

A SHARED FUTURE

REDUCING GLOBAL POVERTY



EXECUTIVE SUMMARY

Economic integration through international trade and investment, often characterized as globalization, has helped to raise incomes and reduce poverty worldwide. But market forces, although powerful in generating growth, cannot alone generate significant and broad-based reductions in poverty. That will require a concerted effort by both developed and developing countries to create the conditions, institutions, and policies that further economic growth and the sharing of its benefits.

The stake in this effort for low-income countries is clear: absent economic growth, their futures are bleak. The stakes for the United States and other advanced economies, although unchanged, have been made more evident by the September 11 terror attacks and subsequent events. We are now more acutely aware that our security, liberty, and prosperity depend on creating a more prosperous and democratic world that rejects backward-looking or terrorist ideologies.

This report is specifically aimed at U.S. and other global business leaders and the governments of countries in which they operate. Our goal is to mobilize their support and recommend steps they can take to help developing countries promote economic growth and reduce poverty.

FINDINGS

The history of the last fifty years is generally encouraging. Poverty is declining, measured both by the number of people and percent of population who are poor. However, economic progress has been disappointing in terms of the severe poverty that continues to exist and the gap in per capita income between the highest-income and lowest-income countries. A new and revitalized effort is needed. That effort can build on what has been learned:

- Economic growth is essential to the reduction of poverty.
- Countries that successfully open their economies to competition, both domestic and foreign, grow faster than those that do not.
- Policies that support open competition are not sufficient; they must be accompanied by investments in people.
- Countries start with different advantages and disadvantages—some are handicapped by their culture, geography, history, institutions, leadership, or lack of resources—but none are condemned to permanent poverty.

A few key policy areas must be at the core of any development and poverty reduction strategy:

- Sound policies are necessary for economic development to take root and be sustained. In general, countries should maintain disciplined budget policies and openness to international trade and investment. Foreign direct investment in particular brings not only additional financial resources, but also the transfer of modern technology and business methods and wider market opportunities.
- In many countries a top priority must be effective governance—the development of basic institutional capabilities, establishment of an independent legal system, and respect for the rule of law. Developing country governments must put an end to rampant corruption, which drains resources and distorts markets, thereby impairing growth and development.
- Poverty and underdevelopment are in part a consequence of a lack of education and good health. Investments in these areas, especially when directed at girls and women, generally have very high rates of return and in many cases are preconditions for the success of other economic policies.

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RECOMMENDATIONS

In the final analysis, the policies pursued in the developing countries themselves are the key to development. But the advanced economies can make a major contribution to facilitating the process.

Building U.S. Leadership for a Global Attack on Poverty

A key missing ingredient in the United States and some other advanced economies is public and private support for policies that would help developing countries help themselves.

- **Leaders of global business, educational, and social institutions should rally public and private support for a strategy to overcome global poverty. They should articulate a new vision of global cooperation based on:**
 - reforms in developing countries that will maintain sound economic policies, improve governance and eradicate corruption, and invest in education, health, and other forms of human development; and
 - reforms in developed countries to eliminate trade distortions, support foreign direct investment, and increase and better manage official development assistance.
- **Business leaders and their employees should become involved in the leading educational and social organizations that are promoting constructive solutions to the economic, health, and social problems of low-income countries.**
- **We support the formation of public-private partnerships to achieve carefully articulated and specific outcomes.**

Opening Markets for Trade and Investment

Sound policies in developing countries should be complemented by pro-development economic policies in developed countries.

- **The United States and other developed countries should reduce trade barriers to developing country products and services. The United States should take the lead in the WTO to ensure that developing countries have access to developed country markets.**
- **In conjunction with reducing trade barriers and tightening standards for anti-dumping actions, the United States should bolster its system of adjustment assistance. As part of this effort, it should adopt a limited system of wage and health insurance for displaced workers.**

- **All countries should ratify the OECD Anti-Bribery Convention and fully prosecute under national laws the illegal payment of bribes. CED urges multinational corporations to abide by internationally recognized standards of integrity.**
- **The United States should push to extend the World Trade Organization's *Agreement on Trade-Related Investment Measures (TRIMs)* into a more effective multilateral investment code.**

Beyond Open Markets: Investing in Education And Health

Many developing country governments give inadequate support to public education and health care. Some countries undervalue the economic returns from such investments in human capital. In many cases, however, the meager support is simply due to a lack of financial resources.

- **We encourage all relevant public and private organizations to contribute to the improvement of education and health outcomes in developing countries. Developing country governments should make it one of their top priorities to improve the delivery and quality of education and health services. Similarly, developed country governments should focus attention and development assistance funding on improving education and health, especially in the poorest countries. In addition, we encourage multinational corporations, as employers, to provide appropriate education, training, and health services for their employees.**
- **In each of these endeavors, special attention and resources should be dedicated to improving the status of women: investments in the education and health of women have high social rates of return because of their work and family roles.**

Development Assistance

Trade and investment provide the bulk of the resources that flow from the developed to the developing world. But, a strong case for more development aid can be made on both economic and humanitarian grounds and to strengthen U.S. leadership in policy engagement with developing countries.

- **Donors should provide increases in official development assistance as long as they are confident that such aid can be spent effectively. The allocation of aid should be based on the soundness of a country's development policies and on measurable improvements in specific areas such as education and health.**