Contents

Acknowledgments    vii
Summary     ix
Abbreviations, Acronyms, and Data Notes    xiii

Chapter 1 Prospects for Developing Countries and World Trade   1
  Long-term growth in industrial countries is projected to be higher  4
  World trade remains on a long-term high-growth path  12
  Private capital flows remain volatile  17
  Commodity prices exhibit divergent recoveries  20
  Developing countries’ recovery is unexpectedly rapid, and prospects for long-term
growth have improved  25
  Vulnerabilities are significant  32
  Recent trends and prospects for poverty reduction  34
Notes    42
References    44

Chapter 2 Trade Policies in the 1990s and the Poorest Countries   000
  Reductions in barriers to trade   000
  Trends in trade and economic growth   000
  Weaknesses in domestic trade-related policies   000
  Protection in industrial countries   000
Notes   000
References   000
Appendix: firm interviews and survey   000

Chapter 3 Standards, Developing Countries, and the Global Trade System   000
  The regulation of standards: setting the stage   000
  Product standards and regulatory barriers to trade   000
  Labor standards and trade sanctions   000
  Environmental standards and trade   000
Notes   000
References   000
1.25 Growth of real per capita GDP, Latin America and the Caribbean, Sub-Saharan Africa, Middle East and North Africa, 1960–2000
2.1 Average unweighted tariff rates by region
2.2 Merchandise export and GDP per capita growth in developing countries in 1990s
2.3 Merchandise export and GDP per capita growth in poor developing countries in 1990s
2.4 Real effective exchange rate volatility and growth in 1990s
2.5 Real effective exchange rate behavior in selected poor countries
2.6 Imports of manufactures from developing countries as a percentage of apparent consumption
2.7 Share of developing countries in world trade
3.1 WTO enquiry point notification, by country group, 1995 and 1999
3.2 Number of notifications based on the TBT Agreement, 1995–2000
3.3 Number of notifications based on the SPS Agreement, 1995–2000
4.1 Estimates of electronic commerce in industrial countries, 1999–2000
4.2 Estimates of internet access, 1990–2000
4.3 Regional internet access
4.4 Access to telecommunications
4.5 Cost savings from e-commerce
4.6 New customers gained from Alibaba website
4.7 Increased sales reported because of Alibaba website
4.8 Internet monthly access charge as a percentage of GDP per capita
4.9 Main telephone lines per 100 inhabitants, developing countries, 1998
4.10 Developing country privatization in telecommunications, 1990–98
4.11 Information technology jobs unfilled because of skill shortages, 1998
4.12 Internet use in industrial countries by knowledge of English, 1998–99
4.13 Bond versus bank financing

Tables
1.1 Global conditions affecting growth in developing countries and World GDP Growth
1.2 Intra- and extra-regional trade
1.3 Annual direct terms-of-trade changes for developing countries from a $10 increase in oil prices
1.4 Annual percentage change in nominal energy and non-energy commodity prices, 1981–2010
1.5 Growth of World GDP, 1998–2002
1.6 Growth of World GDP per-capita, 1980s through 2010
1.7 Forecast Assumptions: Developing Countries
1.8 Population living on less than $1 per day and headcount index in developing countries, 1987, 1990, and 1998
1.9 Population living on less than $2 per day and head count index in developing countries, 1987, 1990, and 1998
1.11 Poverty in developing countries under scenarios of base case growth (scenario A); low case growth (scenario B); and 1990s average growth, 1990, 1998, 2015

Embargoed until Tuesday, December 5, 2 p.m. EST
Regional breakdown of number of people living on less than $1 per day and head count index in developing countries, under scenarios of base case growth (scenario A) and low case growth (scenario B), 1990, 1998, and 2015

Regional breakdown of number of people living on less than $2 per day and head count index in developing countries, under scenarios of base case growth (scenario A) and low case growth (scenario B), 1990, 1998, and 2015

Membership of Selected Major Regional Integration Agreements (RIAs) and Date of Formation

Standard deviation of tariff rates

Frequency of total core nontariff measures for developing countries, 1989–98

Countries imposing restrictions on payments for current account transactions

Average black market premium

The international environment

GDP and merchandise export growth rates

GDP, Services and merchandise export growth rates

Decomposition of merchandise export growth for the sample countries

Growth rates by income level for the sample countries

Tariffs in selected African countries

Developing country exports to Quad countries facing tariffs of more than 50 percent

Average tariff rates by importing and exporting region

Producer support estimates for OECD countries

Sample countries in various charts and tables

Summary of economy-wide studies assessing the impacts of trade liberalization on pollution

Evidence on international competitiveness and environmental regulation

Future Internet access speeds

U.S. Labor Productivity and Information Technology

North-South regional arrangements

Trends in inequality

Openness and growth—evidence, old and new

Trends in volatility

Economic factors contributing to conflict

Exchange rate overvaluation in the CFA countries

The integrated framework for Least Developed Countries

Food processing

Mutual Recognition Agreements

The Trade-Related Intellectual Property Agreement (TRIPs) and developing countries

Evidence on the “race to the bottom”

Electronic data interchange (EDI) systems

The Internet and primary commodity
This report was prepared by the Development Prospects Group, and drew from resources throughout the Development Economics Vice-Presidency, the Poverty Reduction Board, and World Bank operational regions. The principal author of the report was William Shaw, with direction by Uri Dadush. The chapter authors were Hans Timmer (chapter 1), Ataman Aksoy (chapter 2), Dominique van der Mensbrugghe (chapter 3) and William Shaw (chapter 4). The report was prepared under the general direction of Jo Ritzen and Nicholas Stern.


Many others from inside and outside the Bank provided inputs, comments, guidance, and support at various stages of the report’s publication. John Beghin, David Rohland-Holst, and Matthew Slaughter wrote background papers on trade issues. Henry Ergas and Iain Little wrote a background paper on electronic commerce. Gary Hufbauer, Arvind Panagariya, Francisco Rodriguez and Alan Winters served as outside reviewers. Richard Newfarmer, Gene Tidrik, Shanta Devarajan, and Carlos Braga were discussants at the Bankwide review. We would particularly like to thank Gordon Betcherman, Milan Brahmbhatt, Sara Calvo, Richard Eglin, David Ellerman, Michael Finger, Carsten Fink, Andrea Goldstein, Bernard Hoekman, Albert Keidel, Michael Klein, Ioannis Kessides, Amy Luinstra, Will Martin, Aaditya Mattoo, Marcelo Olarreaga, Gary Pursell, David Tarr, and Edith Wilson for their helpful comments. The Development Data Group contributed to the Appendix. Betty Sun served as the External Affairs task manager, Robert King managed dissemination from the Development Prospects Group, and Phil Hay managed media arrangements. Sarah Crowe served as the principal assistant to the team and Katherine Rollins assisted with chapter 1. Book design, editing, and production were directed and managed by the Production Services Unit of the World Bank’s Office of the Publisher.
TECHNOLOGICAL INNOVATIONS AND THE dismantling of trade barriers over the past decade have contributed to an acceleration of growth in global trade. This acceleration has been associated with faster growth in developing countries as a group. However, many of the poorest countries have not kept pace. This year’s Global Economic Prospects focuses on international trade and discusses policies that are required if developing countries are to benefit from global integration.

Prospects for developing countries and world trade

The global economy is likely approaching a cyclical high in 2000, boosted by a further acceleration of growth in the United States, the recovery in Europe and Japan, and the sharp rebound in countries affected by the global financial crisis. World trade volumes are likely to increase by 12.5 percent, the highest rate of growth since before the first oil shock of the 1970s. A moderation of growth in the crisis countries and slower consumption growth in the United States are likely to lead to a deceleration of output growth over the next year.

The apparent shift upward in trend productivity growth in the United States, increased labor market flexibility and product market competition in Europe, and steps toward financial and corporate restructuring in Japan have improved the prospects for long-term growth. The same applies in developing countries, where liberalization of markets, more stable macroeconomic policies, and technological change have promoted integration. Indicators of human capital, including school enrollment and literacy rates, show broad improvement across most developing regions.

However, cyclical and structural aspects of the current boom have increased imbalances and tensions in the global economy. Easier monetary policy in the United States and increased fiscal stimulus in Japan boosted growth from the depths of the financial crisis, but these policies also increased the already large U.S. current account deficit (4.5 percent of GDP) and Japanese government debt (115 percent of GDP). The strong global recovery of 1999–2000, coupled with the sharp reduction in OPEC (Organization of Petroleum Exporting Countries) supply, caused a surge in oil prices. Structural reforms and rapid technological change have also generated political tensions. The fast pace of global economic integration has accentuated competition and increased uncertainty, particularly for firms in declining industries and their workers. Inequality both among and within countries appears to have risen, in part the result of technological progress.

A low-case scenario assumes a less favorable resolution of these imbalances and tensions, marked by continued high oil prices and a reversal of international investment flows from the United States. The resulting reces-
sion, coming on the heels of the global financial crisis, may feed “reform fatigue” and thus lower developing countries’ long-term growth potential.

Trade policies in the 1990s and the poorest countries

Over the past decade, developing countries reduced the level and dispersion of tariffs, dismantled nontariff trade barriers, and increased reliance on market forces to allocate foreign exchange. These policies, coupled with other market reforms, were associated with an acceleration of output and export growth, except for countries that were affected by conflict or the breakup of the Soviet Union. The per capita income of small, low-income countries (thus excluding China and India) declined during the 1990s, but growth averaged 1 percent a year if countries involved in conflict and countries in transition are excluded. This represents a significant acceleration compared with the 1980s but is still well below the average of middle-income countries.

Weaknesses in trade-related policies continued to impede growth in many of the poorest countries. Appreciated real exchange rates and high real exchange rate volatility have often been associated with a muted export response to trade liberalization; per capita income growth was significantly faster in poor countries with relatively stable real exchange rates. The absence of effective duty exemption/drawback programs, coupled with fiscal reliance on tariffs on intermediate and capital goods, has increased costs for exporters. Finally, weak export infrastructure, inadequate ancillary export services, and high transport costs—often in part the result of policy shortcomings—have left many countries (particularly the landlocked ones) at a competitive disadvantage on international markets.

High trade barriers imposed by industrial countries on agriculture and processed food imports, along with agricultural subsidies, have contributed to the decline in developing countries’ share of world trade in these commodities. These trade distortions have particularly affected the poorest countries, because a host of other domestic policy and institutional weaknesses inhibit their diversification into less restricted sectors.

Standards, developing countries, and the global trading system

Product standards (rules governing the characteristics of goods that are generally imposed to protect health and safety) are critical to the effective functioning of markets and provide important support to the trade system. However, many developing countries (particularly the poorest ones) lack the technological and financial resources to develop product standards effectively, meet industrial countries’ import requirements, and bring disputes when standards are used to discriminate against their exports.

Adherence to labor and environmental standards (for example, the right to form unions and limits on pollution) is critical to economic efficiency and welfare. However, pressures to use trade sanctions to support labor and environmental standards threaten to restrict developing countries’ access to international markets while doing little to improve welfare. Labor and environmental standards generally improve as countries develop, but low labor and environmental standards are not usually a significant source of competitive advantage. The imposition of trade sanctions is vulnerable to capture by protectionist interests and hurts workers by reducing demand for the goods they produce. Even if the threat of sanctions improves conditions for some workers, average working conditions in the economy are unlikely to improve. Similarly, empirical studies show that imposing trade sanctions on exporters can cause considerable output losses while doing little to reduce pollution.

Electronic commerce and the developing countries

The Internet will boost efficiency and enhance market integration, particularly in developing countries that are most disavant-
taged by poor access to information. The Internet will raise productivity through increased procurement system efficiency, strengthened inventory control, lowered retail transaction costs, and elimination or transformation of intermediaries. The cost of reaching industrial country markets will fall, generating large gains from trade. Developing-country firms that sell labor-intensive, differentiated products (for example, crafts, software, and business services—particularly services involving the remote processing of routine information) will experience increased demand. Developing-country firms also will benefit from the opportunity to leapfrog to the most advanced technologies.

Nevertheless, Internet access is grossly unequal across countries, and the Internet also brings increased danger of economic marginalization to countries that cannot access it effectively. For example, developing-country firms that lack the reputation to bid on the new online exchanges or the technology to interact efficiently with more sophisticated firms could see reduced demand. While the growing use of cell phones and other technologies should increase Internet access rapidly over the next 10 years, access is likely to remain limited in per capita terms, especially in the poorest countries.

Taking advantage of electronic commerce requires an open economy to promote competition and diffusion of Internet technologies; improved international coordination (for example, in confronting challenges to domestic tax and financial systems); and efficient social and infrastructure services, in particular a competitive telecommunications sector and a well-educated labor force. The importance of network effects and first-mover advantages emphasizes the importance of government support for achieving these goals.
Abbreviations, Acronyms, and Data Notes

APEC  Asia Pacific Economic Cooperation
CAP  Common Agricultural Policy
CEE  Central and Eastern Europe (Central and Eastern European countries are CEECs)
CFA  Communauté Financière Africaine
CIS  Commonwealth of Independent States
EBRD  European Bank for Reconstruction and Development
ECA  Europe and Central Asia
EMU  European Monetary Union
EU  European Union
FAO  Food and Agriculture Organization of the United Nations
FDI  Foreign direct investment
GATT  General Agreement on Tariffs and Trade
GDP  Gross domestic product
GSP  Generalized System of Preferences
HIPC  Heavily Indebted Poor Countries
HIV/AIDS  human immunodeficiency virus/acquired immune deficiency syndrome
ILO  International Labour Organisation
IT  Information technology
LAC  Latin America and the Caribbean
LIBOR  London interbank offered rate
LDC  Least-developed countries
M&A  Mergers and acquisitions
MNA  Middle East and North Africa (use MNA instead of MENA)
Mercosur  Latin American Southern Cone trade bloc (Argentina, Brazil, Paraguay, and Uruguay)
MFN  Most favored nation

Embargoed until Tuesday, December 5, 2 p.m. EST
### 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.