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LAUNCHING 'DEVELOPMENT ROUND' COULD HELP POOR COUNTRIES FACING GLOBAL DOWNTURN

Middle East and North Africa Has Better Short-Term Economic Outlook Than Other Developing Regions

WASHINGTON, October 31, 2001— Removing barriers to trade, the topic of WTO meetings in Doha in early November, could significantly boost the long-term prospects of developing countries, many of which are suffering from the fall-out of the September 11 attacks and worldwide slowdown. A new World Bank report generally 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 recorded in 2000. Latin America, East Asia, and Sub-Saharan Africa are particularly hard hit this year. The Middle East and North Africa (MNA) region's short-term outlook is better than other regions, thanks to high oil prices and a reprieve from drought conditions in some parts of northern Africa. If industrial countries begin to recover by mid-2002, as the report projects, growth in developing countries may edge up to 3.7 percent in 2002.

Reshaping the world's trade system and reducing barriers to trade 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. Expanding trade could well increase annual GDP growth by an additional 0.5 percent over the long run—and by 2015 lift 300 million people out of poverty in addition to the 600 million escaping desperate poverty with normal growth. Developing countries stand to gain an estimated $1.5 trillion of additional income in the 10 years after liberalization policies are begun; developed countries would see their incomes rise by some $1.3 trillion.

"To make this happen, the developed countries have to be willing to put agriculture and textiles on the negotiating table because those are the products that the world's poor produce," says **Uri Dadush, Director of the World Bank's Economic Policy and Prospects Group.** "*A round that brings down barriers in agriculture, advances the timetable on textiles, and agrees to curtail antidumping at the same time it takes up the concerns of the industrialized countries has the potential for being a true 'Development Round."*

Trade matters more in today's integrated world than ever before. Indeed, performance in 2002 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.** As a result, *g*rowth in trade in 2001 has undergone one of the severest decelerations in modern times – from 13 percent in 2000 to perhaps 1 percent in 2001. Developing countries are confronting a 10 percentage point drop in the growth of demand for their exports, seriously undermining their growth this year. **Newfarmer** adds, *"On the upside, the volume of world export growth is expected to pick up to 7.2 percent over 2002-3."*

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 for trade reforms within developing countries to accelerate development.

Prospects for the Middle East and North Africa region

High oil prices, together with a reprieve from drought in parts of northern Africa, have boosted short-term growth in the MNA region. Looking ahead, GDP growth in the Middle East and North Africa is expected to fall to 2.9 percent in 2002 and recover to 3.6 percent in 2003. The delayed recovery in industrial countries will significantly reduce the external impetus for growth in the region at the end of 2001 and into 2002. Slower world demand growth will keep oil prices at the lower end of the OPEC price band (around $21/barrel) and growth in the oil-dominant economies is anticipated to slow to 2.3 percent in 2002. The diversified exporter countries of the region will all be adversely affected by slower activity in the European economy. Growth in the diversified exporters is expected to average around 4.3 percent in 2002-3.

Growth for the oil exporters in the long term is expected to average 2.7 percent; for the diversified exporters, it is expected to average 4.3 percent. These long-term prospects for MNA are reflective of the real long-term decline in oil and other commodity prices anticipated in the next 10 years; lower rates of productivity growth; vulnerability in the region to external shocks; the large role of the state in investment decisions; and the limited foreign investment interest in the region beyond commodity sectors.

Table A1.6 Middle East and North Africa forecast summary

(percent per year)

Growth rates/ratios	1991-2000	1999	2000	2001 (forecast)	2002 (forecast)	2003 (forecast)	2004-2010 (forecast)
Real GDP growth	3.2	2.2	3.9	3.4	2.9	3.6	3.3
Consumption per capita	0.4	0.3	3.1	1.7	0.7	0.8	0.9
GDP per capita	1.0	0.3	1.9	1.5	1.0	1.6	1.4
Population	2.2	1.9	2.0	1.9	1.9	1.9	1.9
Inflation /a.	5.2	3.5	3.4	4.5	4.5	4.0	4.0
Gross Domestic Investment/GDP /b.	22.7	22.4	23.4	23.9	24.2	24.3	25.4
Central Gvt Budget Balance/GDP	-1.6	-2.7	-2.5	-3.0	-2.9	-2.6	-2.2
Export Volume /c.	5.8	13.1	6.2	3.0	4.0	5.7	4.6
Current Account/GDP	-1.9	-1.0	8.1	4.7	0.8	-0.9	-2.3
Memorandum Items							
GDP growth: Oil exporters	2.6	1.8	3.3	2.6	2.3	3.3	2.7
Diversified exporters	4.0	3.3	3.4	4.4	4.2	4.3	4.3

a. Local currency GDP deflator; median.

b. Investment ratio measure in real terms.

c. Goods and non-factor services.

Source: World Bank baseline forecast, October, 2001 Preliminary

Global prospects: short-term risks are high, but long-term prospects are favorable

The outlook for 2002, though subject to unusually high risks, is that the global economy will recover: Developing countries are expected to grow by 3.7 percent if the external environment holds, up from 2.9 percent in 2001, while it is expected that the world economy will grow by 1.6 percent.

Beyond MNA, the report shows that the impacts of the economic downturn on the world's five other developing regions vary significantly, often mirroring export patterns. Countries in Latin America and East Asia, with large manufacturing exports, were the first to feel the impact of lower import demand in the United States and Japan. The weakness in Europe and declining commodity prices put additional pressure on countries in Latin America, Central Europe, and Sub Saharan Africa. South Asia, less integrated into the world economy and with a vibrant service sector, has been less affected by the deteriorating global environment. Because of the double whammy of simultaneous downturn in US, Europe and Japan and the terrorist attacks, all regions have suffered slower growth. This is because of the deceleration in trade, drop in tourism, and the higher costs of capital, as lending to higher risk developing countries has virtually ceased for all but the best borrowers.

The report says that, despite the tough circumstances in 2001, the long-term prospects for developing countries are promising. This is to a large extent due to improved macroeconomic management, rising savings, increased openness, and greater diversification. Average per capita growth of 3.6 percent is forecast for 2005-2015 for developing countries and 2.5 percent for high-income nations. Export markets are expected to recover robustly by 2003, but commodity prices may remain depressed for some time.

"The short-term problems are serious and call for an urgent response. However, the long-term prospects for developing countries are still bright," notes **Nick Stern, the World Bank's Chief Economist and its Senior Vice President.** "S*ince the crises of the mid 1990s, trade linkages have risen in importance and many developing countries have become less reliant on the more volatile forms of capital flows. In addition, many developing countries are better equipped to absorb negative external shocks, given their domestic reforms and their trade diversification. Most important, these policy improvements justify the expectation that they will return to relatively high growth rates, once the global economy recovers from the current slowdown. Other developing countries, with weaker policies, have done much less well in the 1990s—there is a challenge of inclusion."*

However, even with these favorable growth prospects in most regions, some could be left behind, making it difficult to meet development goals of reducing child mortality, halving poverty and raising literacy rates. Non-oil commodity exporters, countries with high debt levels, and nations 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. For these reasons, invigorating the global trade agenda, granting preferential access to low income countries, and providing aid to expand trade is imperative, even in these times of uncertainty, the authors stress.

Table 1 World Trade and GDP Growth
(percentage change from previous year)

	Current Estimate	Current Forecasts		
	2000	**2001**	**2002**	**2003**
World trade (volume)	13.3	1.0	4.0	10.2
World GDP (growth)	3.8	1.3	1.6	3.9
High-income countries	3.4	0.9	1.1	3.5
OECD countries	3.3	0.9	1.0	3.4
United States	4.1	1.1	1.0	3.9
Japan	1.5	-0.8	0.1	2.4
Euro Area	3.5	1.5	1.3	3.6
Non-OECD countries	6.3	0.6	3.2	5.7
Developing countries	5.5	2.9	3.7	5.2
East Asia and Pacific	7.5	4.6	4.9	6.8
Europe and Central Asia (ECA)	6.3	2.1	3.0	4.2
Latin America & the Caribbean	3.8	0.9	2.5	4.5
Middle East and North Africa	3.9	3.4	2.9	3.6
South Asia	4.9	4.5	5.3	5.5
Sub-Saharan Africa	3.0	2.7	2.7	3.9

Source: World Bank, *Global Economic Prospects 2002*

Calling for new trade rules, fewer barriers

Citing the cost of subsidies to agriculture imposed by rich nations, which amount to estimated US$1 billion a day, or more than six times all development assistance to poor nations, the authors list numerous barriers that adversely affect developing countries, including subsidies, high tariffs on selected products of developing countries, and tariff codes of high-income countries that discourage forward processing in developing countries. They call for high income countries to grant duty-free, quota free access to their markets for the low-income developing countries. **Dadush** notes, *"If the U.S., Canada and Japan were to follow the lead of the European Union in its "Everything But Arms" preferential access scheme for the least developed countries, and if the program were enlarged to all low-income developing countries, they could benefit more from globalization."*

Trade in merchandise growth outpaced growth in GDP by nearly 3 to 1 during the 1990s. Data reveal an average annual increase of 6.3 percent in the volume of global merchandise trade (1990-1999) compared to global GDP growth of 2.1 percent per year over the same period. Exports grew faster than domestic demand in every major region. Yet the poorest "least developed countries" lagged, in part because the LDCs remain dependent on agriculture and labor-intensive manufactures. World demand for these products is growing less rapidly and they face trade barriers that are two-three times those of other products.

According to the report, **services trade** more than trebled its size in fifteen years to $1.2 trillion in 1999, and now accounts for a quarter of all cross-border trade. The authors find that liberalizing entry of foreign service providers would have huge impacts in promoting growth and improving productivity – with effects up to four times larger than simple tariff and other reforms affecting goods. This is because telecommunications, finance, transport, and business services have many links to the rest of the economy and raise the productivity of many sectors**.** **Newfarmer** warns, however that *"Countries have to learn the lessons of the East Asia crisis. Liberalization has to be accompanied by effective bank supervision, competitive telecommunication regulation, and privatization that results in new competition if countries are to benefit from globalization rather than being overrun by it."*

Transport receives special attention in the report. If developed countries were to allow freer competition in international shipping, costs to developing countries could be lowered by more than 20 percent, given that existing private restrictions, some of which enjoy semi-official sanction, reduce competition and drive up prices.

On **intellectual property**, the authors recommend "rebalancing" the Uruguay Round Agreement on Trade-Related Intellectual Property Rights (TRIPS) agreement – the global agreement that gave patent holders new trade rights – to allow developing countries, especially low-income developing countries, access to drugs and products essential to development at competitive prices. As it stands, if developing countries were to fully implement TRIPS, they would have to pay abroad some $20 billion more in technology-related payments and foot the administrative bill for local enforcement. For these reasons, the report advocates a phased implementation of TRIPS with donor-funded technical assistance linked to level of development, and a more liberal use of compulsory licenses to stimulate competition in pricing.

Going beyond Qatar: Towards a new global trade architecture for development

The report argues for reshaping the global architecture of world trade to promote development and poverty reduction. The authors focus on four policy areas:

- Using the WTO ministerial to launch a "development round" of trade negotiations that would reduce global trade barriers, especially to poor countries and to the products the poor produce.
- Engaging in global collective action to promote trade outside the negotiating framework of the WTO.
- Adopting pro-trade development policies of high-income countries unilaterally.
- Enacting new trade reform in developing countries., particularly in the area of domestic policies that impact south-south trade.

Outside of the WTO, the Bank, together with other international financial institutions and agencies, can provide **"**aid for trade**"** through stepped up development assistance in several areas. One way this is being done is through the "Integrated Framework," or IF. Set up by bilateral donors, the IF provides trade-related technical assistance to LDCs. Help can come in the form of policy advice that feeds into poverty reduction strategy papers (PRSPs) or 'integration studies' that underpin country assistance strategies. In the final analysis, however, it is developing countries themselves that have to undertake these reforms. The report notes that domestic reforms should not be held hostage to actions abroad, and those countries that have accelerated integration into the global economy have experienced more rapid growth than those that have not.

Also, multilateral assistance can be expanded to help overcome bottlenecks in countries that will improve competitiveness – for example in finance, transportation infrastructure, education for low-income workers, and public sector trade-related institutions. Another possibility involves funding mechanisms to help poor nations use intellectual property protection to their benefit by protecting intangible assets such as traditional knowledge, designs, music and ethno-botanicals. Finally, a global health fund could be set up to purchase licenses from developers of new medicines essential to treating HIV/AIDS and other diseases that disproportionately afflict poor countries.

" As developing countries seek new opportunities for growth and poverty reduction, it is more vital than ever to expand market access for their exports. The next set of multilateral trade negotiations must move development to center stage, and must begin soon" concludes **World Bank Chief Economist Nick Stern**.

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