Is Global Poverty better Reduced through Free Trade or International Aid?

Market - led Growth vs. Development Assistance

Word Count: 2372

Abstract

Reducing global poverty is recognized as the first United Nations goal for sustainable development. The World Bank (n.d.) estimates that the number of people living in poverty today is 700 million, which makes up for almost 10% of Earth's total population; it also defines poverty as earning less than $2.15 per day, which accumulates to $784.5 a year without weekends, paternal leaves, or holidays. Two of the major economic objectives are fair development and equality, and poverty strongly relates to the concept of efficient allocation of resources and economic well-being, highlighting its importance in economics. The topic of this essay is the effectiveness of free trade versus financial aid in reducing global poverty. Understanding the relative impact of these two approaches is paramount in designing effective development policies.

A large body of research exists on both free trade and foreign aid, but there is still a gap in understanding how these strategies compare directly in terms of long-term poverty reduction, especially when considering differences between regions, political systems, and stages of economic development. Much of the existing literature focuses on the effects of each policy individually rather than evaluating their effectiveness side by side.

Our research aims to evaluate both approaches by examining macroeconomic quantitative data (e.g. the Gini coefficient, Gross National Income per capita, life expectancy, and the Human Development Index), reviewing existing academic studies, and analyzing case studies of similar countries that have relied primarily on trade policies versus those that have depended on financial aid. To analyze the long-term effectiveness of the 2 economies, the time frame of the paper is 1960-2025. With the involvement of comparative and contextual analysis of economic indicators, the research aims to minimize authors' bias.

The work found that financial aid and free trade are efficient in their respective situations, and their function varies deeply in the urgency of the issue, and come with risks that require resolution. The implementation of free trade suggests long-term economic development in production, life expectancy, and the Gini coefficient, demonstrating the overall improvement of wealth equality, while financial aid is most efficient in providing immediate assistance and enabling short-term participation in the global market. It is important to acknowledge that both approaches come with severe disadvantages.

Introduction

Poverty is one of the most persistent global economic challenges, affecting billions of people worldwide. Achieving reduced poverty requires effective economic strategies that promote sustainable development, equality, and global equity. As organizations work toward this target, it is essential to evaluate whether free trade or international aid is more effective in reducing poverty on a global scale.

Key Terms and Concepts

- Comparative advantage
- Export-led Growth Model
- Big Push Theory
- Poverty Trap Model
- Human Capital Theory
- Dependence Theory
- Economic development

Assumptions and limitations:

- South Korea and Bangladesh are economically comparable;
- External factors have additional impact on developmental outcomes;
- The earliest data available for economic metrics is the initial point for analysis;
- The two countries have implemented both an aid-driven economy and an export-led economy;
- The relationship between the economic strategy and developmental indicators is strictly correlational.

Thesis: An export-led economic growth model is generally more effective in prospering economic independence and reduced poverty in the long term, while an economy acting as a recipient of international aid can reduce its poverty in the short term, enabling it to permanently solve the issue when it is immediately required.

People's Republic of Bangladesh

Between 1947 and 1971, West Pakistan wielded greater economic and political influence than the East, which led to numerous protests and resilience movements. After the West Pakistani property owners shifted the location of their companies, the remaining mills, factories, and plants were nationalized under the new Bengali government, and some transport facilities were destroyed during the dispute.

Shortly after its liberation, Bangladesh started receiving international aid in the forms of grants, commitments, loans, and commodity aid. The amount of total foreign aid disbursed to the Bengali from 1972 to 1999 is estimated at $34.76 billion. The total value of food aid in the period from 1972 to 1999 equaled approximately $5.84 billion, while total commodity aid constituted $10.39 billion. Between 1972 and 1999, an approximate of $26.17 billion were committed as project aid.

In 1975, foreign aid constituted about 9.3% of the country's GDP, later accounting for 7.00%, 6.76%, 4.53%, and 3.67% in 1982, 1993, 1996, and 1998 accordingly. As aid continued to develop, Bangladesh received approximately $1.611 billion in 1992, which is equivalent to roughly $14 per capita. In the early 1990s, foreign aid amounted for almost 90% of Bangladesh's entire developmental budget, leaving the country vulnerable to foreign economic crises or aid cuts.

In 1990, the HDI in Bangladesh was 0.400, portraying poor infrastructure, education, healthcare, and the standard of living. Currently, Bangladesh has an HDI of 0.685, classifying it as a country at a medium stage of development. Nevertheless, it still saw a tremendous improvement of 0.285, suggesting great progress.

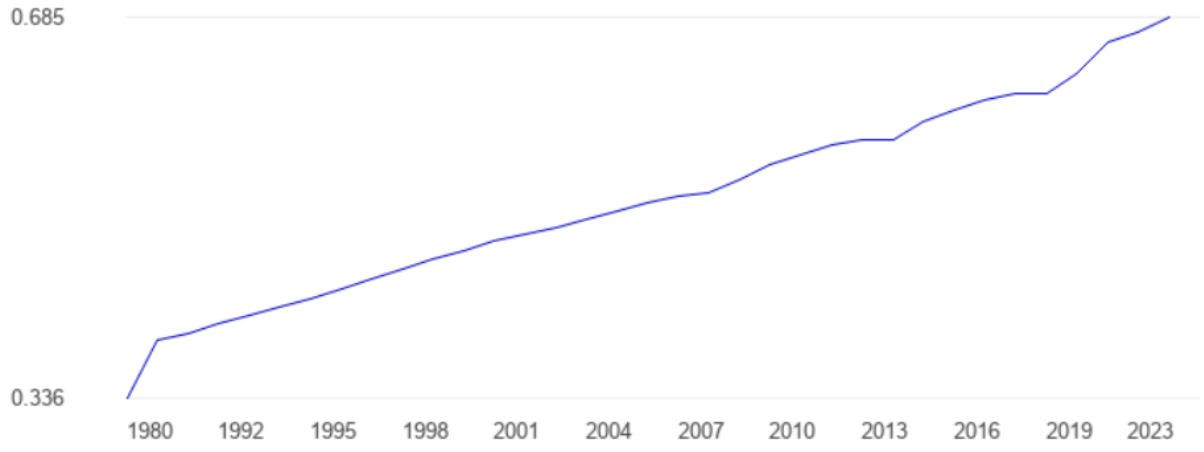

Figure 1. HDI of Bangladesh from 1980 to 2023.

The most significant detail in the graph above is the rapid increase in the metric in the 1980s, which can be seen from a positive slope of the graph before 1990. However, as time since gaining independence increases, the graph follows a relatively smaller slope. This

shows that international aid sent to Bangladesh in the beginning of the nation may have fueled rapid growth in the short term, but growth in the longer term was significantly less.

In 1972, average life expectancy in Bangladesh was 49.65 years. Today, it is 74.67 years, which is 25.02 years more than about half a century ago. This remarkable progress may signify the development in the new education and healthcare systems, availability of food, and you name it.

One of the economic ways to escape poverty is education. The World Bank Group's Gender Data Portal (2020) claims that in 1976, the expected years of schooling in Bangladesh was 3.3 years. According to UNDP (2023), this metric has reached 6.79 years, which adds social and natural sciences to basic calculations and reading. Although still underdeveloped, the Bengali education system saw considerable progress since it was first established.

In 1973, GNI per capita in Bangladesh was 110 USD, and now stands at 2820 USD, a change of 2564%. This shows outstanding increases in average income of the population, suggesting once more that financial aid may have greatly contributed to the economic development of Bangladesh.

Poverty trends may be observed through direct economic metrics. Considering that MPI is a percentage of population living in poverty, the modern-day equivalent of a poverty rate of 71.3% in 1973 would be roughly 0.713 (SocialScienceResearch, n.d.). In 2025, the MPI of Bangladesh is 0.1, meaning that 10% of the total population lives in poverty. Even though still significant, the overall abundance of poverty has decreased over the years, and this push may possibly be attributed to foreign aid.

Lastly, in 1973, an estimated Gini coefficient in Bangladesh was 0.360. In 2022, this value stands at 0.309, which is worthwhile progress towards income equality.

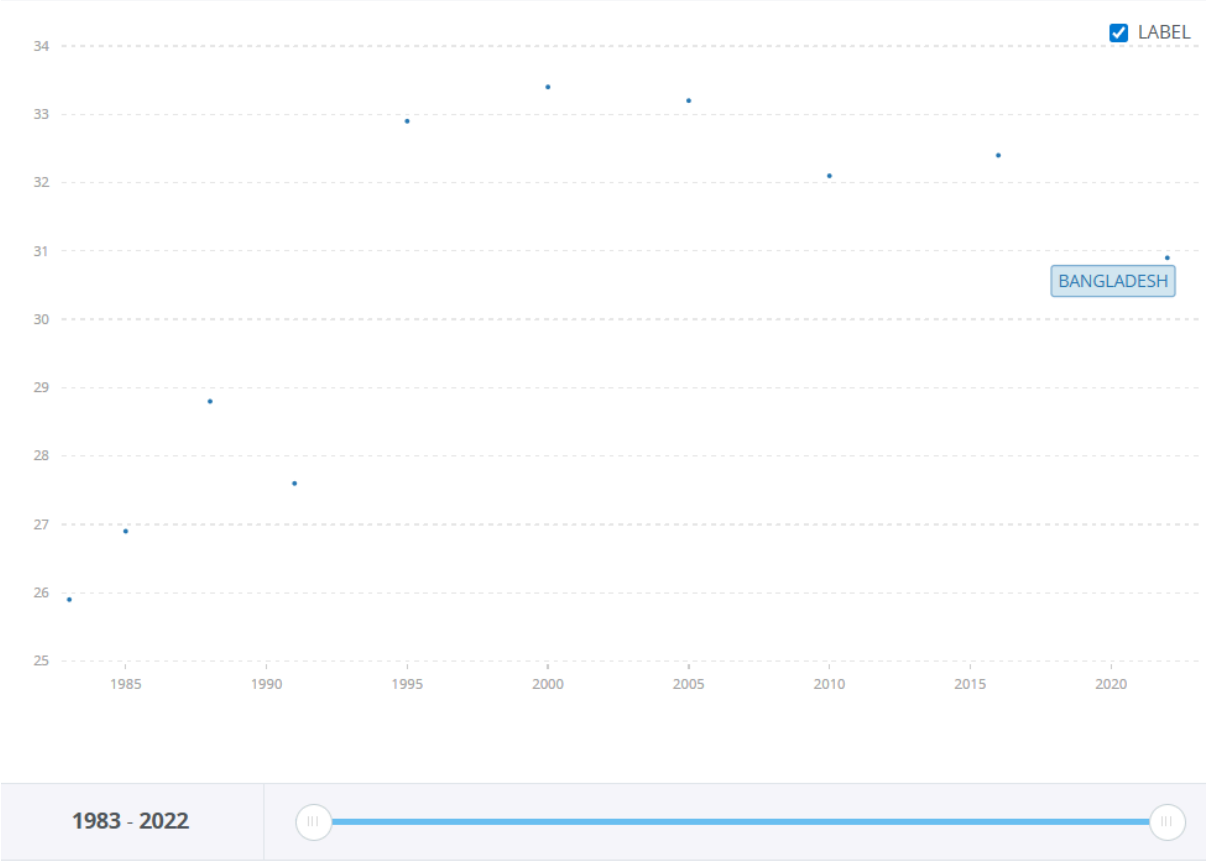

Figure 2. The Gini index in Bangladesh from 1983 to 2020.

Contrary to other data supporting the claim that international aid has boosted income and development, it increased income inequality, meaning that the benefit of the commitments were unproportional and resulted in great economic disparity.

The Republic of Korea

The Republic of Korea from the 1960s to 1980s, underwent one of the most prevalent economic changes in modern history called a Miracle on the Han River, shifting from low income, aid dependent to a rapidly industrialising partner. In 1960, South Korea was one of the poorest countries in the world, where exports were about 1% of GDP, with imports fully dependent on aid primarily from the United States. The United States was by far the largest donor throughout the 1950s and early 1960s, with the following being the United Nations agencies and later institutions like the World Bank.

After war policy shifts like devaluing the currency and export incentives boosted exports to over 10% of GDP by decade's end. Light industries such as textiles, footwear, and electronics assembly leveraged cheap labor for global markets, reducing aid dependency. South Korea's exports grew explosively from $32.8 million in 1960 to $5 billion by 1970 and $20-24 billion by 1981, with manufactured goods rising from 14% of total exports in 1960 to 90% by 1982. Annual growth rates averaged 37% in the late 1960s and 42% in the early

1970s. The specific catalyst was the February 1961 foreign exchange unification under Chang Myon, which unexpectedly boosted new export items 100-1,000 times faster than legacy goods, reversing Lerner's Symmetry effects from prior overvaluation. Park Chung-hee's May 1961 coup then formalized this via the 1964 "Exports First" policy, including further devaluation to 255 won/$, incentives, and zones, propelling exports to 10%+ of GDP by late 1960s. Therefore, South Korea developed itself through export-led growth, using comparative advantage to replace aid dependence with trade-driven development.

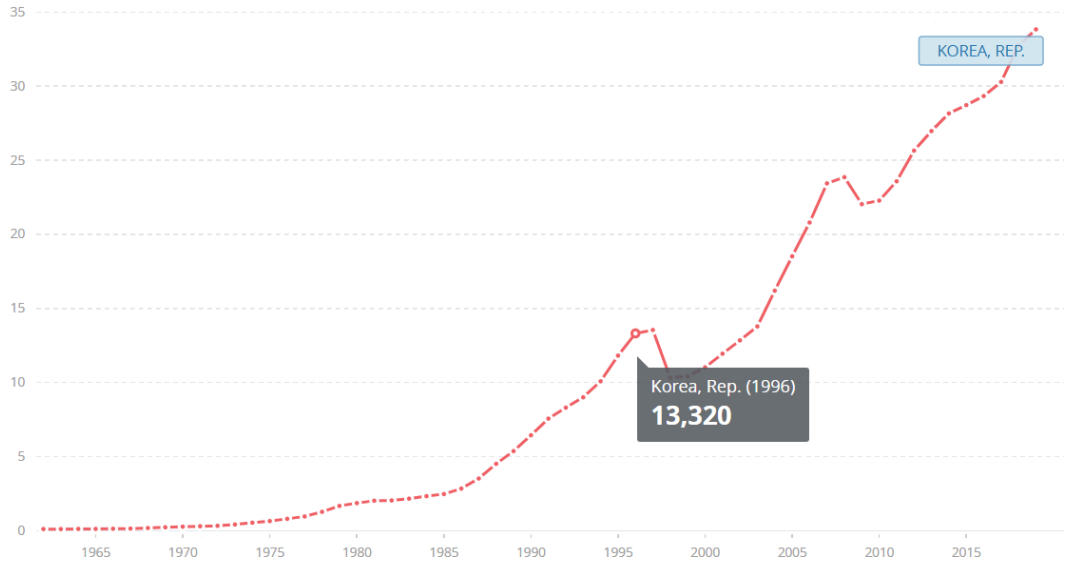

Figure 3. The trend of GNI per capita coefficient of the Republic of Korea in 1960 - 2019.

In 1962, South Korea's GNI per capita was approximately $120, which reflects poverty and economic stagnation following the Korean War. At this stage, the country relied heavily on US financial aid, which financed up to 70% of imports and covered basic consumption rather than productive investment. While this aid helped South Korea survive the immediate post-war poverty trap, it did not generate self-sustaining growth and instead created risks associated with aid hazards, such as dependency and distorted incentives. As South Korea expanded exports, GNI per capita increased to approximately $6450 by 1990, growing at an average annual rate of over 9% between 1962 and 1979. This rapid income growth far exceeded what could have been achieved through aid transfers alone, highlighting trade's superior capacity to raise living standards in the long term.

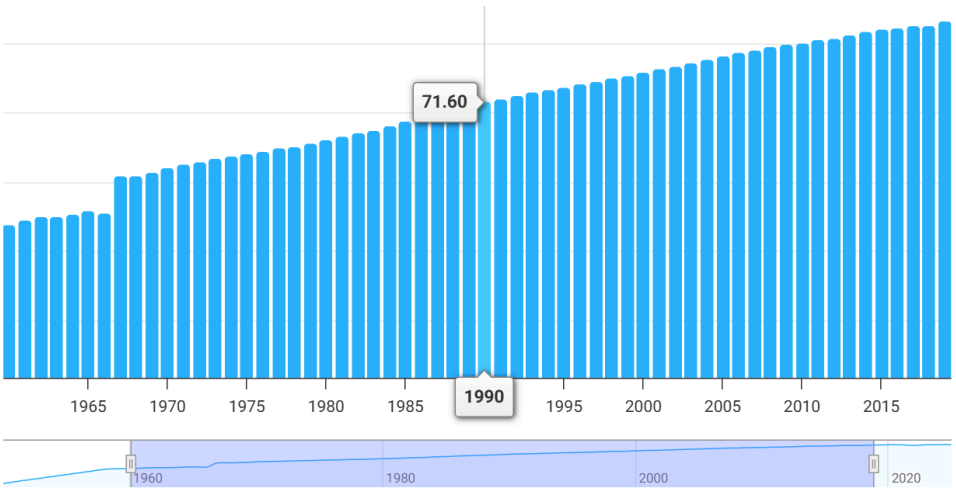

Figure 4. The trend of Life Expectancy in the Republic of Korea in 1960 - 2019.

Nextly, life expectancy increased from approximately 53.80 years in 1960 to around 83.23 years by 2019, and continued rising. This improvement coincided closely with the country's transition from aid dependence to export-led growth, rather than with the period of highest aid inflows.

In the 1950s and early 1960s, international aid played an important role in addressing immediate humanitarian needs, which helped prevent further declines in life expectancy. However, these gains were limited and fragile, as aid financed consumption rather than long-term public health systems. Sustained improvements in life expectancy only accelerated after export growth generated rising government revenues, enabling consistent investment in health infrastructure, sanitation, education, and nutrition.

The expansion of labor-intensive export industries may have raised household incomes, improving access to food and healthcare. South Korea’s life expectancy trend suggests that international aid is effective at preventing humanitarian collapse, but free trade is more effective at sustaining long-term improvements in human welfare.

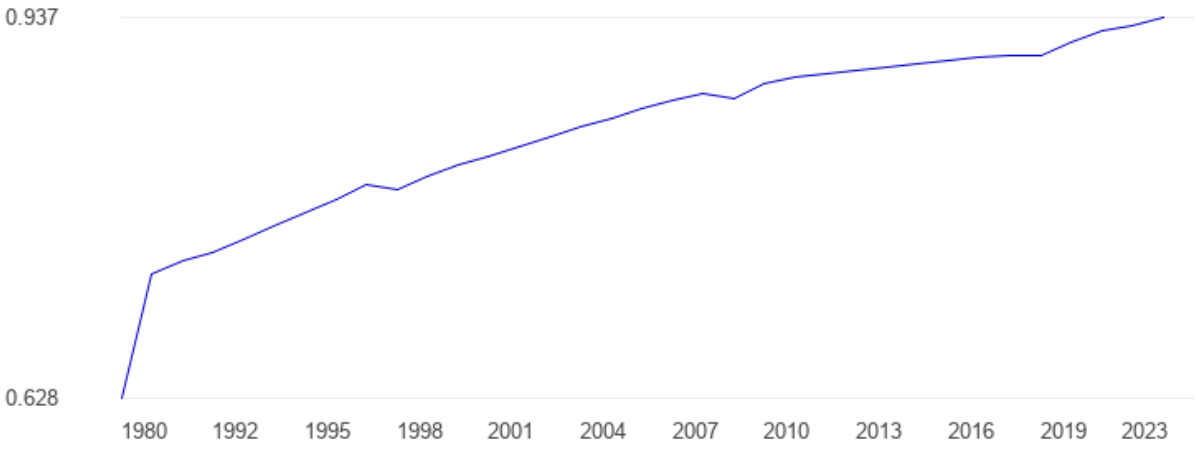

Figure 5. HDI of the Republic of Korea from 1980 to 2023.

Moreover, the steady increase in South Korea's HDI from 0.90 in 2016 to 0.94 in 2023 highlights the long-term and self-sustaining nature of its development model. This upward trend indicates continued improvements in health outcomes and living standards decades after South Korea ended its reliance on international aid. The persistence of HDI growth proposes that export-led development created institutional capacity and fiscal stability enabling sustained investment in healthcare systems that support rising life expectancy. In contrast to aid-dependent countries, where human development indicators often stagnate once aid flows decline, South Korea's experience shows that free trade is more effective than international aid in delivering durable poverty reduction and long-term human well-being.

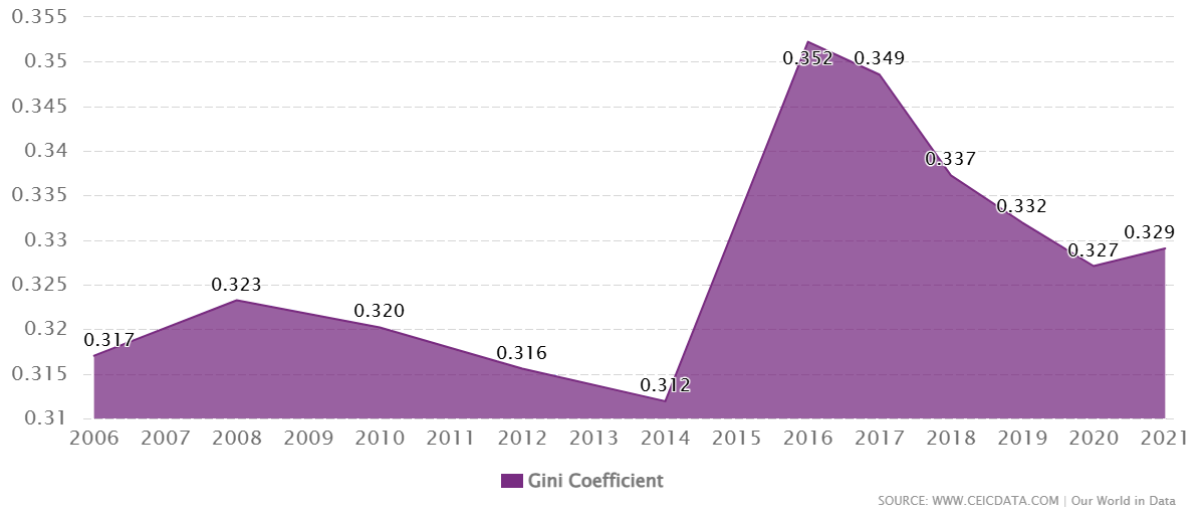

Figure 6. Gini coefficient of the Republic of Korea from 2006 to 2021.

According to Hagen (1984), the Gini coefficient in 1960 South Korea was 0.448. In 2021, the exact metric is 0.329, demonstrating significant progress towards reduced income inequality. This shows that export-led growth did not concentrate wealth solely among elites but instead generated widespread employment and rising incomes across society. South Korea's ability to sustain relatively low inequality alongside high income growth demonstrates that free trade, when combined with effective domestic policies, is likely more effective than international aid in achieving inclusive and long-term poverty reduction.

Trade-led growth generated sustained increases in income, improvements in health and education, and rising overall human development, while maintaining relatively equitable income distribution. Although international aid played an important role in addressing short-term poverty and post-crisis recovery, it proved insufficient as a long-term development strategy on its own.

Table 1. Economic metrics of South Korea and Bangladesh over time.

Indicator /Country	Earliest available		Most recent available	
	South Korea	*Bangladesh*	*South Korea*	*Bangladesh*
GNI per capita (US$)	120 (1962)	110 (1973)	36 750 (2024)	2820 (2024)
Life expectancy	53.80 (1960)	49.65 (1972)	83.77 (2025)	74.67 (2025)
HDI	0.628 (1980)	0.400 (1990)	0.937 (2025)	0.685 (2025)
Gini coefficient	0.448 (1960)	0.360 (1976)	0.329 (2021)	0.309 (2022)
Expected years of schooling	5.4 (1970)	3.3 (1976)	16.7 (2023)	6.8 (2023)

Table 2. Changes in economic metrics of South Korea and Bangladesh.

Indicator	*South Korea*	*Bangadesh*
% Change in GNI per capita	30525	2464
Change in life expectancy	29.97	25.02
Change in HDI	0.309	0.285
Change in Gini	-0.119	-0.051
Change in expected years of schooling	11.3	3.5

- Country with more progress
- Country with less progress
- Insignificant difference in development

Conclusion

The findings suggest that growth initiated by international commitments tended to cause rapid economic development in the short-term and decrease their effect in the long term, although still contributing to prosperity. The research proposes that international aid may reduce the abundance of overall poverty, but may be ineffective to reduce income inequality in the country. Thus, international aid cannot function as the main driver of long-term economic development on its own, but is rather a resourceful tool to provide immediate humanitarian relief. After aid relief, export-led growth could promote further economic development, making it the better strategy to approach poverty in the long - run.

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