

**Embargoed: not for news wire transmission,  
posting on websites, or any other media use until  
October 31, 2001 at 1 p.m. EST(Washington time)  
or 18:00 GMT**



# The World Bank

News Release No. 2002/111/S

**Contacts:** Merrell Tuck-Primdahl (202) 473-9516

[Mtuckprimdahl@worldbank.org](mailto:Mtuckprimdahl@worldbank.org)

Ana Elisa Luna Barros (202) 473-2907

[alunabarros@worldbank.org](mailto:alunabarros@worldbank.org)

Stevan Jackson (TV/Radio) (202) 458-5054

[Sjackson@worldbank.org](mailto:Sjackson@worldbank.org)

## LAUNCHING ‘DEVELOPMENT ROUND’ COULD HELP POOR COUNTRIES FACING GLOBAL DOWNTURN

*East Asia urged to advance its trade liberalization agenda as a means of  
enhancing growth and poverty reduction*

**WASHINGTON, October 31, 2001** — By reducing barriers to international trade the upcoming WTO meetings in Doha could significantly boost the long-term prospects for developing countries, many of which are today suffering from the fall-out of the September 11 attacks and the worldwide slowdown. A new World Bank report paints a grim picture of the short-term outlook for poor nations because of the simultaneous downturn in the US, Europe and Japan. Growth in developing countries is expected to fall to 2.9 percent in 2001, nearly half the 5.5 percent of 2000. East Asia, which saw export growth plummet 25 percentage points in 2001, has seen its output growth estimates drop to 4.6 percent in 2001 from 7.3 percent in 2000, the region's second weakest year since 1990, bar only the near zero growth year of financial crisis in 1998.

Lower barriers to trade and a broader reshaping of the world trading system could accelerate medium-term growth and reduce poverty around the world, concludes *Global Economic Prospects and the Developing Countries 2002: Making Trade Work for the World's Poor*, the Bank's yearly report on prospects for developing countries. The report concludes that such an expansion of world trade could well increase annual GDP growth by an additional 0.5 percent over the long run—and by 2015 lift an additional 300 million people out of poverty, 50 percent more than otherwise. Developing countries stand to gain an estimated \$1.5 trillion of additional income in the 10 years after more open policies are adopted; developed countries an added \$1.3 trillion.

Trade matters more in today's integrated world than ever before. In 2002 developing countries could be threatened by lower growth in the volume of world trade if consumers and

businesses in industrial countries do not respond to lower interest rates or net fiscal spending, or if unpredictable events associated with the terror attacks prove disruptive.

*“The terrorist attacks put a huge drag on the already sputtering engines of the global economy. What makes this situation unusually risky is that this is the first time since 1982 that the US, Europe, and Japan have all turned down at the same time”* says **Richard Newfarmer, principal author of the report.** *“In East Asia, the attacks are likely to exacerbate the economic downturn, slowing investment decisions, dampening consumer confidence in export markets, and reducing tourism to the region. China, whose strong growing economy was still pulling in imports at a double-digit pace in the first half of 2001, and whose share of regional exports doubled to 10 percent over the last decade, is one bright spot in the regional export picture – one can look to a continuation of this trend making China a major powerhouse of import demand for the rest of the region over the coming decade, but in 2001 it will not be enough to offset the other negative influences on regional exports.”*

The report proposes a four-part policy agenda to “reshape global trade architecture to promote development”: launching a Development Round in the WTO, promoting global cooperation to expand trade outside the WTO, encouraging new policies in high income countries to provide assistance that will expand trade, and advocating trade reforms within developing countries to accelerate development.

\*\*\*\*\*

In the Bank’s most recent report on trade in East Asia, ***Renewing Trade as an Engine for Growth and Poverty Reduction*** (available at [www.worldbank.org/eapupdate](http://www.worldbank.org/eapupdate)), the Bank urges that the region take advantage of growing interest in regional trade issues, renewed international efforts to launch a new round of global trade talks, and China's entry to the WTO, to substantially advance East Asia's trade liberalization agenda as a means of enhancing growth and poverty reduction. Trade liberalization initiatives are especially important, the report notes, because they present an opportunity to revitalize, build, strengthen or reform institutions that are important for economic development and poverty reduction more broadly.

Rapid growth in international trade has long been a hallmark of successful growth and development strategies among the East Asian countries, but in recent years concerns have grown about the region’s ability to continue to exploit gains from integration with the world economy, in particular in the wake of the region’s financial crisis, and with the present serious downturn in exports. The Bank report notes that the shares in world exports of a growing number of both high and middle income countries in the region have either fallen or been roughly flat since 1995. The rise in developing East Asia’s overall world export share after 1995 has come mainly from China, and, to a lesser extent, the Philippines, which was becoming established as a base for global electronics production during this period. One reason for this trend is that competitive pressures on East Asian firms have increased over the last 10-15 years, as reforms in other developing regions – principally Latin America and the transition economies in Europe - have improved their policy frameworks relative to those in East Asia.

The report focuses on China's pending WTO accession and calls it an example of an East Asian country using trade reform as an opportunity to undertake a broad, far-reaching program of structural and institutional reforms. This will dramatically change the organization of business activity and the modes of government regulation in China, as a result of both general WTO disciplines such as most-favored nation (MFN) treatment, as well as specific commitments to reduce trade barriers, phase out export subsidies, improve transparency of state-owned enterprises, and adopt improved intellectual property rights.

Even more dramatic changes are expected in services sectors. A substantial opening of China's financial sector will occur as foreign banks are allowed to compete for renminbi business. Foreign participation in insurance, securities business, auto-financing, telecommunications, transport, domestic trade and distribution, should all increase. On the export side, the most dramatic result will be a huge increase in its share of world apparel production and exports, which would result from the lifting of MFA restrictions on China's apparel exports, as well from improvements in competitiveness arising from the ability to import cheaper raw materials. Export gains would be balanced on the import side by large increases in China's imports of textiles (used as inputs for garments) and beverages and tobacco, as well as smaller increases in its share of world imports of automobiles and other manufactures.

The Bank notes that China's income could rise by at least 2 percent as a result of WTO accession, with income gains in the East Asian NIEs of on average about 1 percent, and more negligible impacts on other developing South East Asian countries.

As for the potential economic gains from a new multilateral trade round to further liberalize trade in agriculture, manufactures and services, benefits will be gained by the world in general, East Asia in particular. Calculations done by the Bank suggest that – on a conservative basis that counts only so-called static gains - complete liberalization of merchandise trade (i.e. including agriculture and industry but excluding services trade) between 2005 and 2010 could yield additional global income of over \$300 billion per year by 2015 – with nearly one-quarter of that gain expected to accrue to developing East Asia, substantially larger than these countries' 16-17% share of world GDP in purchasing power parity terms. The gain would represent a 2% increase in East Asian annual income, as compared to a 1.2% increase in other developing countries' income, and a 0.5% rise in rich country income. Gains from services liberalization are likely to substantially larger than these.

-###-

*For more information on the East Asia report, see: [www.worldbank.org/eapupdate](http://www.worldbank.org/eapupdate); *Renewing Trade as an Engine for Growth and Poverty Reduction**

*For more information on the Global Economic Prospects please see:  
World Bank Online Media Briefing Center at <http://media.worldbank.org/secure/>  
Accredited journalists, who do not already have a password, may request one by completing the registration  
form at: <http://media.worldbank.org/>  
The report summary and related materials will be available to the public on the World Wide Web  
immediately after the embargo expires at: <http://www.worldbank.org/prospects/gep2002>  
Media outlets are encouraged to include this Web address in their coverage of the report.*