Trade Facts

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The Benefits of Trade for Developing Countries

The economics are clear: trade liberalization, combined with pro-market, developmental domestic reforms, enhances the economic growth potential of developing countries.

- The World Bank has reported that per capital real income grew nearly three times faster for developing countries that lowered trade barriers (5.0 percent per year) more than other developing countries (1.4 percent per year) in the 1990s.

- Trade liberalization and domestic reforms go hand in hand. Studies show that openness is linked to key macroeconomic and governance policies that enhance growth.

    - Inflation appears to be lower in open economies. Romer (1993) suggests this is because real depreciation is more costly in terms of inflation in open economies, so they are less likely to risk excessive money creation.

    - Wei (2000) shows that the losses from corruption increase with openness, so that open countries have greater incentives to develop better institutions. Ades and Di Tella (1997, 1999) show a clear cross country connection between higher rents, stemming from things like industrial policy and trade restrictions, and higher corruption.

Developing countries are potentially large beneficiaries of an ambitious outcome to Doha.

- According to a World Bank study, roughly half of global economic benefit from free trade (goods only) would be enjoyed by developing countries. The estimates for the increase in developing countries annual income by 2015 are:

    - Static measurement - $142 billion of $287 billion (49 percent)
    - Dynamic measurement - $259 billion of $461 billion (56 percent)

- Eliminating agriculture distortions by developing and developed countries alike would deliver nearly two-thirds (63%) of the potential benefit to developing countries.

The benefits for development lie in a strong market access outcome.

- Modeling by World Bank economists indicates that 93 percent of the welfare gains from removing distortions to agricultural trade globally would come from reducing import tariffs, while only 2 percent is due to export subsidies and 5 percent to domestic support measures.

Development benefits are reduced if flexibilities operate to erode ambition.

- The same modeling by World Bank economists also shows that if only 2 percent of agricultural tariffs in developed countries are classified as sensitive (and 4 percent in developing countries, to incorporate also their "Special Products" demand), and are thereby subject to just a 15 percent tariff cut (as a substitute for the TRQ expansion mentioned in the Framework Agreement), the welfare gains from global agricultural reform would shrink by three-quarters.

Trade is a powerful tool to generate income gains that can dwarf foreign assistance.

- According to the World Bank, the annual income gain to developing countries from the elimination of goods trade barriers alone (without consideration to services trade liberalization) is $142 billion, conservatively measured (static, not dynamic, measurement). This amount exceeds the $80 billion in foreign economic assistance by the G-7 countries in 2005 and the current proposal of $42.5 billion for developing country debt relief combined.

To realize this benefit, developing country market opening is essential.

- The World Bank also estimates that low and middle income countries would realize 50 percent of their potential economic gains from global free trade in goods, by the elimination of their own barriers, with no further liberalization in high income countries.

- A recent Carnegie Endowment study, showed that under a full liberalization outcome in the Doha Round, all developing countries are winners, with estimated gains for developing countries as a group ranging from $45.6 billion to $76 billion.

The potential gains from liberalization in services are enormous as well.

- Because the barriers to trade in services are extensive, the payoffs for reducing them are great. A University of Michigan study estimates that services liberalization would produce over two-thirds of the global economic welfare gain from the elimination of trade barriers. These gains would go to developing and developed countries alike, with percent gains to GNP greater for the developing countries studied.

- Services are the future of developing countries, as they are the fastest-growing component of their total GDP and the largest component of foreign direct investment. Services account for 60 percent of global FDI, increasing from $950 billion to over $4 trillion from 1990 to 2002.

Trade barriers in developing countries are higher than in developed countries.

- The IMF finds that developing country protection is 4 times higher than in high-income countries.

- USTR estimates that roughly 70 percent of the tariffs paid on goods trade by developing countries are to other developing countries.

Eliminating global trade barriers could have a profound impact on poverty.

- A study by White and Anderson (2001) yields the stark result that openness is associated with significantly higher income growth everywhere except the top quintile, and that the greatest effects proportionally are for the lower quintiles – that is, openness is progressive.

- World Bank estimates that global free trade could lift tens of millions out of poverty. A study by the International Institute of Economics estimates that global free trade could lift as many as 500 million people out of poverty and inject $200 billion annually into the economies of developing countries

- Columbia University Economics Professor Xavier Sala-i-Martin estimates that the number of people globally living in poverty declined by 350 million over the last three decades. China, a country that has aggressively opened its markets and expanded its trade saw poverty decline by 377 million. Poverty in Africa, on the other hand, increased by 227 million.

Nearby markets are vital sources of potential export growth for developing countries in several regions, particularly Africa, Latin America and the Middle East.

Countries	Intra-Regional Exports as Percent of Exports to World (2004)
Industrial	70%
Developing:	45%
Africa	9%
Asia	43%
Europe	29%
Middle East	9%
W. Hemisphere	17%

Source: IMF Direction of Trade Statistics Yearbook, 2005

Reducing developed and developing country trade barriers is vital to sub-Saharan Africa (SSA).

- A recent IMF study shows that the lowering of barriers by developing countries (including SSA) is essential to SSA's realization of substantial gains from the Doha Round. 31 percent of SSA exports are currently to developing countries.

    - Without significant developing country market opening, SSA will derive only small gains from the Doha round -- percentage increases in income would be much lower for SSA (0.1%) than for high income countries (0.25%).

    - Under complete barrier elimination, SSA's percentage income increase from Doha (1.1%) is nearly double that of high income countries (0.6%).

- A study by the U.N. Economic Commission for Africa analyzes the potential impact on the well-being of African countries of the October U.S. agricultural market access proposal and concludes "the U.S. proposal has the potential of leading to improved agricultural market access," "leads to a more pronounced reduction in tariff peaks," "improvements in GDP and welfare…," and will have "some significant impacts on the value added in different sectors (most notably sugar, oilseeds and meat)."

Ambitious trade liberalization by developed and developing countries yields greater economic benefits than protection of unilateral preference programs.

- A recent study by Amiti and Romalis (2006) of the IMF concludes that reducing MFN tariffs under the Doha Round will lead to improved market access for developing countries that will more that offset losses due to preference erosion. To maximize these gains, the paper recommended minimizing excluded tariff lines in agriculture.

Preference erosion – or even the preference erosion problems associated with a particular sector or group of countries – should not limit the overall ambition of the WTO to reduce tariffs.

- Studies by the World Bank, the IMF, and Universities have found that the overall impact of preference erosion is limited and the benefits of MFN tariff reduction generally outweigh preference erosion costs.
    - Only a handful of countries would be seriously affected by preference erosion. Many of these countries are island economies heavily dependent on a few exports that get preferences.
    - In particular, the preference erosion problem for many countries is largely limited to bananas and sugar, and to a much lesser extent textiles and apparel.

U.S. is World's Most Open Economy to Developing Countries

- The World Bank's 2005 Global Monitoring Report shows index values of import restrictiveness against low income countries of 6 for the United States, 7 for Canada, 15 for the EU and 24 for Japan (lower scores reflect less restrictions).

- The United States is among the least-restrictive trading economies in the world, with an average bound tariff on all goods of 3.6 percent, compared to the 39 percent average of all WTO members.

2004 Average Bound Tariffs

2004 Bound Tariffs on Manufactured Goods*	**Simple Average (%)**	**2004 Bound Tariffs on All Goods***	**Simple Average (%)**
United States	3.2	United States	3.6
All WTO Members	29.6	All WTO Members	39.0
OECD (industrialized) countries	8.6	OECD (industrialized) countries	10.3
Non-OECD (developing countries)	32.6	Non-OECD (developing countries)	43.0

* 2004 Final MFN Bound Tariff Data calculated by WTO Secretariat