



HIGHLIGHTS OF USAID WORKSHOP:  
PROMOTING ECONOMIC GROWTH IN A NEW ERA  
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**Gains, Pains and Risks of Globalized Trade and Investment**

The term “globalization” has become a catch-all for the positive and negative impacts of international trade, investment and information flows, and transfers of technology on domestic activity. In this session, three presenters examined the implications of globalization for developing countries and discussed strategies for overcoming the risks of economic integration.

Richard Newfarmer, Economic Advisor for the International Trade Department and Prospects Group at the World Bank, presented data that confirmed the benefits to many low- and middle-income countries of increasing participation in international trade. However, the data also showed that the poorest countries have benefited little in terms of income growth from globalization. That these countries have performed so poorly can be attributed in part to factors such as overdependence on primary-commodity trade, domestic trade barriers, and in some cases, persistent conflict. Yet poor countries also suffer from obstacles and inequities in the world trading system that point a partial finger of blame at the developed world. For instance, agriculture subsidies, common in most developed countries, constrain market access for agricultural exports from poorer countries. Border protection targeting specific products presents another set of challenges for poor countries that typically have no leverage to negotiate more favorable trade arrangements. In addition, escalating tariffs, also common in many developed countries, discourage low-income countries from transitioning to value-added exports. In fact, in an effort to protect domestic labor, rich countries end up charging poor countries more in tariffs than they do their rich trading partners.

The World Trade Organization’s Doha Agenda promises to redress some of these inequities and help accelerate growth in the developing world, but in order for this to happen, the agreement will have to accomplish several important tasks. First, it will have to get richer countries to reduce barriers to the products that the poor produce, including agricultural exports and increasingly manufactures and services. Second, it will have to get low-income countries to reduce their reliance on trade preferences. Finally, it will have to help low-income countries enhance their competitiveness through support for trade facilitation (e.g., customs reform, port and transport development, etc.).

Kishore Rao, Managing Director at Bearing Point Inc., discussed the debates over the links between globalization and poverty and offered some recommendations for managing the risks entailed in operating in the global economy. Free trade proponents point to data illustrating that trade promotes growth, that growth reduces poverty, and that trade openness does not have a noticeable impact on income distribution. Free trade critics, meanwhile, argue that the relationship between trade, growth and poverty really depends on how you measure poverty and income inequality (e.g., relative vs. absolute) and on how much that poverty or inequality reflects other factors, such as education, health, or geographical limitations. There are always risks in economic integration, from the short-term effects of greater competition to the decline in revenues from trade taxes to the loss of import-competing jobs. Moreover, there are alswats

“winners” and “losers”, and the degree to which the losers are harmed depends to a large extent on the initial level of development, the quality of the government, and a variety of other factors.

Developing countries can manage these risks through a variety of strategies, including: through trade capacity-building (in particular, upgrading local understanding of the economic impacts of trade policy options and their implications for the private sector and civil society); through compensating policies and programs aimed at the poor; and through public education and coalition building within civil society to garner broad support for pro-trade policies and reforms.

Steve Parker, Chief of Party of USAID’s STAR-Vietnam Project and senior trade economist at Development Alternatives, Inc., provided a country-level perspective on the relationship between globalization and poverty and discussed developments in international trade regimes as well as USAID’s role in this environment. Poverty has both demand- and supply-constrained characteristics, which has important implications for developing countries integrating into the global economy. On the demand side, an excess supply of low-skilled labor leads to low incomes and thus high poverty levels. On the supply side, factors such as limited education, health care, ethnic discrimination and geographic isolation lead to a poor, low-skilled labor force that benefits little from new labor demand. Increased trade and investment can help correct demand-constrained poverty, as rapid export growth and capital inflows increase demand for low-skilled workers. However, increased trade and investment have limited effect on supply-constrained poverty. To overcome the supply constraints, policy makers need to focus on programs like income transfers in the short run, and investments in education, health and roads and other poor-intensive infrastructure in the longer run. Of course, resolving the distributional tradeoffs between globalization and poverty is easier to achieve when there is strong growth.

Increasingly, trade liberalization efforts are advancing in the context of a stronger WTO and the proliferation of preferential bilateral and regional free trade agreements (FTAs). FTAs enhance market access for trading partners, but they also require major commitments to legal and administrative reform (e.g., stricter labor and environmental standards, enforcement of contracts and dispute settlements, protection of intellectual property rights, etc.) and to the elimination of protectionist policies and trade barriers, which place great pressure on countries with limited administrative capacities and create incentives for corruption. With respect to U.S. trade agreements, commitments often go beyond WTO standards; in some cases countries are expected to implement key commitments even before the agreement is signed. Trade negotiations heighten political sensitivities on all sides, and USAID assistance should account for the importance of balancing the interests of the U.S. negotiators (i.e., USTR, Embassy officials) as well as their trading partners. Yet USAID assistance should not only focus on support for trade negotiations. For countries with limited administrative and technical capacities, USAID TA should also support legal and administrative reform as well as the implementation aspects of new trade agreements.

During Q&A, Workshop participants posed questions about the dichotomy between trade growth and the gap in policy and institutional reform in many developing countries; about strategies for overcoming ethnic discrimination issues in trade negotiations; about building trust with counterpart governments; about international experience with compensatory funds; and about moving from FTA negotiation and implementation to actual benefits and results.