

Wto role in economic growth and poverty reduction economics essay



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Since it established in 1995, World Trade Organization (WTO) has an agenda to facilitate the international trade among its members to assist economic growth. It provides assistance in terms of General Agreement on Trade in Services (GATS), General Agreement on Tariffs and Trade (GATT) and Agreement on Trade Related Intellectual Property Rights (TRIPS). The basic philosophy of the WTO is to support transparency, ease nondiscriminatory trade between member countries and open new markets for trade for the welfare of the world. In addition to this WTO is responsible for implementing the Multilateral Trade Agreement, facilitate negotiations among members, enhance the dispute settlement mechanism and cooperation with the leading bodies like World Bank and IMF to aid trade procedures (Hoekman & Kostecki, 2009).

With the prime objective of Development, World Trade Organization launched a new round of multilateral trade negotiations at Doha on November 2001. This round is called “ Doha Development Agenda” and its central objective is to seek the enhancement of integration between poor countries into world economies for the collective development and reduction in poverty. The DDA is still in progress and WTO fails to conclude it.

The purpose of this study is to critically analyze and evaluate the importance of WTO and Doha Round in the economic growth and poverty reduction around the globe, specifically in the light of study conducted by Harvard economist Dani Rodrik (2003) in his seminal paper titled as “ The Global Governance of Trade as if Development Really Mattered”. Rodrik (2003) argue the reliability of trade policies mechanism of WTO for generating self-sustaining economic growth and poverty reduction.

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The essay will first discuss the economic growth factors highlighted by Rodrik (2003) and support the argument by incorporating theories and past scholarly studies (Gallagher, 2005; Lipsey and Lancaster, 1956; Kowalczyk, 2002; Amsden, 2001; Kim and Nelson, 2000; Wade, 2004; Amsden 2001; Acemoglu 2000). Later on the paper will highlights the Doha Development Agenda, its objectives, significance and role of WTO in the prosperity of the world (REFERENCES).

Doha Round: Background

The members of the WTO met in Doha, Qatar on November 9-14, 2001, for the fourth WTO Ministerial Conference. At that conference, they decided to start a new round of multilateral trade negotiations. Negotiations in trade in agriculture and trade in services were already started before this round.

These on-going talks had been obligatory under the previous round of multilateral trade negotiations (the Uruguay Round, 1986- 1994). However, some countries together with United States hunted to enlarge the agriculture and services discussions to allow trade-offs and attain greater trade liberalization.

There were also other reasons for these negotiations. Just months earlier the Doha Ministerial, the United States had been attacked by terrorists on September 11, 2001. Several government bureaucrats called for better political unity and saw the trade talks as a means near that culmination. Some administrators thought that a fresh round of multilateral trade discussions could help a world economy debilitated by slump and terrorism-related uncertainty. According to the World Trade Organization, the year

2001 exhibited "...the lowest growth in output in more than two decades," and world trade actually contracted that year. 3(WTO, 2002).

In addition to this, nations progressively have been looking for bilateral or regional trade agreements. The 366 regional trade contracts have been alerted to the GATT/WTO on October 15, 2006, 214 of which are presently in force . 4(WTO, 2006). There is divergence on whether these more imperfect trade contracts cast positive or negative impact on multilateral arrangement. Many professionals say that regional treaties are stress-free to negotiate, they consent a better notch of liberalization, and are active in opening new markets. However, other claim that the regional treaties or agreements interrupt the universal nondiscrimination code of the WTO, deny benefits to countless meager nations that are often not gathering to the provisions, and divert resources away from the WTO negotiations. 5 (CRS Report RL31356)

With the background of a drooping global economy, terrorist act, and a rising amount of regional trade activities, trade ministers from member countries met in Doha. At that meeting, they accepted three documents which included the assistance for upcoming activities. The Ministerial Declaration includes a preface and a work package for the new round and for other future action. This Declaration doubled the on-going talks in agriculture and services into a wider agenda. The agenda comprises of industrial tariffs, topics matters to developing countries, changes to WTO rules, and other provisions. The Declaration on the TRIPS Agreement and Public Health boons a political clarification of the WTO Agreement on Trade-Related Intellectual Property Rights (TRIPS). 6(Fergusson, 2002) A document on Implementation-

Related Issues and Concerns includes different decisions of interest to developing nations.

Economic Growth and Development

Although it has taken substantial advantages, the current wave of globalization has combined massively different economies at different stages of development. Developed and developing countries similarly, are hit with market failures. In many cases integration can lead to the globalization of market disaster - in other words, economic distortions (Gallagher, 2005).

According to economic theory when the market claps, policy tools should be organized to correct the distortions shaped by private markets (Lipsey and Lancaster, 1956). According to Rodrik (2003), the economies of a market are based on a wide variety of non-market institution that regulates, legitimize and stabilizes the economy. Most of these non-market institutions include governmental and public institution. They serve like the backbone of the economy. A research conducted by Acemoglu (2000) concludes that the quality of the public institutions of any country determines its short term and long term development.

Institutional diversity has in fact a more important implication (Rodrik 2003). According to author, there is no single plotting between a good working market and the form of non - market institutions required to sustain it, as is clear from the wide variety of supervisory, steadying and legitimizing institutes in today's progressive industrial cultures. Rodrik (2003) give the example of American style of capitalism and Japanese style. They both are different each other and also differ from the European style. And even within

Europe, there are huge variations between the institutional arrangements
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like in Sweden and Germany. Over the long term, each of these systems has accomplished equally well (Rodrik, 2003).

Rodrik (2003) also raise the question that why were certain republics adjust their macroeconomic policis faster than other countries? According to him the real determinants of development performance after the 1970s are based on the capability of national institutions to be able to manage the distributional battles prompted by the external jolts of the period. Whether successful or not, the social clashes and their management plays an important role in spreading the effects of external economic performance shocks . Countries with poor establishments for conflict management are proved to be worse in managing shocks (Rodrik 1999).

Doha Developing Agenda & Poverty reduction

The Doha scenario is relatively less poverty alleviating because it contains few of the reforms that are most poverty eradicating, namely the reduction of developing country tariffs, while entailing the complete removal of export subsidies, the reform of which raises national poverty in many countries.

Ivanic's (2005) studies show the the fact that the removal of export subsidies in the EU and the USA tends to raise poverty in most of the developing countries, even while reducing poverty amongst the agriculture-dependent households in these poorer countries - is hardly surprising in light of earlier studies highlighting the vulnerability of low-income, net food importing countries to higher world prices for these products (e. g., Valdes and McCalla, 2004). Since these export subsidies are fully removed under the Doha scenario, this adverse poverty impact is fully realised under that partial

reform scenario. On the other hand, Ivanic (2005) finds that cuts in <https://assignbuster.com/wto-role-in-economic-growth-and-poverty-reduction-economics-essay/>

developing country tariffs as a group have a very favourable impact on national poverty in the focus countries. 7 Yet there is very little reform of developing country tariffs under the core Doha scenario - first due to limited reciprocity (part of Special and Differential Treatment), and second due to the extensive binding overhang in developing countries. Thus, while developing country tariff cuts are among the most poverty-friendly elements of global trade reform, very little of the beneficial impact of these reforms is felt under the Doha scenario.

This suggests that deeper cuts in developing country tariffs under the Doha scenario might have a beneficial impact on the poverty outcome. This is explored under an alternative scenario, nicknamed ' Doha-All', in which developing countries fully reciprocate the developed country reductions in tariff bindings. Ivanic shows that Doha-All does indeed have a more favourable poverty outcome than the base Doha scenario. This is a striking finding in light of the frequent assertion that non-reciprocal tariff cuts are necessary in order to promote development.

LONG-RUN IMPACTS ON PRODUCTIVITY, INVESTMENT AND GROWTH

Sustained reductions in poverty require economic growth, which leads naturally to the question of how a prospective Doha Development Agenda might affect the growth rates of countries currently experiencing the highest levels of poverty. While most of the case studies focus on the near-term impacts of WTO trade reform on poverty, two of them and our single global study do examine the longer term impacts whereby trade reform stimulates investment and productivity and thus economic expansion. In the case of <https://assignbuster.com/wto-role-in-economic-growth-and-poverty-reduction-economics-essay/>

Bangladesh, trade reforms which involve across-the-board reductions in domestic tariffs tend to stimulate growth and poverty reduction by lowering the price of capital goods and spurring investment.

The sector most favourably affected by this trade-led growth is readymade garments, a major employer of low-income women, and it therefore has a beneficial impact on poverty (Annabi et al., 2005). The second linkage between trade reform and growth is through increased productivity. This is the focus of the Russian country study (Rutherford, Tarr and Shepotylo, 2005). These authors conclude that, to have a substantial growth impact, trade reforms have to be broad-based and far reaching – going beyond merchandise trade to include services. Because services represent a critical input into nearly every other sector in the economy, improving the quality, cost and variety of services available in the economy can boost productivity substantially. Indeed, while merchandise trade reform under our Doha scenario has a slight adverse impact on poverty in Russia (due to her status as a net food importer), when combined with liberalisation of services trade and investment, substantial productivity gains, growth and poverty reduction are achieved. In the single, global analysis undertaken for this project, Anderson, Martin and van der Mensbrugge (2005) utilise the latest version of the World Bank's Linkage model, along with the latest GTAP data set, to project the growth path of the global economy from 2001 to 2015. Drawing on a rapidly growing literature, they devote most of their attention to the potential impacts of increased exports on productivity growth, and find that allowing for these gives a substantial boost to the global gains.

Anderson, Martin and van der Mensbrugghe estimate the income gains to the poorest households in each country, by deflating the unskilled wage by food and apparel prices and then applying to this real income change an estimated elasticity of poverty reduction with respect to income growth at the poverty line. 8 Applying these estimates of earnings at the poverty line to the poverty elasticity of income in each region, they predict the extent of poverty reduction in developing countries. Of course, this depends on the poverty line. It also depends on the baseline poverty projections, which decline considerably between 2001 and 2015. For \$1/day poverty, the estimated reduction in 2015 is 4 million for the core Doha scenario and 35 million for Full-Lib. When applied to 2001 poverty levels, the authors' calculations result in poverty reductions of 12. 2 million and 88. 1 million, respectively. For \$2/day poverty, the reduction in the number of poor is larger (see Table 1). Based on the Doha/Full-Lib comparison, it is clear that the (rather ambitious) Doha scenarios capture only a relatively small portion of the total poverty reduction possible under trade reforms. When the authors consider the (fully reciprocal) Doha-All scenario, they find that implementing deeper cuts in the developing countries enhances the poverty outcome, nearly doubling the poverty reduction obtained under the central Doha scenario. This finding reinforces Ivanic's conclusion on the beneficial poverty impacts of developing country tariff cuts under the DDA