



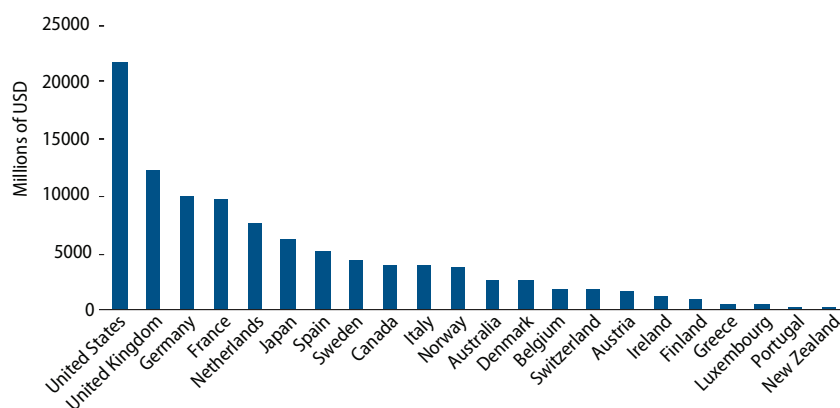
Putting Aid and Trade to Work

Fostering Development for Sustainable Security

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The United States is facing a period of unprecedented challenges, from overcoming a severe economic recession to battling terrorism and climate change. On the one hand, each of these challenges reaffirms America's interconnectedness with its global community. But on the other, each also points to its faltering leadership. This unique juncture for the United States requires a new model for sustainable security that takes into account the dynamism, interdependence, and mutual vulnerabilities of an integrated world.

Figure 1. Total official development assistance for 2007



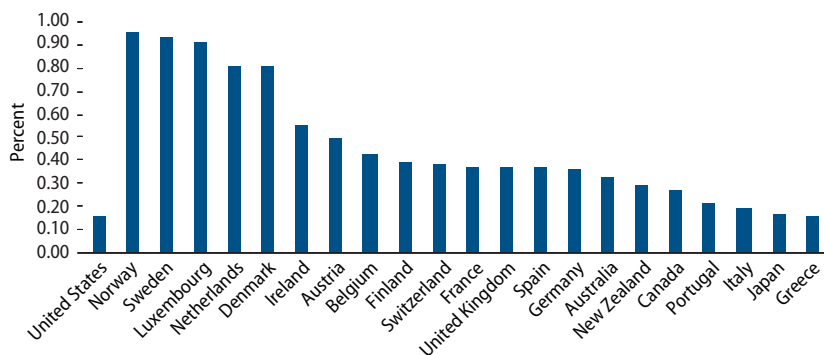
Source: Statistical Annex from the 2008 Development Co-operation Report, OECD

Today, the unfortunate reality of our integrated world is that 1.4 billion people still live on less than \$1.25 per day. Women and children bear the disproportionate burden of poverty. Seventy percent of the world's poor and two-thirds of the world's illiterate are women. Approximately 10 million children die before the age of 5 each year. One in five people in the developing world lacks access to clean water. In 2007, exacerbated by volatile food prices, the number of undernourished rose by 75 million, reaching 923 million. And in the last decade, several countries have seen inequality between the highest and lowest wages increase and the share of gross domestic product distributed to wages decrease.

Against this backdrop, there is growing consensus that poverty, underdevelopment, and fragile states serve as fertile grounds for pollution, disease, lawlessness, and violent conflict, as well as international crime and terrorism. As such, there remains little doubt

that harnessing economic development as a tool in pursuit of national security objectives is imperative. In addition, as developing economies improve their living standards and expand their middle classes, this will over time alleviate the traditional reliance on the U.S. consumer to propel global economic growth. Rising living standards in developing countries will at the same time generate additional markets and demand for U.S. products and services, leading to improvements in living standards in America.

Figure 2. Official development assistance as % of gross national income for 2007



Source: Statistical Annex from the 2008 Development Co-operation Report, OECD

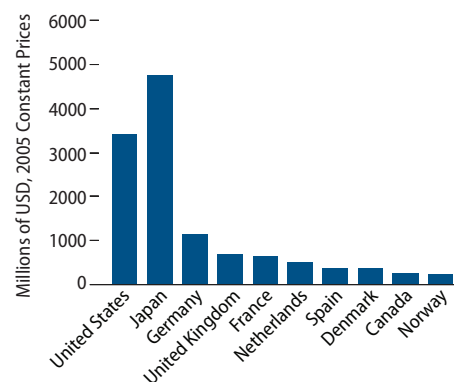
Development is at the heart of this “virtuous circle” of mutually reinforcing gains and is the foundation of a sustainable security strategy for the United States—a strategy that combines national security, or the safety of the United States; human security, or the well-being and safety of people; and collective security, or the shared interests of the global community.

The answer to the question of whether the United States should view aiding citizens around the world as a critical element of its security is therefore a resounding yes. But the inevitable question that follows is: Which economic development policies implemented through which channels will facilitate sustainable security?

Trade, a key driver for integration, is often touted as a vehicle for growth and development. Commencing negotiations of a free trade agreement serves as a means of establishing a political relationship with a given nation. Trade preference programs and legislation on the establishment of Reconstruction Opportunity Zones to revitalize countries like Afghanistan, Iraq, and Pakistan are also being discussed in congressional circles.

A review of recent decades illustrates that trade has had a significant role in global economic growth. Between 1995 and 2008, world trade grew by an average of more than 6 percent per year. The share of exports and imports as a percent of world GDP rose from 21 to 27 percent from 1995-2005. U.S. imports grew from 12 percent of GDP in 1995 to 16 percent of GDP in 2005, while U.S. exports stayed the same at 11 percent of GDP from 1995-2005.

Figure 3. Average aid for trade contribution, 2002-2005



Source: Aid for Trade at a Glance 2007: 1st Global Review, OECD

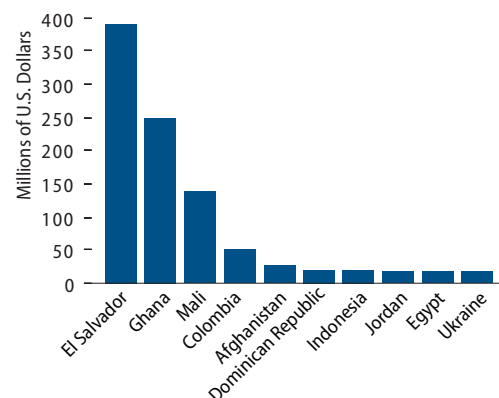
Yet today it is also abundantly clear that trade is uneven in its impact. It generates shifts in comparative advantage and introduces new sources of competition that leave some better off while posing seemingly insurmountable adjustment challenges for others. In the United States this trend has led to waning public support for the free trade agenda, which poses a direct challenge to using trade as a tool for development.

Reaping the benefits of trade requires the right domestic policy framework, institutional capacity, and economic infrastructure to be in place, both here in the United States and abroad. For several developing countries, the resources to establish the latter are acquired through development assistance. “Aid for trade” is development assistance targeted specifically at enhancing the capacity of developing countries to engage in trade but also to reap and apply its benefits toward achieving development goals.

But as with the rest of its foreign assistance, U.S. aid for trade is also administered by various government agencies, departments, and initiatives other than the U.S. Agency for International Development, or USAID. In the absence of a U.S. global development policy governed by a coherent National Development Strategy, foreign aid—of which aid for trade is a part—is not conducive to achieving the desired development outcomes that underscore sustainable security. Therefore, the current foreign aid architecture should be reassessed, and within that, trade’s potential to contribute to development should be examined.

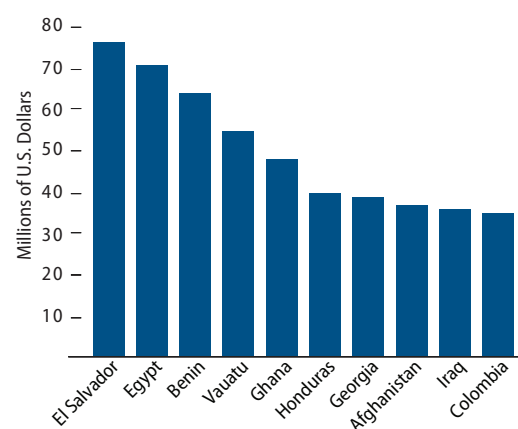
This moment of daunting challenges also lends an opportunity for the incoming administration to recast the debate on how to best defend America’s national interests and its global stewardship within the frame of a modern sustainable security concept. The time is ripe to examine how aid and trade can both be leveraged as tools for development, not as substitutes for one another, and how development can be leveraged toward securing sustainable security for the United States and its global partners.

Figure 4. Top US trade capacity building aid recipients, 2007



Source: USAID Economic Analysis & Data Services

Figure 5. Top average U.S. trade capacity building aid recipients, 2002-2007



Source: USAID Economic Analysis & Data Services