



Australian Government

Department of Foreign Affairs and Trade

AusAID

# Trade, Development and Poverty Reduction



## International trade is a vital part of economic growth

No country has generated sustained economic growth and poverty reduction by closing itself off to international trade and investment. While a country's ability to benefit from trade and investment is dependent on a number of factors, particularly the quality of its domestic policies and institutions, it must also have access to the global marketplace.

### How trade promotes growth

Trade helps an economy grow in several ways:

- It encourages economies to specialise and produce in areas where they have a relative cost advantage over other economies. Over time, this helps economies to employ more of their human, physical and capital resources in sectors where they get the highest returns, boosting productivity and the returns to workers and investors.
- Trade expands the markets local producers can access, allowing them to produce at a more efficient scale to keep down costs. Even in populous developing economies, low incomes often mean that producers' potential local market is small, so trading with the world is vital.
- Trade diffuses new technologies and ideas, increasing local workers' and managers' productivity. Technology transfers through trade and investment are particularly valuable for developing economies, which employ less advanced technologies and typically have less capacity to develop new technologies themselves.
- Removing tariffs on imports gives consumers access to cheaper products, increasing their purchasing power and living standards, and gives producers access to cheaper inputs, boosting their competitiveness by reducing their production costs.

**'Far more than aid, trade can provide the catalyst under the right conditions for lifting millions of people out of poverty.'**

*Kevin Watkins*

*Director, UNDP Human Development Report*

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## The WTO's Doha Development Agenda

**‘Developing countries could gain disproportionately from further global trade reform.’**

*World Bank*

It is widely acknowledged that a level playing field does not exist in the current world trading system. Developing countries face numerous hurdles, including high tariffs against their exports and subsidised competition. This is especially true of agriculture. The Australian Government has been pursuing trade liberalisation which would benefit all competitive exporters, including those in developing countries.

The Australian Government believes that developing-country participation in the global trading system is the most effective way of encouraging development and helping to alleviate poverty.

**A key objective of the current round of WTO (World Trade Organization) negotiations - the Doha Development Round - is to help developing countries more fully reap the benefits of international trade.**

The liberalisation of agriculture in particular will provide significant benefits to developing countries. Together with other countries in the Cairns Group of agricultural exporting nations, Australia has long pushed for reductions in barriers to agricultural trade.

**The World Bank estimates that freeing all merchandise trade and eliminating subsidies could boost global income levels by up to US\$287 billion by 2015. According to the World Bank, almost 45 per cent of these gains would flow to developing countries.**

**Free trade agreements (FTAs)** can also bring about economic benefits by reducing barriers to trade and investment between participating parties. Ambitious FTAs can open markets faster than would otherwise be possible through the WTO and build on the commitments already agreed in the WTO. Global interest in FTAs - from developed and developing countries - has increased substantially over the past decade.

Genuinely liberalising FTAs can strengthen the global trading system. A comprehensive FTA is one which is not only WTO consistent but also covers trade in goods (both manufactured and agricultural), services, investment, intellectual property rights, government procurement and other areas. By addressing barriers to trade and expanding the scope of liberalisation, FTAs can maximise the economic gains for parties to the agreement.

FTAs can also be useful in building and sustaining momentum for domestic reform so that governments are more able to commit to multilateral reform. High-quality FTAs also raise the profile of participating countries as trade and investment partners.

Developed countries like Australia can best assist developing countries by promoting global economic growth and by pursuing greater trade liberalisation.

Over two-thirds of WTO Members are developing countries. These Members can gain access to a range of special provisions and assistance contained in WTO rules.

The United Nations currently designates 50 countries as 'least developed'. Of these 32 are WTO Members. Special consideration is given to least developed countries by the WTO.

The WTO's Committee on Trade and Development and its Sub-Committee on Least Developed Countries monitor the implementation of provisions designed to assist developing and least developed countries. These committees also monitor the substantial amount of training and technical assistance provided to developing countries by the WTO.

**'The economic interests and development needs of developing countries lie at the heart of the Doha Agenda.'**

*Pascal Lamy*

*Director General, World Trade Organization*



### **Australia offers preferential market access for Least Developed Countries**

For over 25 years, Australia has provided preferential market access for the world's poorest countries in recognition that their integration into the world economy requires meaningful market access. Since 2003 we have granted duty and quota-free access for all products from Least Developed Countries. Australia is a world leader in this regard, and we are committed to opening markets to the poorest countries to help them trade their way out of poverty.

**Well-targeted and effective aid can play an important complementary role, but will never be more important than growth and the significantly increased resources that flow from trade.**

*AusAID White Paper on Aid, 2006*

## **Australia - helping developing countries reap the benefits of international trade**

The Australian Government understands that the pace of change is a challenge for many developing countries. That's why our overseas aid program helps developing countries strengthen their economies and build stronger institutions so they can participate more effectively in the international trading system, as well as respond to the economic and social impacts of globalisation. Australia also offers developing countries preferential access to our markets and helps them identify economic opportunities and take advantage of them more effectively.

Australia has multi-year, trade-related aid commitments totalling over \$90 million for direct trade-related technical assistance to help developing countries improve their trade policy skills, enhance tariff, taxation, customs and quarantine regimes, and strengthen trade and tourism promotion. This assistance is vital if developing countries are to manage their trade with the outside world more effectively and fully realise its benefits.



**Here are some examples of the projects Australia is funding:**

### **Enhanced Cooperation Program - PNG Customs Service (\$3.5 million, 2003-2007)**

This program provides advisers to the PNG Customs Service to help put in place better cargo management services.

### **PNG-Australia Quarantine Twinning Scheme - PNG National Agriculture and Quarantine Inspection Authority (NAQIA) (\$2 million, 2007-2009)**

This program aims to help PNG improve its quarantine capacity to support international trade and build its capacity for the early detection and control of exotic pests and diseases. This will help PNG to capitalise on global market opportunities for primary sector exports.

### **ASEAN-Australia Development Cooperation Program (\$45 million, 2002-2008)**

This program helps ASEAN tackle priority development challenges including by strengthening standards, enhancing customs and quarantine and fostering private sector competitiveness, all of which contribute to trade and economic growth.

### **Trade Analysis and Reform Project for Mekong Countries (\$5.6 million, 2002-2008)**

This program aims to enhance awareness of WTO Agreements and provide technical and advisory assistance with WTO implementation issues to Cambodia, Lao PDR, Vietnam and Thailand, with additional support for the WTO accession process.

### **WTO Global Trust Fund - (\$500,000 in 2007 and total contributions of \$2.96 million)**

This program provides trade-related technical assistance to developing country Members of the WTO to help them participate in the Doha Round of multilateral trade negotiations.



**Technical Assistance Management Facility, Indonesia (\$26 million, 2003-2008)**

This program aims to build the capacity of selected areas of the Indonesian Ministry of Trade, focusing on global and regional trade negotiations, international trade policy and trade in services. More broadly, Australia's aid to Indonesia is helping to strengthen customs, immigration and airport communications systems.

While trade helps developing countries to improve their living standards and lifts people out of poverty, other factors are also important. Government policies which support investment in health, education and infrastructure, for example, are essential for good development.

Australia's overseas aid program helps developing countries achieve broad-based economic growth by addressing the underlying causes of poor governance, instability, poverty and disease that hinder economic development. In 2006-07, Australia provided about \$3 billion worth of official development assistance.

**For more information visit our websites:**

**Department of Foreign Affairs and Trade: [www.dfat.gov.au](http://www.dfat.gov.au)**

**AusAID: [www.ausaid.gov.au](http://www.ausaid.gov.au)**

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