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THE RELATION BETWEEN OPENNESS TO TRADE AND ECONOMIC GROWTH

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Abstract

International trade has been a major driver of global growth and prosperity over the last century. The paper aims to provide an analysis on the link between openness to trade and economic growth. The empirical literature has taken one of two vantage points. The first one is to analyze the correlation between openness and growth in data sets that cover a large section of developing and developed countries, in the tradition of crosscountry growth empirics. The second one is to concentrate on country or region-level analytical case studies of economic growth. We believe that this framework will contribute to understanding why certain developing countries have made progress, while others have not. Progress has been very impressive for a number of developing countries in Asia and, to a lesser extent, in Latin America. But progress has been less rapid for Africa and the Middle East.

Key words: free trade, economic growth, liberalization, developing countries, barriers to trade
JEL classification: F1, F5, O1, O3

1. Introduction

The expansion in the volume of world trade has been supported by a steady decline in trade barriers, helping to sustain global growth and enable economic development. However, doubts about the advantages of greater openness to trade are feeding a persistent protectionism and putting these benefits at risk. While expanding export markets are widely accepted as beneficial, increases in imports can be seen as threatening, replacing domestic production with goods and services from abroad. Governments are often under pressure to respond by protecting sectors from international competition.

With the benefits so clear, and the costs so substantial, why is there not a greater constituency for further progress in reducing barriers to trade? The Doha Round of multilateral trade negotiations has been under way for more than five years, much longer than initially scheduled. Following the results achieved at the Sixth Ministerial Conference of the WTO in Hong Kong Special Administrative Region of China in December 2005, the negotiations entered their most crucial phase [United Nations, 2006, 45-51]. The breakdown of the negotiations was not due to one specific obstacle or one particular country's

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negotiating position, but rather to a confluence of individual interests and goals [Sallie James, 2006]. Why is the current round of trade talks in the WTO failing to make faster progress? Part of the answer lies in the mercantilist approach which some participants take to trade negotiations. While opening new export markets is rightly seen as a success, opening economies to imports is often (wrongly) seen as a ‘concession’.

The mercantilist approaches which characterize many trade negotiations ignore these benefits from imports. The purpose of negotiations is mistakenly taken to be expanding export opportunities while minimising demands for greater openness to imports. This view can result in a defensive approach to trade negotiations in which negotiators aim to extract substantial “concessions” from other parties, while offering little in return. Such a strategy entails a high risk that negotiations will break down. Recognition of the benefits from increased trade warrants adopting negotiating strategies that are more conducive to reaching a deal that can benefit all parties. A defensive approach is self-defeating since it fails to recognize the long-term incompatibility of simultaneously pursuing policies to promote exports while restricting imports.

2. The empirical literature

The empirical literature on openness and growth is voluminous indeed. Broadly speaking, however, a number of findings appear to emerge from this literature. First, there is no strong unconditional or conditional correlation between economic growth and a number of direct measures of trade policy, such as weighted or unweighted tariffs, import quotas, or other non-tariff barriers. This point was first made by Rodríguez and Rodrik that generated some surprise in the literature [Rodríguez and Rodrik, 2001, 261–324]. It has since been confirmed by among others who argue that there may be a non-linear relationship where the effect of tariffs on growth depend on the initial level of a country’s income and may be positive or negative [DeJong and Ripoll, 2006, 625-640]. Second, there appears to be a reasonably strong correlation between growth or productivity and the ratio of trade in GDP, especially when the latter is measured in prices of a constant base year [Dollar and Kraay, 2002, 195-225]. Some attempts have been made to discern whether this correlation actually embodies a causal relationship.

The most well-known attempt, formulated by Frankel and Romer, consists in using instrumental variables estimates of the effect of trade volumes on growth where the latter is instrumented with its geographic determinants as derived from the estimation of gravity equations [Frankel and Romer, 2000, 379-99]. These results are controversial they are not robust to controlling for the direct effect of geographical variables on income or productivity. Other attempts to discern causality using alternative methods to instrumental variables do not confirm the existence of causal effect [Rodrik and Rigobon, 2004].

A drawback of using the trade to GDP ratio as an indicator of openness is that it may capture many non-policy induced changes in trade openness which are largely irrelevant if one is preoccupied with designing a developing country’s trade strategy. Natural resource booms, the emergence of new export sectors, changes in other countries’ trade policies, and changes in foreign aid can all have an effect on the trade to GDP ratio without necessarily having an obvious link to trade policy. In sum, the key problem of the trade/GDP ratio is that it is an indicator of results and not of policy actions.

To take just one example, if the infant industry argument for protection were correct, initial levels of trade protection would lead to the development of productive, competitive domestic industries that would later on be capable of competing internationally. Tariffs would be associated with higher growth, but so would exports. A correlation between trade volumes and growth may thus not be very informative about the desirability of activist trade policies. Some authors have tried to produce compound measures of trade policy that capture the different ways in which an economy can be closed to international trade. According to these authors, one would not expect to observe a simple correlation between simple measures of trade policy such as tariffs and economic growth because countries can use many policy devices to impose trade protection, of which only one is import tariffs.

The most famous of these measures was provided by Sachs and Warner and recently updated [Sachs and Warner, 1995]. What these indices actually measure is very controversial. Rodríguez and Rodrik argue that the Sachs and Waner variable's effect on growth was purely driven by two subcomponents of the index – black market premia and export marketing boards – which are not obviously linked to trade policy. For example, they argue that the effect of export marketing boards on growth in the Sachs-Warner study comes from the fact that the variable was taken from a 1994 World Bank study called *Adjustment in Africa* that covered only 29 African economies undergoing adjustment programs during the eighties, leading to the exclusion of non-African or African non-adjusting economies from the sample and strongly biasing the results in favor of a trade-growth correlation. Rodríguez levies similar criticisms at the Wacziarg and Welch exercise [Wacziarg and Welch, 2003].

In recent years, there has been growing skepticism of the possibility of establishing strong conclusions regarding causal growth effects using the cross-country regression framework. A growing consensus appears to have emerged around the belief that the problems of causality, robustness, and specification are simply too pervasive and difficult to solve in the context of highly aggregated cross-national empirical data.

This skepticism has led authors such as Bhagwati and Srinivasan to discount the aggregate growth evidence altogether, and to call for concentrating exclusively on the evidence from case studies [Bhagwati and Srinivasan, 1999]. While these criticisms should be taken seriously, it is important to note that even if one takes the cross-country evidence at face value accepting without questioning the framework, it does not appear to lend the strongest of supports to the pro-trade view.

As in the case of the theoretical literature, it appears to be open to multiple interpretations, some of which are consistent with the view that protection is not unequivocally harmful for growth. Country-level studies of openness and growth are also open to multiple interpretations. Bhagwati and Srinivasan cite the OECD and NBER studies of more than a dozen major developing countries carried out in the 1960s and 1970s, which uncovered key differences between the constraints on economic performance in countries that pursued import substitution strategies and those that pursued export promotion. A revised interpretation of this view was given by the World Bank's 1993 study *The East Asian Miracle*. Broadly speaking, the key argument of this study was that the openness to trade and reliance on market forces of East Asian economies played a fundamental role in making possible their sustained growth acceleration.

The World Bank's characterization of the high-growing East Asian tigers as economies that followed a strategy of free trade has, however, been strongly questioned by several authors. Some of these criticisms were collected in a 1994 volume published by the Overseas Development Council [Fishlow et al., 1994] in which Rodrik, Wade and Haggard disputed the key findings of the World Bank study. In Robert Wade's words, "the World

Bank's report uses standards of inference so elastic that practically anything could be confirmed."

One of the key points of dispute concerns whether East Asia can adequately be characterized as a region that followed a non-activist trade policy. The World Bank study had concluded that East Asia's relative prices were closer to international averages than those of other regions, supporting the contention that its international trade was relatively undistorted. Wade pointed out that this is only true when one uses an unweighted average that includes the island economies of Hong Kong and Singapore, where price distortions were necessarily negligible. In contrast, during the 1976-85 period, relative prices in Japan, South Korea, and Taiwan deviated more from international prices than those of countries which are generally perceived to have had strong records of intervention, such as India, Pakistan, Brazil, Mexico, and Venezuela in the period 1976–85. Similarly, Amsden's (1992) in-depth study of South Korea's industrialization contends that the success of its industrial policies was largely due to a active intervention in the determination of relative prices, a strategy that she labels "getting relative prices wrong" [Amsden, 1992]. During the 1990s, the set of liberalization experiences that could be the subject of in-depth studies expanded dramatically. Between 1990 and 2002, the average tariff rate in the world went down from 10.5% to 6.0% between and the ratio of imports plus exports in GDP rose from 75.2% to 86.8% [World Bank, 2005]. In 1990, the General Agreement on Tariffs and Trade had been signed by 96 countries: between 1990 and 2005, 65 countries joined it either as the GATT or in its most recent incarnation as the WTO.

While the result of these liberalization experiences has not yet been fully analyzed, what is clear is that aggressive trade liberalization proved to be very far from a necessary condition for a growth take-off. Some of the most aggressive liberalizers of this period were former Communist economies such as Mongolia, Ukraine, and Moldova, which suffered some of the deepest growth collapses in postwar history. But openness did not only fail to pay off in the former Soviet Bloc. With the exception of Cuba, the evidence suggests that virtually all Latin American economies moved in a direction of greater trade liberalization during the 1990s. Yet the region's growth performance during the post-reform period has been disappointing to say the least, with per-worker GDP and total factor productivity growing respectively at annual rates of only 0.1 percent and 0.2 percent between 1990 and 2002 [Ocampo, 2005, 67-88]. The region is said to have entered an era of "reform fatigue" in which voters are increasingly willing to vote for political platforms to roll-back reforms. In sum, neither cross-national empirical studies nor country-level case studies seem to give strong support to the idea that openness is unequivocally good for growth. A reading of the evidence in support of activist trade strategies is certainly possible and indeed has been carried out by reputable mainstream economists. These conclusions mirror our interpretation of the theoretical literature, which can also be interpreted as supporting a case for intervention in trade policy.

One way to explain the apparent divorce between the favorable view that the majority of economists have about free trade and the lessons given by the empirical and theoretical literature is by thinking about free trade as one of the components of our discipline's "hard core" [in the sense of Lakatos, 1976], a set of beliefs and methodological assumptions that are not considered the appropriate subject of empirical tests. Since these core beliefs are never tested without auxiliary assumptions, any failure to explain the evidence can be handled by altering the assumptions but not the core belief. As a senior faculty member once quipped after seeing a presentation of my work, "if the data does not say that trade is good for growth, then the data must be wrong." It is not easy for a discipline to abandon or even begin to question a hard core belief, but neither is it impossible.

In 2005, the World Bank published a comprehensive assessment of the experience of the nineties with economic reforms [World Bank, 2005, 131-132]. The sobering assessment of this disappointing period recognizes that the results of economic reforms were far below what its proponents had expected and rejects the one-size-fits-all approach to reform that the institution espoused during great part of the period in question. On the concrete matter of trade policy, the report concludes that "while trade reforms can help accelerate integration in the world economy and strengthen an effective growth strategy, they cannot ensure its success," and "the distributive effects of trade liberalization are diverse, and not always pro-poor." On the fairness of the world trading system, it states that "global markets are the most hostile to the products produced by the world's poor." As Rodrik wrote in his review of this volume, "occasionally, the reader has to remind himself that the book he is holding in his hands is not some radical manifesto, but a report prepared by the seat of orthodoxy in the universe of development policy" [Rodrik, 2006, 974-975]. A reconsideration of the role of openness in countries' development strategies would fundamentally alter the nature of the debate on generating and sustaining growth. Whether this occurs will probably depend not only on the internal dynamics of academia, but also on the extent to which outside reality exerts pressure for such a change. Political discontent with the experience of the nineties is undoubtedly a key reason for the World Bank's reappraisal of the reform experience. In the same way, the results of the current reassertion of state involvement in much of the developing world are likely to deeply influence the direction that development research will take in the future. Perhaps, to turn Keynes on his head, economists are nothing more than the slaves of long-defunct practical men.

3. The dynamic effects derive from exposure to imports and exports

Openness to trade has helped promote structural change in the economy, enhancing processes already underway due to technological advances, and allowing domestic resources to shift from less productive to more productive uses. In Europe too reductions in trade barriers have boosted economic performance: EU GDP is estimated to be nearly 2 per cent higher as a result of the creation of the Single Market. But the EU still has a long way to go in reducing barriers to trade with the rest of the world, particularly in agriculture. Increased external openness is an integral part of the Lisbon Agenda to promote economic reform within the EU.

Despite the manifold benefits of openness to trade, trade protection remains a significant problem. Although barriers to trade have fallen significantly over the last half-century, particular sectors and products remain subject to high levels of protection. Average import tariffs between OECD countries are around 3 per cent; but tariff peaks reach 506 per cent in the EU, and 350 per cent in the US. The highest tariffs are typically levied on goods from the developing world. Agriculture is heavily protected worldwide, imposing substantial costs on both developing countries and our own economies. Industrial countries' total support to agriculture exceeds $300 billion annually. In Europe alone the Common Agriculture Policy (CAP) costs taxpayers some €50 billion a year, plus another €50 billion in extra consumer costs through higher food prices. The global benefits of significant agricultural liberalisation could be as high as $350 billion by 2015.

The political difficulty of dismantling protectionist mechanisms means they tend to persist long after they have ceased to be economically justified. The stated objectives of protectionist policies can almost always be achieved more cheaply and effectively though alternative policies. Targeted income support and retraining for those leaving declining industries can achieve the same objective as import restrictions (i.e. preventing unemployment) at much lower cost, and with much greater benefits in terms of labour market flexibility and the productivity of the economy as a whole. Additional incentives for R&D-intensive sectors provide a more direct means of compensating companies for spillover benefits than protection.

The global welfare gains from significant liberalisation in agriculture alone could reach $350 billion. The estimated gains from reducing protection on manufactured goods range from $190 billion for partial liberalisation to $644 billion for full liberalisation. The impact of further opening up of services trade is harder to quantify, but could be extremely significant. In short, while estimates vary according to different models used, the order of magnitude is compelling. Reducing protection would make a very substantial contribution to global welfare.

Changes in the structure of production and employment are an intrinsic part of capturing the benefits of greater openness to trade. This requires flexibility in labour, product and capital markets; and social policies which, while providing adequate support, help manage change rather than preventing it. The relationship between flexibility and openness is mutually reinforcing: openness can help increase flexibility in the economy. The European Union in particular must press forward with its economic reform agenda, alongside greater openness to trade, as part of the drive to improve productivity and competitiveness.

Governments have a vital role to play in creating flexibility – equipping their economies to benefit from the dynamic opportunities which openness to trade generates. Investment in education and training enables individuals and firms to respond positively to change. Economic reforms which reduce the regulatory burden on business, encourage competition and promote enterprise and innovation have a strong mutually reinforcing relationship with trade openness.

Flexibility and fairness should be advanced together. Social safety nets are very important in supporting individuals dislocated by trade reform, and can help maintain support for change through difficult transition periods. But social protection should contribute to flexibility – by linking it to opportunities to acquire new skills, for example. The focus should be on enabling individuals to re-enter the labour market as quickly and smoothly as possible.

Trade has the potential to lift millions of people out of poverty. Developing countries stand to gain substantially from further reductions in trade barriers. A significant reduction in developed country barriers to trade in agriculture could benefit developing countries by up to $75 billion a year – significantly more than total annual aid flows.

Openness to trade strengthens the drivers of productivity through six important (and mutually reinforcing) routes:

- more efficient allocation of resources. Trade enables each country to specialise in the production of those goods and services which it can produce most efficiently. Countries can raise overall consumption by exchanging their surplus production for the surplus production of other countries which have a different comparative advantage.

- economies of scale**.** In the absence of trade, economies of scale are constrained by the size of the domestic market. Trade removes this constraint, allowing industries and firms to produce on a more efficient scale than would otherwise be possible.
- similarly, trade increases incentives for firms to innovate, because the rewards from successful innovation will be proportionately greater if firms are selling in larger (i.e. export as well as domestic) markets. Where highly productive firms expand as a result of exports, this boosts the productivity of the economy as a whole.
- greater competition. Trade openness exposes domestic firms to greater competition. This helps to encourage exit from the marketplace of the least productive firms; reduces monopoly rents; drives down margins; and reduces prices for consumers. Competition further reinforces incentives to innovate, helping to create more competitive firms which can then compete more effectively in world markets.
- access to new technology. Trade can provide direct access to goods and services that incorporate new technologies, particularly where more open trade regimes have led to different stages of the production process being undertaken in different countries.
- incentives for investment. Better access to imports and to export markets increases the scope for productive investment by creating new business opportunities. Foreign direct investment (FDI) enables technology and innovation developed abroad to be applied to domestic production, enhancing competition and leading to a faster diffusion of more efficient and innovative processes.

4. Aspects regarding openning markets to trade in developing countries

But developing countries have to overcome significant capacity constraints in order to capture the benefits of more open trade. In many low-income countries, low levels of human, physical and institutional capital seriously constrain their economies' capacity to respond to the signals from international markets. High transaction costs – for example transport, insurance, customs procedures, communication costs – often dwarf the impact of formal trade barriers. Low-income countries also typically have much higher barriers to the entry and exit of firms, and poor access to financial services.

Overcoming these capacity constraints will require significant resources in addition to current aid flows. Given the public good nature of many of these investments (especially those in education and health), it is unlikely that private investment will fill the gap. It is therefore critical that trade reform in developed countries is accompanied by increases in aid flows through mechanisms such as the International Financing Facility. Aid and trade will then reinforce each other, with a substantial impact on development and poverty reduction.

Developing countries also face specific problems in managing the transition to more open markets in their own economies. For those dependent on preferential access to rich country markets, erosion of the value of those preferences through multilateral reductions in trade barriers could have a significant effect, necessitating profound structural change. Low-income countries also tend to be more heavily reliant on tariff revenue; and they are more vulnerable to balance of payments short-falls.

This suggests carefully designed and sequenced trade reform packages, which are integrated into development and poverty reduction strategies, and supported by significant additional international aid flows for investment in physical, human and institutional capital would help ease capacity constraints and help manage change. Eliminating quota restrictions and customs exemptions, reducing non-tariff barriers and reducing tariff dispersion to the minimum are likely to be sensible first steps in most developing countries' trade reform programmes.

Developed countries have an important role to play in providing the resources for the investment needed. This includes direct assistance to facilitate adjustment in those countries badly affected by the loss of preferential margins; and substantial additional resources to allow countries to build a pro-trade infrastructure, and boost their social spending in education and health.

In 2007, for the fifth consecutive year, the expansion of the world economy is maintain its momentum with an estimated overall output growth of 3.4 per cent. Thus developing countries including many of the poorest, should continue to benefit from strong demand for primary commodities. In many developing countries, including in Africa, positive trends in the terms of trade since 2003 have contributed to improved external and fiscal balances. These have paved the way for more expansionary policies, and for a widespread recovery in investment rates. Africa is set to continue growing at around 6 per cent in 2007, while growth rates in Latin America and West Asia are expected to slow down slightly to close to 5 per cent. Indeed, over the past five years, per capita GDP in Africa, West Asia and Latin America has increased by more than 15 per cent, a rate not seen in these regions since the early 1980s. This certainly raises hopes for greater progress towards meeting the United Nations Millennium Development Goals. However, it has to be noted that not all developing countries have experienced improvements in their terms of trade, because they have to contend with higher oil import bills while the prices of the products they export have not increased at similar rates.

Once again, the fastest growing regions of the world economy will be East and South Asia, due mainly to the strong performances of China and India. Given their high investment ratios, this pattern is likely to continue in the years to come, provided that the inevitable correction of global imbalances does not occur at the expense of a major recession in the United States, one of the largest markets for Asian exports. There are some signs of a slight shift in the sources of world economic growth, with the United States economy slowing down and domestic demand in Europe and Japan recovering.

The performance of developing countries and their potential for catching up with the developed countries has improved considerably. Although enormous differences in absolute incomes persist, developing countries increased per capita GDP by almost 30 per cent between 2003 and 2007, compared to 10 per cent in the G-7 countries. Real per capita income has picked up in recent years in Latin America, Africa and West Asia after more than two decades of stagnation. In East and South Asia economic growth accelerated from already high growth rates, which allowed these subregions to more than double their per capita GDP in only 14 years. The transition economies of South-East Europe and the CIS returned to growth in 1999–2000. Since then, they have been the most rapidly growing subregions, with an accumulated increase in per capita income of almost 75 per cent. However, this recovery has come after such a deep depression that current per capita GDP is still below its level of 1989. In 2007, six years after the start of global recovery, less than 10 out of 143 developing countries are set to record a fall in real per capita income. At the same time, the volatility of growth has declined to levels normally observed only in highly developed economies.

The dynamics of overall growth in developing countries have been stimulated by strong growth in export revenues. Real exports of developing economies more than doubled between 1998 and 2006, whereas those of the G-7 rose by less than 50 per cent. Among the developing regions, East and South Asia were clearly the most successful in increasing exports (by volume), at a rate of about 160 per cent, despite a deterioration in their terms of trade. In other developing regions, export volumes grew at a more moderate pace, close to that of the G-7, but gains from the terms of trade boosted the purchasing power of their exports, and consequently their imports. Overall, the share of developing countries in global trade rose from 29 per cent in 1996 to 37 per cent in 2006.

As a consequence of this favourable trade performance, the overall current account of developing countries has swung into a surplus for the first time since the early 1970s, and that of developed economies is in deficit, mainly due to the huge deficit of the United States. This positive swing could be observed in most developing regions and in the transition economies. For example, in 1996–1997, South America, South-East Asia and the transition economies posted significant deficits, and East Asia and West Asia were close to balance; all of them now have solid current-account surpluses. As a result, a number of developing countries have become net exporters of capital on such a scale that there has been a net aggregate capital outflow from developing countries. But this has not been a constraint on domestic capital formation. Indeed, while real investment in the G-7 countries remained rather flat (and investment/GDP ratios declined), many developing economies were able to trigger an investment recovery once their financial crises were overcome. The sustained net capital exports from the poorer developing countries to the capital-rich developed countries raises doubts about the validity of orthodox development theory in the new global context, and points to the need for a rethinking of the most crucial assumptions about the functional relationships between savings, investment, capital flows and alternative policies and catch-up paths.

Asia is now taking the lead position in exports of manufactures, not only of low capital goods such as clothing, but also technologically advanced products. The trade share of other developing countries, however, have stagnated or even declined. African countries, in particular, have lost out. Whilst their share of overall world trade was 6 percent in the 1980s, it has now fallen to 2 percent.

Chile is usually portrayed as a success story in Latin America. However, even after 25 years of reform, there has been little upgrading of its industries beyond the expansion of natural resource based industries such as wood and chemical products. Primary products constitute over 81 percent of its exports. In the case of copper, which accounts for the bulk of Chile's exports, the percentage of refined copper declined in favor of primitive copper concentrates [Shefaeddin S.M. 2005].

Even more alarming, Jamaica, Ghana, Colombia, Uruguay and Paraguay all experienced high or moderate levels of growth rates of exports, but had negative growth rates of manufactured value added. Says Shafaeddin, "notwithstanding two decades of reform, Ghana's growth in MVA added was significantly negative, registering -3.5 percent during the 1990s, implying severe deindustrialization".

Growth rates have been on the decline in the past 25 years. Mark Weisbrot et al compare data on economic growth and various other social indicators of the last 25 years (1980–2005) with the prior two decades (1960-1980). They find that contrary to popular belief, the era of neo-liberal policies – 1980 to 2005 – saw sharply slower rates of economic growth and reduced progress on social indicators for the vast majority of low and middle-income countries [Weisbrot M, Baker D and Rosnick D 2005].

They divided developing countries into five groups according to their per capita income at the start of each period. In the top four groups, average growth rates fell by more than half, from averages of 2. 4 to 3.1 % in 1960–1979 to averages of 0.7 to 1.3 % in 1980-2005. Only the group with the lowest per capita Gross Domestic Product showed a tiny increase, from 1.7 to 1.8%, and only because this group included fast-growing China and India [Weisbrot, M et al 2005].

The International Labour Organisation (ILO) tells the same story: the mean world GDP per capita growth fell from 3.6 % in 1961 to just 1 % in 2003. According to Ha-Joon Chang, economics professor at Cambridge, per capita income shrank in sub-Saharan Africa in the 1980s (with the onset of structural adjustment policies). Growth was at -1.2% per annum. In the 1990s, it was 0.2 percent per annum. Between 2000 and 2003, growth returned to the region, but at a very low rate of around 0.5 percent. This means that even if the region continues to grow at the current rate for another 15 years, its per capita income in 2020 would still be lower than it was in 1980 [ILO 2004].

5. Conclusion

Both economic theory and countries' experience show that economies which trade more tend to grow faster. Income growth depends importantly on a country's capacity to raise its productivity. Openness to trade – both exports and imports strengthens - the drivers of productivity, by enabling a more efficient allocation of resources; by providing greater opportunities to exploit economies of scale; by exposing the domestic economy to greater competitive pressures; by rewarding innovation and providing access to new technologies; and by increasing incentives for investment. Taken together, these factors mean that openness to trade can play an important role in raising the long-run sustainable rate of productivity growth in the economy.

Trade developments offer major new trading opportunities for all economies. They also imply change. Resources are shifting away from traditional industries and into new ones; and the process of change will continue, as developing countries increase their share of world trade. The global benefits from the continued expansion of world trade are potentially substantial. A good pro-poor outcome of the current round of multilateral trade negotiations could boost global income by over $500 billion. The complete elimination of all agricultural and manufacturing tariffs could yield benefits of over $1,000 billion annually. Despite major reductions in trade barriers, protectionism continues to be a major drag on our economies and a barrier to lifting developing countries out of poverty.

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