

GLOBAL TRADE AND DEVELOPMENT

GLOBAL TRADE, THE UNITED STATES, AND DEVELOPING COUNTRIES

Trade plays a key role in an increasingly interconnected and interdependent world, and it makes up a large part of the global economy.

For example:

- The value of world exports in 2005 was over \$10.3 trillion, one-third of which originated in developing countries and one-third of which was sold in these countries.
- Over the past 40 years, trade has grown from 9.6% to 26% of the U.S. national economy. This shift has meant that more U.S. jobs are linked to trade and that Americans can buy more low-cost goods from abroad.
- As poor countries become richer and more integrated in the global economy, they purchase more American goods. About 45% of U.S. exports go to developing countries today, compared with 39% a decade ago.

HOW DOES TRADE AFFECT DEVELOPMENT AND GLOBAL POVERTY?

Trade has been a part of economic development for centuries. It has the potential to be a significant force for reducing global poverty by spurring economic growth, creating jobs, reducing prices, increasing the variety of goods for consumers, and helping countries acquire new technologies.

But economic integration affects different people, sectors, and countries differently. For example, the North American Free Trade Agreement (NAFTA), which governs trade between the U.S., Canada, and Mexico, has had mixed effects for the people of Mexico:

- It is estimated that without NAFTA, Mexico would have had 40% less foreign direct investment and its exports would have been 25% lower. This would have meant fewer jobs, and average personal income in 2002 would have been 4%–5% lower.

- However, NAFTA has not been able to ensure that the supply of jobs in Mexico keep pace with the growing demand. Since NAFTA took effect in 1994, Mexico has seen an increase of 500,000 manufacturing jobs but a loss of 1.3 million agricultural jobs. The number of jobs in the service sector has increased, although mainly in low-pay, low-productivity sectors.

The effects of NAFTA are an important reminder that free trade is not a simple solution for development and that removing trade barriers can create both winners and losers.

To read the studies on NAFTA from which these figures were drawn and to learn about the effects of global trade on the U.S., visit www.cgdev.org.

HOW DOES THE U.S. ENGAGE IN GLOBAL TRADE?

Global trade is governed by a variety of agreements that set the rules for trade barriers, such as tariffs, quotas, and production subsidies. The U.S. participates in three kinds of trade agreements:

- The U.S. has **bilateral** agreements (that is, agreements between two nations) with many countries, including Singapore, Chile, Jordan, Morocco, and Australia.
- The U.S. is a member of several **regional** agreements, such as NAFTA, and recently negotiated an agreement with Central American countries—the Central American Free Trade Agreement (CAFTA), which has not taken effect yet.
- The U.S. participates in **multilateral** agreements (agreements among many nations) through the World Trade Organization.

Multilateral trade agreements have the greatest potential to benefit development because they enable poor countries to join together, giving them a stronger bargaining position. Similarly, it is unlikely that the U.S. would change its policies in sensitive areas such as agriculture if the European Union were not at the table to make similar changes. If the rich countries did agree to eliminate their barriers to imports from poor countries, an estimated 270 million people would be lifted out of poverty.

HOW DO U.S. TRADE POLICIES AFFECT POOR COUNTRIES?

The U.S. is the largest market in the world. A strong U.S. economy is good for global development because it increases U.S. consumption of goods and services from abroad. But specific U.S. trade policies can have a negative effect:

Tariffs and quotas: The U.S. creates barriers to its market through taxes on imported goods (tariffs) and restrictions on the amount of a good that can be imported (quotas). The highest U.S. trade barriers are against imports made predominantly in poor countries—such as agricultural goods, textiles, and footwear. For example:

- The U.S. often collects more in tariffs on goods from poor countries than from rich countries, even though it imported a much higher value of goods from rich countries (see Table 1).
- The U.S. and other rich countries charge higher tariffs on processed goods, such as chocolate and shirts, than on primary goods, such as cocoa and cotton. For example, the U.S. does not have a tariff for cocoa beans, but imposes a tax of more than 25¢ a pound for certain kinds of chocolate. This makes it hard for poor countries to generate income by producing and selling higher value goods—such as by processing cocoa beans into chocolate.

WHAT AMERICANS THINK

- Two-thirds (67%) of Americans agree that the U.S. should lower its barriers to other countries' products if those countries are willing to lower their barriers to products from the U.S.
- More than three-quarters (77%) of Americans (and 81% of those in farm states) are in favor of the U.S. government giving subsidies to small farmers who own less than 500 acres, but only 31% (and the same proportion in farm states) are in favor of subsidies for large farming businesses.

Source: Americans on Globalization, Trade, and Farm Subsidies, Program on International Policy Attitudes, 2004

TABLE 1:
KEEPING PRODUCTS FROM DEVELOPING COUNTRIES OUT OF THE U.S.

In many cases the United States collects more in tariffs on imported goods from poor countries than from rich ones. The poor countries listed in this table, which contains data for 2001, sell mainly clothing, electronics, data processing machines, and some shellfish to the U.S. The rich ones sell aircraft, spacecraft equipment, petroleum, and some cars to the U.S.

EXPORTING COUNTRY	TARIFFS COLLECTED (\$MILLIONS)	TOTAL IMPORTED BY U.S. (\$BILLIONS)	AVERAGE INCOME PER PERSON PER YEAR (2003 \$)
France	359	33.5	24,730
Bangladesh	396	2.7	400
Norway	22	6.9	43,400
Mongolia	25	.1	480
UK	464	50.8	28,320
Philippines	370	9.2	1,080
Thailand	492	19.8	2,190
Indonesia	656	11.9	810
India	652	18.7	540

Sources: World Development Indicators, World Bank, 2005; Interactive Tariff and Trade DataWeb, US International Trade Commission 2005.

Subsidies: The U.S. government gives subsidies to American agricultural producers, allowing them to sell their goods for less than it costs to produce them. Farmers in poor countries find it hard to compete in world markets with cheaper American (and European) agricultural products. For example:

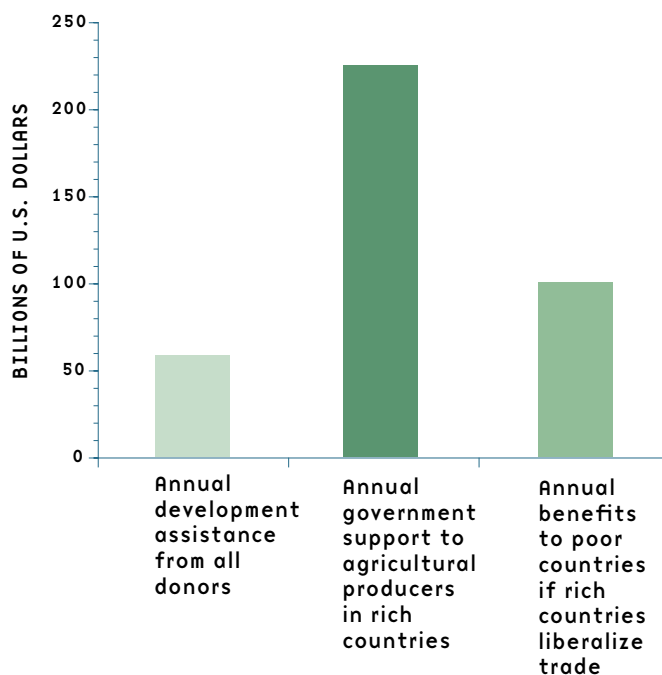
- From 1995 to 2005, U.S. Department of Agriculture subsidies to American producers totaled more than \$150 billion. The majority went to big agribusiness firms despite the fact that smaller farmers constitute roughly 90% of producers.

- The 2002 Farm Bill gave \$12 billion in subsidies, 80% of which went to large producers—those with more than 500 acres of land. Seventy-eight agribusiness firms received more than \$1 million each. The top recipient received \$110 million.
- The U.S. cotton sector received \$3.2 billion in subsidies in 2004. Of this amount, nearly 80% went to the top 10 % of recipients, or about 13,000 cotton producers. By comparison, these subsidies make it hard for the more than 10 million cotton farmers in West and Central Africa to sell their products on world markets..

Cross-purposes: These trade policies undermine other efforts to support economic development abroad. For example:

- Each year the U.S. gives over \$390 million in development assistance specifically to help increase agricultural productivity in developing countries. But this assistance is dwarfed by the negative impacts of agricultural subsidies and tariffs.

FIGURE 1.
TRADE TRUMPS DEVELOPMENT ASSISTANCE



Sources: OECD Development Assistance Committee; William Cline, CGD, 2004

- The U.S. is not alone in limiting developing countries' access to its market. Government support of producers in all rich countries (through subsidies and tariffs) amounts to almost four times the value of global development assistance. And if rich countries fully opened their markets to products from poor countries, the value in increased income would be almost double that of development assistance (see Figure 1).

To learn more about how the U.S. compares with other rich countries on trade, see the Commitment to Development Index at www.cgdev.org/rankingtherich.

QUESTIONS ABOUT GLOBAL TRADE AND DEVELOPMENT

If you think it is important for the United States to have trade policies that better support global development, talk with your friends, neighbors, civic leaders, elected officials and candidates about it. Here are some questions to get you started:

1. What do you think we have learned after ten years of NAFTA, and how would you apply these lessons to upcoming trade agreements, like the Central American Free Trade Agreement?
2. Do you support the reduction of subsidies for big agribusiness? Seventy percent of the poor in developing countries live in rural areas and rely on agriculture for their livelihoods; only about 2% of Americans are farmers. How will you balance the needs of American farmers with those of poor countries?
3. I worry that our trade policy undermines the value of some of our development assistance. What will you do to align U.S. trade policy with other U.S. efforts to promote economic development abroad?

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