



# Facts on Global Reform

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## ***Economic Consensus: Expanding Trade Reduces Poverty***

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

- Economists at the World Bank has reported that per capital real income grew 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.
- These World Bank economists also found that the faster growth rates from expanded trade in the globalizing countries resulted in income gains for the poor proportionate to other income groups.
- 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.
- In the early 1960s, most South Koreans were poverty stricken and the country had lower per capita income than North Korea (Source below). Over the next four decades, South Korea joined the world economy and hugely expanded its trade while North Korea attempted to practice economic self-sufficiency. The results are clear. Today South Korea is prosperous with per capita income 11 times greater than North Korea. *Source: "Export Led Industrialization and Growth - - Korea's Economic Miracle 1962-1989," Charles Harvie and Hyun-Hoon Lee, University of Woolongong, Economics Working Paper Series, 2003, WP03-01, p. 10.*

**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) would be enjoyed by developing countries (WTO definition). In describing the potential annual benefit from goods trade, World Bank President Paul Wolfowitz said, "The gains from Doha could reach \$300 billion of which the largest benefits would go to the poorest countries and the poorest people. The stakes of these talks are enormous." [*Source: Associated Press, November 15, 2005*]
- Eliminating agriculture distortions by developing and developed countries alike would deliver nearly two-thirds of the potential benefit.
- World Bank economists estimate that virtually all (nearly 100%) of the gain to developing countries from global liberalization of agriculture is attributed to market access.

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

- Economists at the World Bank also estimated that low and middle income countries would realize 50 percent of their potential economic gains from global free trade, by the elimination of their own barriers, with no further liberalization in high income countries.
- A recent study by IMF economists has found that without significant developing country market opening Sub-Saharan Africa (SSA) will derive only small gains from the Doha round (percentage

increases in income much lower than for high income countries). Under complete barrier elimination, SSA countries' percentage income increase from Doha is nearly double that of high income countries.

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

**Developed countries' markets currently receive the majority of developing country exports, but trade among developing countries is growing rapidly despite high barriers. Reductions of these barriers in the DDA would further catalyze trade.**

- The IMF finds that developing country protection is 4 times higher than in high-income countries.
- World Bank data suggests that roughly 70 percent of the tariffs paid on goods trade by developing countries are to other developing countries.
- A recent study by IMF economists finds that the lowering of barriers by developing countries (including in SSA) is essential to countries in SSA realization of substantial gains from the Doha round.