Trade is not a Development Strategy:

Time to Change the U.S. Policy Focus"

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It has taken a while, but almost everyone interested in Latin America accepts that poverty and inequality are the region's main challenges. Even George W. Bush acknowledged as much during his recent tour of the region.

As José Miguel Insulza, secretary general of the Organization of American States, has noted, the persistence of inequality and poverty is one of the main challenges "to development, democratic governance and security in the hemisphere." Those living in poverty, with unequal access to resources and opportunities, are denied the full enjoyment of their basic human freedoms. Reducing poverty and inequality in Latin America, therefore, is not only essential for development, but is also a moral imperative.

According to the Economic Commission for Latin America and the Caribbean, the number of Latin Americans living in poverty totaled approximately 290 million in 2005, out of a total population of approximately 562 million. Of these, 81 million were classified as living in extreme poverty. Stated differently, about half of all Latin Americans live in poverty or in extreme poverty, despite over two decades during which most Latin American governments implemented policies oriented toward free trade and economic liberalization, policies that were predicted to generate growth and reduce poverty.

It is not just that the region is plagued by poverty; it also has the world's most unequal distribution of wealth, where the richest 10% of the population earn 48% of total income while the poorest 10% earn just 1.6%. In contrast, the top 10% in industrialized countries earn 29.1% of total income, while the bottom tenth earns 2.5%.[1] Since 1990, income and wealth inequalities across the region and within most Latin American countries have increased.[2]

While vast urban slums are a familiar part of the Latin American landscape, poverty is largely a rural phenomenon. According to the International Fund for Agricultural Development, approximately 62% of this population is poor. In countries such as Bolivia, Guatemala, Honduras, Nicaragua and Peru, 70% or more of rural people live in poverty.

There are two major reasons for the persistent poverty and inequality in the region. The first is that economic growth has been insufficient to help the poor move out of poverty. In the last twenty-five years, Latin America experienced its slowest rate of economic growth in more than a century. Per capita income grew by 82% from 1960 to 1980 (after adjusting for inflation), whereas it grew by only 9% from 1980 to 2000, and only by 4% in the first five years of this century.[3] Without strong economic growth, living standards cannot improve, and poverty and inequality cannot be dealt with because there are insufficient resources to address the magnitude of the problem.

A second significant factor is unequal access to productive resources, such as land. Take Guatemala for example, where 70% of the population lives in the rural sector with agriculture and forestry accounting for more than 60% of the land use and providing over 50% of employment. Yet, fewer than 1% of landowners holds 75% of the best agricultural

land.[4] There are similar patterns of unequal land ownership throughout Latin America that date back to colonial times.

Unequal ownership of productive resources perpetuates, and in some cases, aggravates poverty in the rural sector. World Bank economists Alain de Janvry and Elisabeth Sadoulet suggest that where land inequality is high, growth in agricultural production and productivity has worsened rural income inequality. [5] Under such conditions, people are not needed to increase productivity, so jobs are not created and there is no pressure to increase wages for the rural poor.

Studies have also shown that poverty and inequality retard economic growth and consequently, a vicious circle ensues. When poor and landless people do not have access to productive resources that could contribute to the economy and improve their own lives, the result is often low economic growth that diminishes governments' ability to direct resources to address the core problems of poverty and inequality.

Poverty and inequality are at the heart of the political realities of Latin America, driving the politics of the region. Until the U.S. policy toward Latin America addresses these political realities and recognizes that our prior policy prescriptions have not worked, we will remain marginal to the priorities of the region.

In order to change the dynamic of its relationship with Latin America, the United States must demonstrate that the Latin American people matter. They matter because they are people, not because they present a security threat or because they might migrate. They need to know that despite being poor, they matter just as much as the rich. Herein lies the secret to why Hugo Chávez is popular in Latin America and why, conversely, President Bush's trip fizzled.

We can all criticize Chávez, but we need to understand his appeal. Chávez talks to the poor and oppressed as if he is one of them. He funds programs that change their daily lives and they feel it. By increasing access to education and health care and by providing small business loans, the Chávez government has brought tangible benefits to poor Venezuelans. The United States, by comparison, has steadily reduced child and maternal health care and essential development assistance to Latin America since 2001.

Only when the United States begins to genuinely address poverty and inequality, and speak to the poor as if we supported them in their struggle to lead better lives, will our relationship with the region improve.

Unfortunately, the U.S. response to the problems of poverty and inequality has been to promote free trade and open, unregulated markets. But trade and open markets alone cannot bring equitable development to Latin America. Even though free trade proponents argue that trade is the tide that lifts all boats, they also acknowledge that trade agreements create stark groups of winners and losers. Yet too often, the poor, the very people who most need a development strategy, bear the brunt of the negative impacts of free trade agreements.

To get an idea of the potential for free trade deals to harm the rural poor, one need only look at Mexico since the North American Free Trade Agreement (NAFTA) went into effect in 1994. Mexican farmers and small producers were unable to compete with cheap, subsidized corn imported from the United States and consequently went broke. An estimated 1.5 million peasants and small farmers lost their livelihoods. The International Network on Migration and Development found that from 2000 to 2005, 900,000 jobs in the countryside disappeared.

If we really want to address poverty, a comprehensive rural development strategy – with real money, not just a few showcase programs -- could certainly do more to help lift people out of poverty than free trade. Decades ago, subsistence farmers in Latin America were written off as economically non-viable. This judgment did not make them go away, but it did mean that very few resources were put into strategies to develop this sector. Today, even World Bank and Inter-American Development Bank officials are recognizing the rural and agricultural sectors' importance economically, and that equitable development and resources are needed to reduce poverty. According to a recent World Bank publication, rural economies have positive effects on the rest of the economy.[6]

A comprehensive rural development strategy, however, means dealing with difficult political issues, and making the decision to invest in the future of the rural sector through credit, technical assistance and social services. In some countries the sticky issue is access to productive resources such as land, which means agrarian reform.

The Evo Morales government in Bolivia is currently implementing a modified version of a 1996 law of the Gonzalo Sánchez de Lozada government. The new law stipulates that land not serving an economic, social or ecological function may be allocated to indigenous or peasant communities having insufficient or no land, as stated in the Bolivian constitution. The law also provides economic compensation to landowners.

The U.S. government should support this program, and other, just attempts at land reform. Providing poor people access to land can have a broad range of social and economic benefits, including poverty reduction, economic growth and development, improved governance, and empowerment of women and indigenous groups.

Support for land reform must be accompanied by the provision of quality social services such as education and health, and broader access to credit by low-income households and small scale producers – programs the U.S. government has traditionally supported. Unfortunately, the Bush Administration has cut development assistance steadily since 2001 and by 26% from FY 2006 to FY 2008. While the Millennium Challenge Account (MCA) provides significant amounts of money to the region, these MCA funds are channeled to only three countries, or 4% of Latin America's population. Further, they are generally being used to finance large infrastructure programs such as an industrialized corridor in northern El Salvador.

Congress should look for ways to increase funding for comprehensive rural development strategies by supporting organizations that have extensive experience in working with

alternative rural development programs, such as the Inter-American Foundation and the International Fund for Agricultural Development

The effects of free trade agreements on Latin America are not a mystery. NAFTA has demonstrated the disaster that trade liberalization can have on Latin American agricultural and rural sectors. Given the economic and cultural significance of these sectors, the U.S. government should allow for special and differential treatment for agricultural products in Latin America specific to each country. Trade agreements should also allow governments the autonomy to determine how to effectively use trade to support long-term development goals, and to impose measures to protect sectors that are negatively impacted. Finally, the agricultural chapters of trade agreements (signed and forthcoming) should be renegotiated to exclude this sector, taking into account their impact on the livelihoods of the people living in rural areas.

Free trade advocates assert that trade is the tide that will lift all boats. But trade and development are not synonymous. Those supporting current trade legislation before Congress should not fool themselves into believing that a vote for free trade is a vote to help the poor in Latin America. As members of Congress cast their votes they should make sure, at the very least, that trade agreements include provisions for protecting the rural poor from the bad effects of a sudden opening of markets. If not, this rising tide will sink quite a few boats.

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[1] World Bank, Inequality in Latin America & the Caribbean: Breaking with History, 2003.

[2] Solimano, Andres, "Beyond Unequal Development: An Overview," Policy Research Working Paper, World Bank, Latin America and Caribbean Region, March 1999.

[3] Weisbrot, Mark, "Latin America: The End of an Era," Center for Economic Policy Research, Winter 2006.

[4] Rosset, Peter et al, Promised Land: Competing Visions of Agrarian Reform, Institute for Food and Development Policy, 2006, page 24.

[5] Quoted in Birdsall, Nancy et al, "Bootstraps Not Band-Aids: Poverty, Equity and Social Policy," Center for Global Development, 2003, page 7.

[6] World Bank, Beyond the City: The Rural Contribution to Development, February 2005.