

Global Economic Prospects

and the Developing Countries

2002

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Summary

AS 2001 DRAWS TO A CLOSE, THE GLOBAL economy is slipping precariously toward recession. Developing countries have seen their economic growth rates plunge. Growth in trade has undergone one of the most severe decelerations in modern times—from over 13 percent in 2000 to 1 percent in 2001. Developing countries are confronting a 10 percentage point drop in the growth of demand for their exports. Though the weight of evidence still points to a probable recovery in mid-2002, the risks posed to recovery are the gravest in a decade. The terrorist attacks in the United States, although it is still too early to evaluate them fully, have unleashed new and unpredictable forces that have substantially raised the risk of a global downturn.

Against this uncertain backdrop, world leaders have launched an intense discussion about whether to begin a new round of global trade negotiations at the ministerial meeting of the World Trade Organization (WTO) in November 2001. A round would offer an opportunity to renew progress on multilateral rules that open markets and expand trade. A reduction in world barriers to trade could accelerate growth, provide stimulus to new forms of productivity-enhancing specialization, and lead to a more rapid pace of job creation and poverty reduction around the world.

However, the fate of new trade talks is as uncertain as the global outlook. Many developing countries have lingering doubts about new trade negotiations. On the one hand, they

have become important actors in the global system. In contrast to the early rounds of global trade negotiations—the Dillon Round in 1960 had only 39 participants, mostly from industrial countries—the next round will have more than 142 WTO members, 70 percent of which are developing countries. This mirrors the increased weight of developing countries in the global economy. They have grown to account for more than one-third of merchandise trade—and they have much to gain from a new round.

On the other hand, they worry that the multilateral system, in leaving intact barriers to markets whose removal would otherwise stimulate pro-poor growth, has become less fair and less relevant to their development concerns; that the trade agenda is being expanded to include only issues in which the developed countries have an interest; and that multilateral rules are increasingly becoming a mere codification of existing laws and rules prevalent in developed countries, but which are inappropriate or unenforceable in developing countries (Ganesan 2000).

Nor is support for new trade initiatives universal among industrial countries. New opposition to “globalization” in general—and expanded trade in particular—has emerged forcefully, questioning the very premises that more open markets can raise people’s incomes, especially those of the poor. The downturn in the global economy may inflame protectionist sentiment.

The international community thus faces a clear choice: whether now is the time to continue down the path toward greater openness that has led to greater integration and prosperity for more than five decades, or whether to allow the hiatus in the wake of the WTO meetings in Seattle (1999) to endure. If trade talks are to succeed in underpinning a new wave of global prosperity, and at the same time contribute to raising the incomes of the poorest in the global community, they will have to ensure that the world's poorest countries and poorest people will benefit.

The world's poor could benefit from reshaping the global architecture of trade—

Poor people—those living below the international poverty line of \$2 per day—work primarily in agriculture and labor-intensive manufactures. These sectors confront the greatest trade barriers, putting the world's poor at a particular disadvantage. According to estimates in chapter 2, the average poor person selling into globalized markets confronts barriers that are roughly twice as high as the typical worker in developed countries. In general, tariffs in high-income countries on imports from developing countries, though low, are four times those collected from developed countries (0.8 percent as opposed to 3.4 percent). Subsidies and other support to agriculture in the high-income countries are particularly pernicious—and are now running roughly \$1 billion a day—*or more than six times all development assistance*. Distortions in tariff codes—exceptionally high tariffs on developing country products (tariff peaks), embedded incentives against processing abroad (tariff escalation), and tariffs that are far higher once specified import ceilings are reached (tariff rate quotas)—and trade practices, such as frequent recourse to antidumping actions, are often more important impediments that keep the poor from taking advantage of trading opportunities.

Other costly asymmetries in trade-related agreements and practices can at times work at odds with development objectives. For exam-

ple, full implementation of the Agreement on Trade-Related Intellectual Property Rights (TRIPS) may not be suitable for all countries. Transportation cartels enjoy official sanction but are costly to developing countries, and some standards may be set with little regard for their effects on developing countries.

Protection is not solely an issue for high-income countries. Developing countries have also placed high barriers on agriculture, labor-intensive manufactures, and other products and services. Developing-country tariffs in manufacturing average four times higher for imports from developing countries than are tariffs in industrial countries on imports from developing countries (12.8 percent as opposed to 3.4 percent). Restrictions on services trade are usually more common than in industrial countries.

This report argues for reshaping the global architecture of world trade to promote development and poverty reduction. The report focuses on four policy domains:

1. Using the WTO ministerial to launch a “*development round*” of trade negotiations that would reduce global trade barriers. Those bargains will only be enduring and have greatest development impact if industrial countries are willing to reduce restrictions on products and services that poor countries and poor people produce—particularly protection of agriculture (including subsidies), textiles, and clothing; and even restrictions on temporary movement of workers. Similarly, developing countries can improve their own situation while at the same time winning concessions by liberalizing services, and lowering barriers to import competition. To be sure, a trade round also involves issues of interest primarily to industrial countries. Nonetheless, a true development round would produce win-win gains for the entire national community, including the world's poor.
2. *Engaging in global collective action to promote trade* outside the negotiating framework of the WTO. Providing market access may not by itself be enough to elicit

new trade from developing countries, particularly the poorest. Increasing multilateral “aid for trade”—development assistance to promote trade infrastructure, adoption of best practice standards and rules, and a healthy investment climate—could help. No less important, global cooperation to improve the environment and labor standards can most effectively be undertaken outside the WTO.

3. Adopting pro-trade development *policies of high-income countries* unilaterally. First, if the high-income countries were to allow low-income countries duty-free and quota-free access to their markets, they would provide a strong stimulus to trade that would help these poor countries overcome their past lackluster trade performance. Second, high-income countries could also demonstrate good faith by reining in mushrooming antidumping cases. Third, increasing bilateral “aid for trade” can complement the multilateral effort.
4. Enacting new *trade reform in developing countries*. Developing countries individually can improve their competitiveness through trade reforms that lower restrictive barriers, especially in services markets. Indeed their own policies hold the largest potential for policy-induced gains from trade. Trade reforms, especially those reinforced with reforms in governance and in domestic investment climates, can raise productivity and incomes, irrespective of policies of other nations.

Other aspects of global trade architecture—for example, regional trading arrangements, standards, and world institutions with effects on trade (such as the World Customs Organization and so on)—are also important. However, save for brief mention in chapter 6, they fall outside the focus of this report. This is for reasons of parsimony and because they have been covered in recent Bank reports.¹ Nonetheless, if the policies recommended in these four areas were adopted, they would move the global trade architecture in way that

would enhance the prospects of developing countries.

Reshaping global trade architecture for development would reduce world poverty—

Seizing the opportunity to reshape the global trade architecture for development would make an enormous difference to the world’s poor. Some 2.8 billion people today live on less than \$2 day. In the base-case long-term projection of this report, developing countries would grow at rates that reduce poverty to 2.2 billion by 2015, effectively lifting some 600 million people above this poverty line. This would be an important achievement.

But better results are possible. This report simulated the effects of taking the mutually reinforcing actions in all four policy domains—effectively removing restrictions on trade and services in combination with the “aid for trade” agenda and other companion policies that translate the trade impulse into rising incomes for the poor. These exercises have methodological limitations but are indicative of what’s at stake.

Three headlines are worthy of note: First, the pace of poverty-reducing globalization would clearly be accelerated. This combination of policies could spur new growth that will lift an *additional* 300 million people above the poverty line relative to the normal growth in the base case.² Said differently, because of faster growth associated with trade integration, the world would have 14 percent fewer people living in poverty in 2015 than in the base-case scenario. Faster integration through lowering barriers to merchandise trade would increase growth and provide some \$1.5 trillion of additional cumulative income to developing countries over the 2005–15 period.³ Liberalization of services in developing countries could provide even greater gains—perhaps as much as four times larger than this amount.

Second, the effects on income distribution of removing trade restrictions in the simulation are broadly positive. The simulations show that labor’s share of national income would rise throughout the developing world. And un-

skilled workers generally do better in most regions. Finally, this scenario would bring down infant mortality more rapidly and contribute to improved child health throughout the developing world.

Chapter Highlights

This report is dedicated to the trade-for-development agenda

Realizing the promise of the new global initiatives to expand trade requires concerted effort to move development to center stage in trade policy formulation. This report is dedicated to that agenda. It begins with a review of global prospects and ways globalization links the fates of industrial and developing countries. The report then considers issues in four broad areas that are particularly important to developing countries: merchandise trade, services, transport, and intellectual property rights. A final chapter summarizes the forward-looking policy agenda, and assesses the potential impact of further global integration and more rapid growth for the standards of living in poor countries everywhere.

Global prospects

By the third quarter of 2001, the global economy was precariously close to recession. For the first time in more than two decades, the three major engines of the global economy—the United States, Japan, and Europe—were slowing at the same time. With recession already a fact in Japan and the probability of negative growth in the United States rising—in part attributable to the demand and supply shocks from the September terrorist attack—and Europe suddenly slowing, the global economy has ceased supporting rapid growth in developing countries.

Nonetheless, the outlook for 2002, though subject to unusually high risks, is that the global economy will begin to recover. Developing countries are expected to grow by 3.7 percent if the external environment improves as expected, up from 2.9 percent in 2001. The

world economy should grow by 1.6 percent, with the recrudescence of consumer spending in the United States, prompted by lower interest rates and fiscal stimulus, and renewed expansion in Europe in response to recent interest rate cuts and lower oil prices. High-income countries, still shackled by slow growth in the first half of 2002 but picking up in the second, are likely to grow at about 1.1 percent for the year, up slightly from the anemic 0.9 percent in 2001. Dynamism in major economies of the developing world—particularly China and India and, to a lesser extent, Brazil and Mexico—will reinforce these positive trends. South Asia seems likely to become the fastest-growing region, with growth at 5.5 percent, followed closely by East Asia, at 4.9 percent. Other regions will not achieve these growth rates, but all will predictably do better than in 2001.

The recovery of the global economy is likely to transmit new growth to developing countries through more robust trade demand. Although unlikely to reach the boom rates of 2000, trade expansion seems likely to surpass 4 percent in 2002, up considerably from the 2001 rate.

Risks to this forecast are unusually high. The terrorist violence in the United States in September will have negative short-run consequences for the United States and the global economy, but could be even more severe than these projections indicate if unforeseen events prove highly disruptive. These uncertainties with enormous downside risks overlay structural risks. U.S. consumers may be less responsive to interest rates than on previous occasions; foreign investors, concerned about the high external current account deficit, may precipitate a sudden adjustment; European growth may level off at a lower-than-expected plateau; and Japan's structural reforms may falter and cause the dip in 2001 to carry over into the next year. Thus, with the global economy in precarious balance, unforeseen shocks from whatever source are magnified and could push the global economy into recession.

This said, the long-term prospects for developing countries remain bright. Fundamen-

tals—savings, population growth, and investments in education—are favorable. Moreover, many of the policy distortions prevalent in many developing countries during the 1980s have been progressively diminished during the 1990s. Budget deficits have generally come down, reserve levels are higher relative to debt levels, and economies are now more open. For these reasons, the growth rates in the base-case scenario of 3.6 percent for the 2005–15 period are both technically feasible and realistic.

However, not all countries and regions bask in this bright long-term outlook. Non-oil commodity exporters, countries with high debt levels, and countries with poor credit histories will find themselves at a disadvantage in trade and financial markets. Sub-Saharan Africa in particular confronts enormous problems in all of these dimensions—as well as the public health epidemic of AIDS (acquired immune deficiency syndrome). For these reasons, invigorating the global trade agenda, even in these times of uncertainty, is imperative.

Merchandise trade

Restrictions on agriculture and labor-intensive manufactures, notably textiles and clothing, are particularly damaging to the world's poor. Virtually all major agricultural commodities face barriers to trade on a scale that dwarfs manufactured products. Barriers include high, steeply escalating, and nontransparent tariffs; tariff peaks; tariff rate quotas on maximum low-tariff imports; and a plethora of domestic and export subsidies in high-income countries, to say nothing about state enterprise trading that still survives in many developing countries. Support to agricultural producers in high-income countries runs in excess of \$300 billion annually. During downturns—such as the one the global economy is now experiencing—these subsidies tend to increase and force a disproportionate share of the cyclical adjustment onto producers in developing countries. Tariff peaks also work against the poor. Fully one-third of exports of the poorest developing countries face tariff peaks in at least one of the four major markets, the United States, Japan,

Europe, or Canada. As estimated in chapter 6, phasing out restrictions on agriculture would produce dynamic gains that could well mean higher incomes in 2015 by nearly \$400 billion.

The Agreement on Textiles and Clothing (ATC), which replaced the Multi-Fiber Agreement in the Uruguay Round, succeeded in integrating these products into the WTO. However, the agreement provided a much delayed phaseout schedule that put off much of the market liberalization until the very end of the process in 2005. And, because the implementation of the ATC allows importers much leeway in selecting the products to be freed of quotas, forgone export earnings for developing countries are sizable. Because high tariffs loom behind the quotas, market access will remain restricted even after the quotas have been abolished in 2005. Removing these barriers would, we estimate, produce increases in income of perhaps \$120 billion by 2015.

These issues provide fertile areas where reciprocal negotiations in a development round of the WTO could provide substantial benefits for development. Developing countries would benefit from reducing their own protection in these sectors as part of negotiated reciprocal reductions in high-income countries for agriculture and labor-intensive manufactures. Beyond this, high-income countries could also expand trade by enlarging the scope for preferential access for poor countries. Existing schemes in high-income countries have limited coverage and, together with other impediments to trade, undermine their otherwise positive effects.

Services

Services are the fastest growing components of the global economy, and trade and foreign direct investment in services have grown faster than in goods over the past decade. In virtually every country the performance of the services sectors can make the difference between rapid and sluggish growth. More efficient services—in finance, telecommunications, domestic transportation, and professional business services—improve the performance of the whole economy because they have broad link-

age effects. Collectively, they are essential to increasing domestic productivity.

Developing countries, in particular, are likely to benefit significantly from further domestic liberalization and the elimination of barriers to their exports. In a range of services—from financial sector and business services to telecommunications and retailing—restrictions on foreign investment are still common, particularly in developing countries. Even more stringent restrictions affect the export of services, such as professional and construction services, through the movement of persons—a mode of supply in which many developing countries have a comparative advantage.

As with merchandise trade, reforms in services have to be managed carefully. The largest gains come from eliminating barriers to entry and new competition, but many developing countries have been content only to change ownership through privatization while retaining limits on entry that buttress monopolies. Privatization without competition can vitiate well-intentioned reforms. Effective regulation is also critical to the success of liberalization. Even though governments can initiate reforms of services unilaterally, multilateral agreements through the General Agreement on Trade in Services (GATS) could help accelerate domestic reform and improve access to foreign markets for developing countries. In parallel, global cooperation to expand trade could mobilize support for developing countries at four levels: in devising sound policy, strengthening the domestic regulatory environment, enhancing their participation in the development of international standards, and ensuring access to essential services in the poorest areas.

The payoffs to success, however, are especially high. Studies comparing reduction of services barriers to reductions in barriers to merchandise trade find that services liberalization can provide benefits up to four times higher. Estimates suggest that, after controlling for other determinants of growth, countries that fully liberalized trade and investment in finance and telecommunications grew on aver-

age 1.5 percentage points faster than other countries over the past decade.

Transport

International transportation costs to move developing countries' exports to foreign markets often are a far greater barrier to trade than tariffs. Both public policies and private practices exercise a significant influence on costs. Policies toward maritime transport, such as cargo reservation policies and limitations on the provision of port services, often protect inefficient service providers and unduly restrain competition. Competition-restricting practices among shipping lines increase freight rates by up to 25 percent on selected routes. Increasing concentration in the market for port terminal services poses the risk that the benefits of liberal government policies may not be passed on to consumers.

International air transport services, despite being at the heart of the globalization process, are one of the most protected from international competition. The current regime of bilateral air service agreements largely denies access to efficient outside carriers—and inflates export costs for developing countries.

Countries themselves can take actions to improve management of their ports and reduce costly delays associated with inefficient customs. In Brazil, for example, failure to deploy efficient container services has kept costs up to more than twice international norms in customs, warehousing, inland transport, and ports. Recasting institutional arrangements to maximize competition in the provision of port services could also drive improvements. Adopting non-discriminatory policies of open access in international air transport can enhance the efficiency of air services. At the same time, there is a need to regulate private practices of transport service providers by competition policies, to ensure that the gains from liberalization are not captured by private firms.

A special responsibility for promoting competitive international transport markets falls on the large industrial countries. These coun-

tries, with their strong regulatory capacity and history of antitrust enforcement, are well positioned to enforce competition disciplines on multinational transport operators. To date, they have not done so.

Beyond this, multilateral negotiations on transport services under the GATS can support domestic reforms by unleashing greater liberalization and by lending credibility to domestic policies. The scope for creating binding multilateral disciplines on transport services is large. Only little progress has been made in the past on maritime transport, and even less has been made on air transport.

Intellectual property

Intellectual property rights (IPRs) are designed to balance the needs of society to encourage innovation and commercialization of new technologies, products, and artistic and literary works, on the one hand, with needs to promote use of those items, on the other. Since the overwhelming bulk of intellectual property is created in the industrialized countries, the Uruguay Round TRIPS shifted the global rules governing intellectual property in favor of developed nations. If TRIPS were fully implemented, rent transfers to major technology-creating countries—particularly the United States, Germany, and France—in the form of pharmaceutical patents, computer chip designs, and other intellectual property, would amount to more than \$20 billion.

To be sure, there are reasons to believe that the enforcement of IPRs is associated positively with growth. However, these benefits tend not to materialize until countries move into the middle-income bracket. Therefore, many countries, especially low-income countries, see these potential benefits as elusive promises against which they have to weigh heavy, up-front costs of enforcement and administration. Administration and enforcement, together with higher prices for medicines, agricultural inputs, and other key technological inputs, could readily absorb a significant portion of annual public expenditures in many low-income countries.

Moreover, enforcing *all* property rights is often a major problem needed to improve the investment climate, so governments have to ask whether it makes more sense when measured against objectives of poverty reduction to forego allocating scarce resources for enforcement of (say) land rights in agriculture—where returns to investments often benefit poor owners directly—in order to enforce IPRs.

Because economic advantages and capability of enforcement tend to rise as countries become more developed, and low-income countries markets are of marginal importance to patent holders, there is a compelling logic to rebalance the TRIPS agreement to accommodate the problems of low-income countries. This could take three forms: It may make sense to recognize the validity of a phased implementation of TRIPS based upon development capacity. Second, negotiating compulsory licensing provisions to allow poor countries with no production capability of their own to license producers in other countries for sale in their markets would improve their competition access to critical development inputs. This may provide small developing countries with greater flexibility in addressing public health crises. Third, since industrial countries are the main up-front beneficiaries of IPRs, they may find it in their interest to provide assistance to the poorest countries for the implementation of TRIPS. Beyond this, developing countries can realize concrete benefits from TRIPS by encouraging domestic intellectual property development and its protection abroad.

Reshaping global trade architecture for development

This report thus proposes actions to reshape global trade architecture to promote development in four policy domains: launching a *development round* of trade negotiations within the WTO, moving forward on the *global cooperation agenda to expand trade* outside the WTO, enacting new *policies in high-income countries* to provide aid for trade, and adopting *trade reforms within developing countries*.

Reshaping global trade architecture for development: The four-part policy agenda

1. Convening a development round in the WTO

Market access

Agriculture

- Reduce applied tariffs, phase out tariff rate quotas, and bind tariffs at applied rates in both developed and developing countries
- Phase out export subsidies in high-income countries and commit to eliminate domestic support linked to production levels
- Reduce tariff escalation and cut off tariff peaks

Manufactures

- Reduce applied rates further, and bind tariffs to levels that equal or are close to applied rates
- Reduce tariff escalation and cut off tariff peaks
- Accelerate implementation of ATC quota eliminations and reduce tariffs in lines now covered by quotas
- Negotiate tighter disciplines on antidumping and other forms of contingent protection

Services

- Liberalize entry of foreign services suppliers through elimination of restrictions on entry and promoting increased competition, with wider use of GATS to bind nondiscriminatory access and lend credibility to domestic programs
- Enhance scope of services provision through the temporary movement of service providers (both skilled and unskilled)
- Secure openness of e-commerce in services, through wider and deeper GATS commitments on cross-border supply
- Strengthen multilateral rules to deal with anticompetitive practices in services
- Adopt a nondiscriminatory trading regime for air transport, including traffic rights, under GATS

Implementation procedures and phasing

- Adopt a phased implementation of TRIPS and other administrative-intensive agreements for low-income countries, based upon development capacity.
- Establish a consensus that the TRIPS Agreement allows developing countries with no domestic production capacity to grant compulsory licenses to foreign firms
- Convert “best endeavor” promises to binding commitments to provide low-income countries with financial and technical assistance to implement WTO accords

Improving WTO transparency and participation

- Require WTO disclosure of databases; reports and their full associated information; and analyses for particular decisions
- Provide assistance to strengthen capacity of all members to participate effectively in negotiations

2. Global cooperation to support trade outside the WTO

Provide “aid for trade” through stepped up development assistance

- Expand “Integrated Framework” assistance to all low-income countries
- Provide assistance to enhance the efficiency of the customs clearance process in developing countries, notably the good customs practices that are laid out in the revised Kyoto Convention (World Customs Organization)
- Expand multilateral assistance to overcome country-specific bottlenecks to improving competitiveness and trading potential (for example, in finance, transportation infrastructure, education for low income workers, and public sector trade-related institutions) and to promote trade

- Fund mechanisms to help developing countries use intellectual property protection to their benefit by protecting intangible assets such as traditional knowledge, designs, music, and ethnobotanicals, and patent protection for industrial goods as well as improve enforcement of IPRs
- Establish a global health fund to purchase licenses from developers of new medicines essential to treating debilitating diseases in poor countries

Expand global efforts beyond trade to improve environment, raise labor standards, and adopt adequate product standards outside the WTO

- Expand global environmental cooperation with financing to improve environmental protection in developing countries, and create multilateral forum of environmental exchange
- Strengthen international actions on labor standards through the International Labour Organisation (ILO), with project collaboration from multilateral development banks
- Create a Standards Development Facility to introduce science and other professional evidence into standard setting for products, with adequate representation from developing countries; and provide assistance to developing countries' standard setting bodies

3. Policies for high-income countries

Market access

- Grant to all low-income countries duty-free and quota-free access to markets of all countries of OECD
- Reduce uncertainty of market access by harmonizing rules of origin, and by reducing threats of antidumping

Expand bilateral "aid for trade"

- Provide financial and technical assistance to developing countries for "behind the border" trade-related investments necessary to take advantage of market access
- Improve policy coherence by establishing coordinating mechanisms between development policies and trade policies to ensure effective development outcomes
- Assist developing countries to strengthen competition agencies and improve legislation, and require antitrust agencies to provide to developing countries information on third market effects of domestic mergers as well as pending cases of price-fixing and restrictive business practices; and review the anticompetitive consequences of antitrust exemptions in transport and other sectors that adversely affect development

Domestic policies that facilitate adjustment of labor to economic change

- Review domestic policies to ensure displaced workers have adequate social support to deal with rapid changes in labor market conditions, including unemployment insurance, social safety nets (particularly health and pensions), and access to training and education

4. Policies for developing countries

- Adopt program of trade reform, including phased lowering of border protection for goods and services as part of a poverty reduction strategy
- As part of trade reform program, adopt companion policies to cushion any impact on the poor of adjustment to new trade incentives, and ensure investment responses; solicit foreign assistance when necessary to implement administrative requirements of programs
- Spur development of industries essential to trade, such as transport, telecommunications, financial sector, and business services, particularly through introduction of regulatory policies that, where feasible, harness competition
- Invest in upgrading public sector institutions related to trade, including customs, administration of drawback programs, and financial supervision agencies
- Encourage domestic intellectual property development through TRIPS-consistent standards appropriate to country needs, and pursue protection of domestic intellectual property abroad
- Ensure adequate macroeconomic policy framework to provide sound investment climate

While this report focuses on global issues, chapter 6 indicates ways regional agreements, properly designed, can be steppingstones to promote new trade and deeper integration that reinforces multilateral collective action. The box below summarizes specific measures that can produce faster economic integration.

Removing barriers to trade and services, in conjunction with companion policies to foment a supply response, would give a strong growth impetus to the global economy and long-run development. Chapter 6 quantifies these effects, if with the large margin of uncertainty and qualifications that estimating techniques impose. If remaining restrictions on merchandise trade were phased out in the 2006–10 period, economic growth in developing countries would be about 0.5 faster than in the base-case scenario—including services liberalization would add significantly to the boost in growth. Much of the benefits come from trade reforms in their own countries and in other developing countries—and in that sense developing countries as a group control a considerable portion of their own trade destiny. In some regions, these new trade policies could well make the difference between achieving their objectives (for poverty-reduction, lowering maternal and child mortality, and improving educational attainment) and falling short by a large margin.

The long-term promise of well-implemented trade reform is therefore tangible: a world with a much higher standard of living, hundreds of millions lifted out of poverty, and a greater share of children living beyond their

fifth birthday to become productive citizens of the world. Continuing down the path of greater integration will not be easy, but if the international community succeeds in doing so, the world will undoubtedly be more prosperous and stable.

Notes

1. On regional trading arrangements, see World Bank 2000. On standards, see World Bank 2001, chapter 3.
2. Trade liberalization has a relatively small impact on the rate of growth, but has a large impact on the net number of poor lifted out of poverty. The reasons are threefold as described in chapter 6: First, under the base-case scenario, growth—assuming population were held constant—will reduce the number of poor from 2.8 to 1.9 billion, but population growth will push that number back up to 2.2 billion in 2015. Hence comparing the net change to the change associated with fast integration records an impressive increment. Second, growth has a disproportionate and positive effect on poverty, and we have assumed a poverty elasticity with respect to growth of two, consistent with historical experience. Finally, trade liberalization changes the composition of production to incomes of the poor.
3. This is the discounted present value in 2005 of cumulative income gains over the decade to 2015.

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Abbreviations and Data Notes

ACP	African, Caribbean Pacific Group of States
ASA	Air Service Agreement
ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textile and Clothing
CAP	Common Agricultural Policy
CAPAS	Coordinated African Program of Assistance on Services
CGE	Computable General Equilibrium
CEPR	Consortium and the Centre for Economic Policy Research
CEWAL	Associated Central West Africa Lines
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
DEC	Development Economics
DFA	Duty-free access
EA	East Asia
EAC	East African Community
EAP	East Asia and the Pacific
EC	European Community
ECA	East and Central Asia
EDI	Electronic data interchange
EEC	European Economic Community
ERF	Economic Research Forum
EU	European Union
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FTAA	Foreign Trade Agency of the Americas
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDF	Global Development Finance

GDP	Gross domestic product
GSP	Generalized System of Preference
GTAP	Global Trade Analysis Project
GEP	Global Economic Prospects
HIV/AIDS	Human immunodeficiency virus/acquired immune deficiency syndrome
ICAO	International Civil Aviation Organization
ICT	Information and Communications Technology
ICTB	International Clothing and Textiles Bureau
IDA	International Development Agency
IDB	Inter-American Development Bank
ILO	International Labour Organization
IMF	International Monetary Fund
IPRS	Intellectual Property Rights
IT	Information Technology
ITA	Information Technology Agreement
JPS	Japanese patent system
LAC	Latin America and the Caribbean
LATN	Latin American Trade Network
LDCs	Least Developed Countries
MENA	Middle East and North Africa
MERCUSOR	Latin America Southern Cone trade bloc (Argentina, Brazil, Paraguay, and Uruguay)
MFA	Multi-fiber Agreement
MFN	Most favored nation
MRAs	Mutual Recognition Agreements
NAFTA	North American Free Trade Agreement
NAPM	National Association of Purchasers and Manufacturers
NASSCOM	National Association of Software and Service Companies
NGO	Non-governmental organization
NTBs	Non-tariff barriers
PREM	Poverty Reduction and Economic Management
PRSP	Poverty Reduction Strategy Papers
PSE	Producer support estimates
ODS	Ozone depleting substance
OECD	Organization for Economic Cooperation Development
OPEC	Organization of Petroleum Export Countries
PBRs	Plant breeders' rights
QUAD	U.S., Canada, European Union and Japan
SOEs	State-owned enterprises

SSA	Sub-Saharan Africa
SAR	South Asia Region
TBT	Technical Barriers to Trade Agreement
TFP	Total factor productivity
T&C	Textiles and clothing
TFP	Total factor productivity
TRAI	Telecommunication Regulatory Authority of India
TRIPS	Trade-Related Intellectual Property Rights
TRQs	Tariff Quotas
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UR	Uruguay Round
URAA	Uruguay Round Agreement on Agriculture
USDA	United States Department of Agriculture
WCO	World Customs Organization
WDR	World Development Report
WHO	World Health Organization
WTO	World Trade Organization
WIPO	World Intellectual Property Organization

Data notes

The “classification of economies” tables at the end of this volume classify economies by income, region, export category, and indebtedness. Unless otherwise indicated, the term “developing countries” as used in this volume covers all low- and middle-income countries, including the transition economies.

The following norms are used throughout:

- Billion is 1,000 million.
- All dollar figures are U.S. dollars.
- In general, data for periods through 1998 are actual, data for 1999 are estimated, and data for 2000 onward are projected.