

LIBERALIZATION OF THE INTERNATIONAL TRADE AND ECONOMIC GROWTH: IMPLICATIONS FOR BOTH DEVELOPED AND DEVELOPING COUNTRIES

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Abstract

The debate over trade liberalization is part of a larger debate that deals with the impact on the economic growth of free movement of goods, capital and labor force across borders. Most economists agree that trade liberalization could positively affect economic growth, but the differences are at what stage of development a country should open its market. The paper describes different views that form the world trade policy mosaic.

Then, I show contradictions in trade policies of the developed countries while convincing poor nations to lift trade barriers, but, in the same time, they adopt anti-dumping procedures and protectionist policies on agricultural products, textiles, and steel imported from developing countries. The liberalization of trade has been pushed by international organizations mostly towards developing countries through structural adjustment loans conditionalities of the World Bank and IMF, within the World Trade Organization negotiation framework.

This paper addresses the changes, in the last year or so, within international organizations regarding trade liberalization policies. There is more understanding in the world now that industrialized countries' protectionist trade policies are on the expense of developing countries, in particular of the least developed countries. International organizations started to shift their focus from imposing liberalization of trade in developing countries to eliminating tariff and non-tariff barriers in developed countries, especially in Quad countries—Canada, the EU, Japan, and the United States.

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Introduction

The debate over trade liberalization is part of a larger debate that deals with the impact on the economic growth of free movement of goods, capital and labor force across borders. Many argue that there are pluses and minuses of the capital control over growth. It is also argued that more liberalization in the labor market both from South (developing countries) to North (industrialized countries) and from South to South would greater benefit the economic growth of developing countries than other liberalization policies. But, in this paper, I will focus on the openness to trade and its relation to the economic growth.

The debates over the policies on liberalization of international trade divided governments of the industrialized world and developing countries, NGOs, and lobby groups. In the post-Seattle era, the debates became even more acute. Economists are in search for answers to many questions that are raised by these opposing groups. Does free trade address poverty in poor countries and lead to economic growth? Should consumer groups in industrialized countries boycott the imports from developing nations where child labor is used or environment standards are not observed? How it complies the fact that developed countries argue that poor nations have to lift trade barriers, but, in the same time, adopt anti-dumping procedures and protectionist policies on agricultural products, textiles, and steel imported from developing countries. Economists also question the established concepts on trade policies and what is their correlation with the development.

Different views that form the world trade policy mosaic

The population of the poor living on less than one dollar per day has increased from 474.4 million in 1987 to 552 million in the year 2000. The increase in the poverty in the developing world is happening while international institutions and industrialized countries promote the globalization and free trade. Developing countries are being increasingly pushed to a noncompetitive situation. Social groups in the North, as well as countries in the South, view governments of developed world as having double standards—advocating for openness and keeping exports of developing countries down by charging tariffs as high as 550 per cent for the developing countries³.

Some economists consider that liberalization of trade leads to the economic development. They believe that inefficient trade policies are caused by the departure from economic theory, its misinterpretation and mistakes in the policy implementation. Other scholars put the development ahead of trade regime policy: each country has to identify its own model of development, then what institutional reforms has to be adopted, where trade regime/liberalization is a part of such reforms.

The World Bank found that in 1990s the increase of trade-to-GDP ratios made an increase of 5 percent of income per capita for about 3 billion people. It concludes that countries, which do open up, increase their growth rates. The IMF considers that low level of trade makes countries more volatile to debt crises. It recognizes that the debt service of the least developed countries are in large due to the low export revenues.

³ Global Economic Prospects 2003. The World Bank.

The discussion about trade liberalization reached their top in the last years, especially after the large-scale anti-globalization protests in Seattle, Washington, and Brussels. This is why now more and more researchers incorporate in their papers concerns of various opposition groups to the trade liberalization at all means.

In 1997, two years before the Seattle WTO trade negotiations, Anne Krueger in her paper *Trade policy and economic development: how we learn* addresses the relation between trade and economic growth. Krueger states that trade policies play a crucial role in the economic development in the past and in our days. The author provides a historical overview of trade policy concepts widely accepted by economists and governments. She states that in 1950s and 1960s the concept of import-substitution policy was wide spread, believed to be a vehicle for the economic development in the “third-world”. It was thought that through new manufacturing industries (or infant industries), developing countries could substitute imports of industrial goods and these industries should be protected in their initial stage. Some countries created state-owned enterprises in the new industries and provided direct investment for them. In the same period, some countries adopted another protectionist measure – sustaining a fixed nominal exchange rate. Thus, it was considered that by having such policy the imports of capital goods would be cheaper and this would attract investment. Krueger describes that import-substitution proved to be inefficient in many countries and it was cheaper, in some cases (Pakistan), to “pay workers to stay home and import the final products” than to produce locally. Then, the author describes the East Asian “miracle” as trade policy that was opposite to the import-substitution. Korea, Taiwan, Singapore, Hong Kong encouraged exporting strategies. Thus, the author says, countries moved from a “static” [inward oriented] to “dynamic” [outward oriented] strategies of trade regimes.

Krueger believes that by adopting protectionist measures in 1950s and 1960s, the basic principle of international trade—the comparative advantage—was ignored. Also, it was considered that businesses would not respond to incentives; export earnings were slowly growing; industrialization was necessary for development, and developing economies were “different” comparing with industrialized countries. All of these, says the author, prove to be wrong by the experience of East Asian newly industrialized countries. Anne Krueger concludes that a well considered trade theory provides a blueprint that has to be embraced by governments. The author believes that there are no bad economic theories but bad interpretations of them by politicians/economists and bad implementation of non-economist practitioners.

Some other economists suggest that there is a link between the liberalization of trade and economic growth: Dollar (1992), Ben-David (1993), Sachs and Warner (1995), Edwards (1998), and Frankel and Romer (1999). Their findings, as well as Krueger’s, are cited in many others works.

In 2000, Francisco Rodriguez and Dani Rodrik find that empirical evidences used in different works of the above authors have shortcomings and thus, weaken the conclusion made by these economists in the above papers. In Rodriguez and Rodrik’s paper *Trade Policy and Economic Growth: A Skeptic’s Guide to the Cross-national Evidence*, authors argue that there is little evidence that lower tariff and non-tariff barriers to trade have strong correlation with economic growth. In the same paper, Rodriguez and Rodrik show that many authors specify the notion of openness differently. In formulating their policy strategies international organizations and governments use heavily trade openness, but the empirical evidence from which openness derives has no systematic support.

In a different paper *Trade Policy Reform as Institutional Reform*, Rodrik enforced the above argument stating that “no country has developed successfully by turning its back on international trade” and no country has developed by simply liberalizing its trade. He used data from the last 50 years to prove that there is no evidence that trade protection has a systematic correlation with growth. In the same time, Rodrik suggests that the tendency to overestimate trade openness has no strong empirical evidence. He brings the example of East Asia, China and India in the early 1980s to show that a partial and gradual institution building in combination with a partial and gradual opening up to imports and foreign investment could also provide a significant source for growth. He suggests that countries that are in early stages of reform might follow similar paths.

For instance, the divergence between David Dollar and Dani Rodrik regarding the relations between trade liberalization and economic growth is the implementation of trade policies—how and when is the best time to open the market and that it is different for each country. It is true that a country has to take into account its own particularities—national legislation, who are foreign trade partners, what sectors are export-oriented, what is the share of primary exports to the total exports, what is the rate of trade to GDP and how vulnerable is the country to foreign exchange.

In 2001, two years after Seattle WTO trade negotiations, Dani Rodrik in his UNDP paper *The global governance of trade as if development really mattered* argues that the purpose stated in the WTO agreement—rising living standards—is ignored within the framework of this multilateral organization or in the bilateral agreements between countries. He states that the debates about differences between poverty reduction and economic growth policies are fruitless, since there are closely correlated. Rodrik also analysis import-substitution and export oriented

policies, but he adds the two-track strategy in trade policy adopted by China, Viet Nam, and Mauritius. The author does not refute the concept that liberalization of trade does go hand-on-hand with development, but he considers that the key here is the priority approach – what policy goes first and which one follows. Rodrik argues that most of industrialized countries achieved economic growth while had a protectionist trade policy and not vice-versa as it is imposed to the developing world today. He brings the example of East Asian countries that liberalized trade after about one decade of growth; the same is in the case of China and India. Countries are able to liberalize trade when they become richer.

Unlike Krueger, Rodrik believes that each country has to adopt its own trade policy and investment strategy: a mixture of “orthodoxy [enlightened standard view] with unconventional domestic innovations”. What institutions a particular country has developed over time and what are interests of its constituents are important factors that have to be taken into consideration. The “exportation” of the Anglo-American concept of what should be an effective institution is a mistake and it continues to be on the agenda of the WTO, IMF and the World Bank, Rodrik considers. He criticizes the view that trade and industrial policies could cause crisis. Institutions determine the economic performance of a country and its ability to manage the distributional conflict during crisis caused by external shocks.

Dani Rodrik comes with new principles that have to be considered by those engaged in theoretical and practical debate over trade policies: the economic development as the objective and the trade policy as a tool to achieve it; each country has the right to choose their development priorities and own institutions and should be protected from the external pressure. Rodrik is against any trade sanctions (but using diplomatic channels, foreign aid instead), anti-dumping measures of industrialized countries against imports from developing nations. The

author frames the role of the WTO as an institution that manages the “interface between different national systems”, instead of harmonizing institutions of countries, reducing differences between them.

Jeffrey Nugent from the University of Southern Carolina in his paper *Trade Liberalization: Winners and Losers, Success and Failures* concludes that fewer countries have liberalized their trade that has been expected and those countries that undertaken trade liberalization policies have implemented them partially or tentatively. He also finds that many countries that liberalized trade had many negative effects. Nugent states that although least developed countries (LDCs) had concerns regarding trade liberalization that it would deteriorate their primary exports, it would have harmful effect of dependence on allegedly endemically unstable exports, that rich countries would benefit more and the main beneficiaries in LDC could be multinational companies (MNCs). The author believes that the debt crises in LDCs in the mid-1980s made them “unusually susceptible to the trade liberalization policy advice coming from international donor organizations, especially the World Bank and International Monetary Fund”. He attributes trade liberalization as one of the important elements that, along with other reforms, constituted in early 1990s the “Washington Consensus”. Thus, Jeffrey Nugent states that more than 60 least developed countries have received loans from the World Bank for liberalization of their trade during 1980s and 1990s.

Nugent considers that countries that pursued trade liberalization had to choose from mainly two strategies. First, was a more radical path—removing exchange rate distortions, non-tariffs barriers to imports; reducing tariffs and harmonizing them among different categories of merchandise and services; abandoning import licensing; privatizing foreign trade; eliminating export tariffs and, finally, joining the World Trade Organization. The second strategy had

elements of partiality: high rates of protective tariffs and subsidies for exports and establishing Export Processing Zones. Studying the trade liberalization policies in Australia, Bolivia, Chile, Korea, Mauritius, Mexico, Morocco, Spain, Taiwan, Turkey in late 1970s and 1980s, as well in Central and Eastern Europe in late 1980s-beginning of 1990s, Nugent concludes that obstacles to a successful trade liberalization process are “embedded in deep institutional problems”. He also finds that the trade liberalization was successfully implemented in countries where this process was sustained through consistent policies of the government (Chile, Taiwan, Korea) for a long period of time.

Most successful cases show that governments managed to minimize negative effects resulted from the liberalization of trade. Nugent points out what are major obstacles for promoting openness in LDCs that have not undertaken trade liberalization (South Asia, Sub-Saharan Africa and the Middle East): concerns of government revenue shortfalls, high unemployment rates; social negative impact for ‘losers’ of trade liberalization; increased pollution and environment degradation. Also, as experience shows in other countries, benefits of liberalization go primarily to foreign entities present in LDCs or/and to large domestic firms. Small and medium size enterprises usually are among losers of trade liberalization in the first stage of implementation of such policy, especially small farms.

Indeed, UNCTAD finds in its World Investment Report (2002) that high export growth in developing countries are linked to the expansion of transnational corporations (TNCs). As of 2000, the share of foreign affiliates in total exports is significantly high in Ireland (90 percent), Hungary (80), Poland (56), China and Costa Rica (50), Czech Republic (47), Sweden (39), and Mexico (31). The report provides an example of Kenya that has become the leading supplier of

flowers to the European Union market thanks to rapid growth of this export provided by foreign affiliates.

In contrast with the Nugent's belief that international financial institutions, such as the IMF, have impact on trade, Andrew Rose from Berkley University found different evidence. In his paper *Which International Institutions Promote International Trade?* refuted the opinion that the WTO and IMF would have a significant impact on trade policies. Comparing these institutions with the Organization for Economic Cooperation and Development (OECD), he concludes that OECD has a far larger influence to its members than the WTO and IMF do. So, the IMF's "big stick" of lending as a condition for the liberalization of trade has little effect, or even a negative one, as Rose points out.

Ehsan Choudhri and Dalia Hakura from the IMF in their paper *International Trade and Productivity Growth: Exploring the Sectoral Effects for Developing Counties* (2000) came to a conclusion that openness to trade has different effect on productivity growth in different sectors. It mostly depends on the growth potential of the sector. For example, in low-growth manufacturing sectors, the increasing of international trade has little effect on productivity growth. The paper suggests that medium-growth and high-growth sectors obtain a greater benefit from import competition; it has a significant effect on growth in these sectors and indirectly on the overall economic growth of the country. The authors found that for developing countries where low-growth sectors are present, the governments have to concentrate on stimulating the development of other sectors through technology transfers to medium-growth manufacturing. Thus, the authors advise, the high import tariffs for equipment and machinery in sectors that have a potential growth would have a negative effect for the country's economic development.

Using data for 87 countries, Hakura and Jaumotte⁴ (1999) find that trade indeed serves as an important way for the international technology transfer to developing countries. The authors show that intra-industry trade plays a more important role in technology transfer than inter-industry trade. Intra-industry trade is more pervasive among developed countries, and inter-industry is more prominent in trade between developed and developing countries. Developing countries will enjoy relatively less technology transfer from trade than developed countries.

Failed attempt to promote economic growth through trade in developing countries

The least developed countries' share in the world trade is insignificant—0.5 percent. Studies suggest that the increase in exports from these countries would have huge benefits for the population in terms of income and employment in export-oriented sectors, in particular in agriculture, food processing industries, textiles, and clothing. The interest in agricultural production and exports is disproportional—in the South some 70 percent of people benefit from agricultural activities, while in the North only 5 percent.

The Forth WTO ministerial meeting in Doha in November 2001 had the objective to achieve the development dimension of trade mainly for developing countries. This was part of larger agenda set by the UN Conference on the Least Developed Countries held in May 2001 in Brussels where it was decided to “lower trade barriers to LDC exports, reduce the debt burden through quick and effective implementation of the enhanced Heavily Indebted Poor Countries Initiative; cancel outstanding official bilateral debt⁵...”

⁴ The role of inter- and intra industry trade in Technology diffusion. IMF working paper.

⁵ UN Conference Mandates 10-Year Programme for LDCs. International Center for Trade and Sustainable Development. May 22, 2001.

One of the most difficult tasks for the Doha round of negotiation was to get an agreement that the international trade should lead to development for all. Although many concerns of the developing countries that were voiced at the Seattle WTO ministerial meeting, as well as at the Bangkok UNCTAD meeting in 2000, were included in the Doha agenda, developing countries felt that they are not heard and industrialized countries continue to promote their interest without carrying much what developing nations need for improving their standard of living.

An UNCTAD paper *Back to Basics: Market Access Issues in the Doha Agenda* (2003) concludes that developing countries should be granted longer time for transition to a more open market and compensatory policies should be in place in cases of losses. It states that export subsidies should be abolished, especially in developed countries and exceptions should be made for developing countries. It states that the primary focus of the reduction of import tariffs should be encouraged for exports of developing countries, in particular of LDCs. The authors suggest that developing countries should get significant technical assistance for the preparation of negotiations, by providing updated trade data and tools in order for these countries to be able to carry out their own assessments. The paper raises the concern that there is no mechanism of implementing negotiation outcomes.

In September 2002, The IMF and the World Bank published a joint paper *Market Access for Developing Country Exports*, which takes an unusual stand for these institutions. It criticizes the protectionist policies of the industrialized countries, especially US, European Union members and Japan. In particular the paper's focus is on the market access in agriculture and on barriers to trade in textiles and clothing. It provides information how and why subsidies in developed countries harm the interest of exporters from developing countries making them less competitive on the market.

According to this paper, the welfare gains from eliminating barriers to merchandise trade range from \$250 billion to \$650 billion annually, with about one-third to one-half accruing to developing countries. The World Bank estimates that by reducing protection the number of people living in poverty could be reduced by 14 percent in 2015.

The paper shows that the liberalization of trade could have several negative impacts. In agriculture, the trade openness would have complex distribution effects—benefiting farmers in the expense of consumers. In the textile industry, abolishing quotas might hurt textile industry in developing countries that have low productivity rates because there would be more competitive products from China, for example, on the world market.

According to Uri Dadush, Director of the International Trade Department of the World Bank, his institution continues to support its position that trade liberalization encourages economic growth if there are other conditions met—macroeconomic stability, good governance. He believes that openness of markets could generate an additional increase of 1-1.5 percent of growth per year. The World Bank also believes that the greatest gains from trade liberalization come from own trade liberalization in both developed and developing countries. Dadush states that the Bank has changed its previous positions related to trade issues:

1. The institution understands now that countries have to develop their own trade and macroeconomic policies and to decide on their implementation. It is different from the past when trade conditionality was imposed by the WB and IMF through structural adjustments loan programs.
2. It moved from promoting liberalization of trade in developing countries to developed countries that adopted a protectionist policy—subsidies, anti-dumping procedures that hurt exports from developing countries.

3. The WB recognizes that there are both losers and winners of the trade liberalization process; compensatory measures for losers are necessary to be considered.
4. It understands that a country in its liberalization policy has to include not only lowering tariffs, but also simplifying customs procedures for exporters/importers, improving infrastructure such as ports, roads, introducing IT for monitoring movement of goods, providing adequate financial mechanisms for trade transactions.

At the conference *Trade and the Development World* held on September 27, 2002, in Washington, DC, Nicholas Stern, chief economist of the World Bank, while speaking about different barriers used in the developed world—subsidies, labeling, antidumping, and escalating tariffs, mentioned that only agricultural subsidies are about US \$1 billion a day⁶ which is six times bigger than aid to developing countries. He said that “the average European cow receives around \$2.5 a day in subsidy, ... the average Japanese cow receives around \$7 a day, ... while seventy-five percent of the people in Sub-Saharan Africa live on less than \$2 a day”. I would add that even in some poor countries of Europe the situation is similar. In Moldova, for instance, which is considered the poorest European country, 78 percent of population lives under the poverty line. Stern also said, “it is hypocritical to preach the advantages of trade and markets and then erect obstacles in precisely those markets in which developing countries have a comparative advantage⁷”.

At the same conference, Hans Peter Lankes, chief of the IMF’s division of International Trade, criticizes the US farm act passed in 2002, which enforced the subsidy policies in agriculture. According to the IMF and WB analysis, the elimination of subsidies for cotton in US

⁶ Mostly in developed countries

⁷ World Bank Chief Economist Urges Cuts in Rich Country Agricultural Subsidies. Munich Lectures in Economics. University of Munich. November 19, 2002.

would raise the world cotton price by 25 to 30 percent and would benefit developing countries that are major producers and exporters of this merchandise. He argues that this export increase would bring to Western Africa about \$250 million in revenues per year, which is larger than the annual amount of the Highly-Indebted Country Initiative debt relief to these countries. US subsidies to cotton farms was \$3.9 billion in 2002, that is three times US foreign aid to Africa. These subsidies hurt mainly North and West African countries where cotton is the main export merchandise.

The IMF World Economic Outlook, published in 2002, suggests that if all trade restrictions on agriculture were removed now, the world welfare would increase from \$100 billion to \$125 billion, from which about \$25 billion would be gained by developing countries. In 10 years from now, the gain would be even higher—\$500 billion for the world economy, with about 50 percent going to developing countries. Just to compare, the above figure is ten times higher than the total amount of aid that goes to poor countries which is \$ 50 billion.

As I have shown above, in the last year or so, trade policies, expanding opportunities for trade in developing countries become increasingly important topic for the World Bank and IMF. More projects related to trade were financed by the World Bank—hard infrastructure of the ports and roads, eliminating border barriers. In 2001, the World Bank lent \$1.2 billion to developing countries and countries in transition for trade-related projects such as customs reforms and improving in trade financing and insurance mechanisms. For example, a WB program: Trade and Transport Facilitation in Southeastern Europe is underway and includes eight countries from this region. The program objective is to expedite the time for border crossing through harmonization of regulatory procedures, building bridges and roads. The program is considered successful and it is likely to be expended to the former Soviet Union region. Such policies would go hand-on-

hand with governance reforms, creating an environment of law and order, projects on irrigation in agriculture that are necessary elements for conducting export operations.

The World Bank's study *Global Economic Prospects 2003*, unlike other years when good governance, sound institutions, property rights were in the loop, the main focus of this year is on policies that promote competition—trade tariff and non-tariff barriers that limit domestic competition, legal restrictions on foreign entry. The escalating tariffs in industrialized countries hurt mainly exports from developing countries of processed goods, while duties for unprocessed raw materials stay low. For example, US import taxes for fresh tomato from Chile is 2.2 percent, but 12 percent for tomato sauce. This kind of policies force Ghana and Cote D'Ivoire to export raw cocoa beans; Uganda and Kenya—coffee beans; Mali and Burkina Faso—cotton and less processed food products.

The dependency of developing countries to raw materials exports lead to more poverty and inequality. The empirical evidence for the world economy shows that the correlation between natural resources exports and inequality is strong in the world: higher dependency—higher inequality (Gini index). According to the structure of trade provided in *The Human Development Indicators 2001*⁸, the world average percentage of natural resources exports to total is 45.6 percent. In Sub-Saharan Africa this figure is 73.93. The data indicates that Uganda, Nigeria, Ghana, Niger, Cote d'Ivoire and Tanzania are almost totally dependent of natural resources with respectively 99.76 percent, 98.89, 98.86, 97.0, 89.27 of raw material exports to total.

Quad countries (the US, the European Union, Japan and Canada) trade among themselves at tariffs ranging from 4.3 per cent in Japan to 8.3 per cent in Canada. Most of non-tariff barriers (NTBs) are in the agriculture, textiles and clothing where developing countries have a

⁸ http://hdr.undp.org/reports/global/2001/en/indicator/indicator.cfm?File=indic_111_1_1.html

comparative advantage. Products with high tariffs in Quad countries include major agricultural products, such as meat, sugar, milk, dairy products and chocolate, for which tariff rates frequently exceed 100 per cent; tobacco and some alcoholic beverages; fruits and vegetables and textiles, clothing and footwear. About \$26 billion of exports from developing countries in 1999 to the world were products that would have faced tariffs above 50 percent in the Quad countries. Only about \$5 million of the \$26 billion was actually exported to the Quad countries. On the other hand, the Quad countries imported about \$50 billion of the same goods, most of it from industrialized countries⁹.

The joint paper of the World Bank's Development Research Group and the Centre for Economic Policy Research in London *Tariff Peaks in the Quad and Least Developed Country Exports* (2001) finds that tariff rates of Quad countries could be as high as 343 percent in Canada, 252 in the EU, 171 in Japan and 121 in the United States. The research shows that different schemes such as General System of Preferences (GSP), although generous on average, are not affecting tariff peak items that are considered 'sensitive' and are excluded from GSP's lists. The paper has been written in response to the European Union's policy to provide access to least developed countries to its market for all products except arms—Everything But Arms' Initiative (EBA). It says that the share of imports from developing countries in Quad total imports of tariff peak products is insignificantly small—4 percent. Therefore, there would be no major impact if such access policy would be implemented. At the same time, the impact of tariff peaks is disproportionately great for least developed countries. The elimination of tariff peaks would stimulate export growth in LDCs from 30 to 60 percent, or about \$2.5 billion of exports.

In the US and Canada, most of restrictions today are in apparel; in the EU and Japan—in sugar and cereals. Bangladesh, for example, as the largest LDC exporter of apparel, footwear and

⁹ Global Economic Prospects 2003. The World Bank.

fish products to Canada, EU and US, would benefit from listing such barriers; Cambodia, Cape Verde, Haiti, Lao, Liberia, Malawi, the Maldives and Somalia would increase exports by more than 20 percent¹⁰.

In 2002, another research provided by the UNCTAD finds similar results. The paper *Duty and Quota-free Access for LDCs: Further Evidence from CGE Modeling* simulates two scenarios. First is the elimination of all tariffs and non-tariff barriers for LDCs exports in the European Union. The second scenario is the elimination of all tariffs in all Quad countries. The results indicate that the gains would be ten times higher for LDCs if all Quad countries would pursue the elimination of barriers in comparison to the gain if only the EU would implement such policy.

Besides protectionist policies of industrialized countries, developing countries face other problems as well—domestic distortions and institutional weakness that create high costs and increasing risk premium to conduct international trade.

What's next?

As I argued above, the Doha trade round failed to create an environment of trust between developed and developing countries. The next WTO ministerial meeting will take place in Cancun, Mexico and many expect that this time it will be indeed a round aimed at development for developing countries. WTO members have to agree to eliminate barriers to trade, first and foremost for exports of developing countries to markets in US, EU, Japan and Canada.

¹⁰ Bernard Hoekman, Francis Ng, Marcelo Olarreaga. *Tariff Peaks in the Quad and Least Developed Country Exports*. February 2001.

Although arguments for eliminating barriers in industrialized countries against exports from poor countries are convincing, there would be much resistance to implement these radical proposals that departure from the orthodoxy of today's trade regime concepts. The subsidies "sensitive" sectors are backed by strong lobby groups in the developed countries that are able to influence policy makers to further defend their interest. Communicating their message to the world is another problem that developing countries face. The mass media in the world that covers trade related issues is mostly concerned of the issues of industrialized countries and developing countries' voice is almost not heard. Alternative visions have less chance to be published or aired.

That is, the democratic mechanism created in most industrial countries offer vast opportunities for constituencies to influence their elected representatives. Developing countries have no much leverage to influence other than within WTO negotiations or through UNCTAD recommendations that usually are ignored by the policy makers in rich countries.

To change the attitude of the industrialized countries on trade policies, two things could be done. First, developing countries have to form a common strategy to try to persuade industrial nations (at the executive level) within the framework of the WTO, UNCTAD and financial institutions that have included trade liberalization in their agenda (IMF, WB). Second, developing countries could act through their diaspora and lobby groups inside of the industrialized nations to influence both legislative and executive branches. NGOs, think tanks in developed countries could play a role also in promoting new concepts that would have as an objective the economic growth and inequality both in poor and rich countries.

Increasing role in these debates has academia from leading world universities. Most interestingly is that known economic professors in the field of international trade are involved in

joint research projects with economists from international organizations. It is an additional tool to influence those who are directly responsible for the elaboration of trade policies and their implementation. Recent joint research work among international organizations, universities and private sector could be good opportunities to find a middle ground and incorporate interest of all parties concerned. Such cooperation already takes place—background papers for the World Economic Forum in Davos (World Bank, Harvard University, Evian business Group¹¹); joint research paper of the World Bank and the Centre for Economic Policy Research in London on tariff peaks in the Quad and LDC exports. These joint works would raise the needs to reform the global trade system addressing concerns of poor countries and changing policies in rich countries.

Conclusion

Most economists agree that trade liberalization could positively affect economic growth, but the differences are at what stage of development a country should open its market. So far, the liberalization of trade has been pushed by international organizations mostly towards developing countries through structural adjustment loans conditionalities of the World Bank and IMF, within the World Trade Organization negotiation framework.

Pressure from social movements in industrialized countries, as well as more orchestrated actions of developing countries within the WTO negotiations, seems to have impact on changing

¹¹ The background paper distributed at the World Economic Forum in Davos raised the visibility of trade issues. It was a joint project of the World Bank's Director of Development Policy, Ian Goldin, Dani Rodrik from Harvard, and Michael Garrett from Evian Group, a business coalition in Europe that opts for global liberal governance. There were three scenarios for trade negotiations: best case, base-line, and worst case.

the line of thoughts in rich countries and at the international organizations that deal with trade related issues.

In the last year or so, there is more understanding in the world that industrialized countries' protectionist trade policies are on the expense of developing countries, in particular of the least developed countries. The World Bank, IMF, UNCTAD change their focus from imposing liberalization of trade in developing countries to eliminating tariff and non-tariff barriers in developed countries, especially in Quad countries—Canada, the EU, Japan, and the United States.

A higher role is envisioned for academia, that along with social groups, representatives of international organizations that are concern of trade policies should engage in public debates more actively. An important step in transforming the international trade in a tool for economic growth for developing countries could be the engagement in debates policy makers from the industrialized countries. Conferences, open TV debates are among ways how to make alternatives views heard.

The next WTO ministerial meeting in Cancun would show how open are industrialized countries to make policy changes in favor of development for poor countries. Before and after Cancun there is still a long way to go to transform international trade into a development tool that would benefit all and each trade partner.

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