THE GLOBAL GOVERNANCE OF TRADE

AS IF DEVELOPMENT REALLY MATTERED*

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Report submitted to the UNDP

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EXECUTIVE SUMMARY

It is widely accepted, not least in the agreement establishing the WTO itself, that the purpose of the world trade regime is to raise living standards all around the world--rather than to maximize trade per se. In practice, however, these two goals--promoting development and maximizing trade--have come to be increasingly viewed as synonymous by the WTO and multilateral lending agencies, to the point where the latter easily substitutes for the former. The net result is a confounding of ends and means. Trade has become the lens through which development is perceived, rather than the other way around.

Imagine a trading regime in which trade rules are determined so as to maximize development potential, particularly of the poorest nations in the world. Instead of asking "how do we maximize trade and market access?" negotiators would ask "how do we enable countries to grow out of poverty?" Would such a regime look different than the one that exists currently?

The answer depends critically on how one interprets recent economic history and the role that trade openness plays in the course of economic development. The prevailing view in G7 capitals and multilateral lending agencies is that integration into the global economy is an essential determinant of economic growth. Successful integration in turn requires both enhanced market access in the advanced industrial countries and a range of institutional reforms at home (ranging from legal and administrative reform to safety nets) to render economic openness viable and growth-promoting. I call this the "enlightened standard view"--enlightened because of its recognition that there is more to integration than simply lowering tariff and non-tariff barriers to trade, and standard because it represents the prevailing conventional wisdom. In this conception, today's WTO represents what the doctor ordered: the WTO's focus on expanding market access and deepening integration through the harmonization of a wide range of "trade-related" practices is precisely what development requires.

I present in this paper an alternative account of economic development. This is an account that questions the centrality of trade and trade policy and emphasizes instead the critical role of domestic institutional innovations that often depart from prevailing orthodoxy. In this view, transitions to high economic growth are rarely sparked by blueprints imported from abroad. Opening up the economy is hardly ever a key factor at the outset. The initiating reforms instead tend to be a combination of unconventional institutional innovations with some of the elements drawn from the orthodox recipe. These combinations tend to be country-specific, requiring local knowledge and experimentation for successful implementation. They are targeted on domestic investors and tailored to domestic institutional realities.

In this alternative view, a development-friendly international trading regime is one that does much more than enhance poor countries' access to markets in the advanced industrial countries. It is one that enables poor countries to experiment with institutional arrangements and leaves room for them to devise their own, possibly divergent, solutions to the developmental bottlenecks that they face. It is one that evaluates the demands of institutional reform not from the perspective of integration ("what do countries need to do to integrate?") but from the perspective of development ("what do countries need to do achieve broad-based, equitable economic growth?"). In this vision, the WTO would no longer serve as an instrument for the harmonization of economic policies and practices across countries, but as an organization that manages the interface between different national practices and institutions.

Therefore, a reinvigorated focus on development and poverty alleviation, along with a nuanced, empirically-based understanding of the development process, would have far-reaching implications for the manner in which the international trading regime and the WTO function. This paper is devoted to making the case for such a reorientation. My focus is on the broad principles, rather than specific recommendations.

A key argument of the paper is that developing countries are short-changing themselves when they focus their complaints on specific asymmetries in market access (tariff peaks against developing country exports, industrial country protection in agriculture and textiles, and so on). This way of posing their grievances reflects acceptance of a market-access mindset that does developing countries limited good. They would be far better served by pressing for changes that enshrine development at the top of the WTO's agenda, and correspondingly provide them with a better mix of enhanced market access and maneuvering room to pursue appropriate development strategies.

Following the introduction, section II of the paper discusses the distinction between development strategies that focus on growth and those that focus on poverty alleviation. In practice, these two ends become inseparable once we recognize that policies that are targeted at the poor are likely to have particularly high growth payoffs. The main strike against existing trade rules is not that they over-emphasize trade and growth at the expense of poverty alleviation, but that they over-emphasize trade at the expense of poverty reduction and growth. Next, I turn to the fundamental determinants of economic growth (section III). I argue that the enlightened standard view encompasses an impossibly broad and unfocussed development agenda, and one that is too biased towards a particular set of institutional arrangements. I emphasize instead the centrality of domestic institutional innovations (comprising a mix of orthodoxy with "local heresies") and of investment strategies that are tailored to the circumstances of each country. The argument is illustrated with a brief review of some successful development strategies.

Section IV discusses the evidence on the links between trade policy and economic performance. The voluminous literature in this area, which forms the basis for the extravagant statements on the benefits of trade openness which one often hears, has to be approached with extreme care. A close look at this literature, and the evidence underlying the conclusions drawn, suggests that the issues are hardly clear-cut. Essentially, there is no convincing evidence that trade liberalization is predictably associated with subsequent economic growth. In section V, I

argue that this raises serious questions about the priority that the integrationist policy agenda typically receives in orthodox reform programs. The problem is not trade liberalization per se, but the diversion of financial resources and political capital from more urgent and deserving developmental priorities. I illustrate some of these tradeoffs in this section.

Section VI develops some general principles for a world trade regime that puts development first. I emphasize that the trade regime has to accept institutional diversity, rather than seek to eliminate it, and that correspondingly it must accept the right of countries to "protect" their institutional arrangements. However, the right to protect one's own social arrangements is distinct from, and does not extend to, the right to impose it on others. Once these simple principles are accepted and internalized in trade rules, developmental priorities of poor nations and the needs of the industrial countries can be rendered compatible and mutually supportive. This section discusses an opt-out mechanism to operationalize these ideas.

The WTO is an institution devoted largely to bargaining over market access. "Free trade" is not the typical outcome of this process; nor is consumer welfare (much less development) what the negotiators have chiefly in mind. Traditionally, the agenda of multilateral trade negotiations has been shaped in response to a tug-of-war between exporters and multinational corporations in the advanced industrial countries (which have had the upper hand), on one side, and import-competing interests (typically, but not solely, labor) on the other. The chief beneficiaries of free trade in textbooks--consumers--sit nowhere at the table. The features of the WTO can best be understood in this context, as the product of intense lobbying by specific exporter groups in the U.S. or Europe or of specific compromises between such groups and other domestic groups. The differential treatment of manufactures and agriculture, or of clothing and other goods within manufacturing, the antidumping regime, and the IPR regime, just to pick some of the key anomalies, are all the results of this political process. Understanding this is essential since it underscores the important point that there is very little in the structure of multilateral trade negotiations to ensure that their outcomes are consistent with developmental goals, let alone that they be designed to further development.

A key implication of the shift to a developmental mindset would be that developing nations have to articulate their needs not in terms of market access, but in terms of the policy autonomy that will allow them to exercise institutional innovations that depart from prevailing orthodoxies. A second implication is that the WTO should be conceived not as an institution devoted to harmonization and the reduction of national institutional differences, but as an institution that manages the interface between different national systems.

This shift would have several important advantages. The first, and the most obvious one, is that this would provide for a more development-friendly international economic environment. Countries would be able to use trade as a means for development, rather than being forced to view trade as an end in itself (and being forced to sacrifice developmental goals in the bargain). It would save developing countries precious political capital by obviating the need to bargain for "special and differential treatment"--a principle that in any case is more form than substance at this point.

Second, viewing the WTO as an institution that manages institutional diversity (rather than imposing uniformity) gets the developing countries out of a conundrum inherent in their current negotiating stance. The conundrum arises from the inconsistency between their demands for maneuvering space to implement their development policies, on the one hand, and their complaints about Northern protectionism in agriculture, textiles, and labor and environmental standards, on the other. As long as the issues are viewed in market-access terms, developing countries will remain unable to make a sound and principled defense of their legitimate need for maneuvering space. And the only way they can gain enhanced market access is by restricting their own policy autonomy in exchange. Once one views the objective of the trading regime differently--to let different national economic systems prosper side by side--the debate can become a more fruitful one about each nation's institutional priorities and how they may be rendered compatible in a development-friendly way.

The third advantage is that this shift in perspective provides a way out of the impasse in which the trading system finds itself post-Seattle. At present, two groups feel particularly excluded from the decision-making machinery of the global trade regime: developing country governments and northern NGOs. The former complain about the asymmetry in trade rules, while the latter charge that the system pays inadequate attention to fundamental values such as transparency, accountability, human rights, and environmental sustainability. The demands of these two disenfranchised groups are often perceived to be conflicting--over questions such as labor and environmental standards or the transparency of the dispute settlement procedures--allowing the advanced industrial countries and the leadership of the WTO to seize the "middle" ground. It is the demands of these two groups, and the apparent tension between them, that has paralyzed the process of multilateral trade negotiations.

But once one views the trade regime--and the governance challenges it poses--from a developmental perspective, it becomes clear that the developing country governments and many of the northern NGOs share the same goals: policy autonomy to pursue one's own values and priorities, poverty alleviation, and human development in an environmentally sustainable manner. The tensions over issues such as labor standards become manageable if the debate is couched in terms of developmental processes--broadly defined--instead of the requirements of market access.

THE GLOBAL GOVERNANCE OF TRADE AS IF DEVELOPMENT REALLY MATTERED

I. Introduction

What objectives does (or should) the WTO serve? The first substantive paragraph of the Agreement Establishing the World Trade Organization lists the following aspirations:

> raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development.

A subsequent paragraph cites "mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international trade relations" as a means of "contributing to these objectives."[1] It is clear from this preamble that the WTO's framers placed priority on raising standards of living and on sustainable development. Expanding trade was viewed as a means towards that end, rather than an end in itself. Promoting economic development has acquired an even higher standing in the official rhetoric of the WTO recently, partly in response to the critics of the WTO.[2]

That the purpose of the world trade regime is to raise living standards all around the world--rather than to maximize trade per se--has never been controversial. In practice, however, these two goals--promoting development and maximizing trade--have come to be increasingly

[1] Agreement Establishing the World Trade Organization, available on the WTO web site at http://www.wto.org/english/docs_e/legal_e/final_e.htm.

viewed as synonymous by the WTO and multilateral lending agencies, to the point where the latter easily substitutes for the former.[3] As the WTO's Mike Moore (2000) puts it, "the surest way to do more to help the poor is to continue to open markets." This view has the apparent merit that it is backed by a voluminous empirical literature that identifies trade as a key determinant of economic growth. It also fits nicely with the traditional modus operandi of the WTO, which is to focus predominantly on reciprocal market access (instead of development-friendly trade rules). However, the net result is a confounding of ends and means. Trade becomes the lens through which development is perceived, rather than the other way around.

Imagine a trading regime that is true to the preamble of the WTO. This would be a regime in which trade rules are determined so as to maximize development potential, particularly of the poorest nations in the world. Instead of asking "how do we maximize trade and market access?" negotiators would ask "how do we enable countries to grow out of poverty?" Would such a regime look different than the one that exists currently?

The answer depends critically on how one interprets recent economic history and the role that trade openness plays in the course of economic development. The prevailing view in G7 capitals and multilateral lending agencies is that integration into the global economy is an essential determinant of economic growth. Successful integration in turn requires both enhanced market access in the advanced industrial countries and a range of institutional reforms at home (ranging from legal and administrative reform to safety nets) to render economic openness viable and growth promoting. I shall call this the "enlightened standard view"--enlightened because of

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[2] See, for example, Director General Mike Moore's speech at the London Ministerial roundtable on trade and poverty in LDCs, 19 March 2001 (http://www.wto.org/english/news_e/spmm_e/spmm55_e.htm) or his op-ed in the Financial Times, entitled "The WTO Is A Friend of the Poor," June 19, 2000, p. 17.

[3] The slippage is evident in the WTO's own promotional material. According to the WTO's web site, the organization's "main function is to ensure that trade flows as smoothly, predictably and freely as possible." See http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm.

its recognition that there is more to integration than simply lowering tariff and non-tariff barriers to trade, and standard because it represents the prevailing conventional wisdom.[4] In this conception, today's WTO represents what the doctor ordered: the WTO's focus on expanding market access and deepening integration through the harmonization of a wide range of "trade-related" practices is precisely what development requires.

I shall present here an alternative account of economic development. This is an account that questions the centrality of trade and trade policy and emphasizes instead the critical role of domestic institutional innovations that often depart from prevailing orthodoxy. In this view, transitions to high economic growth are rarely sparked by blueprints imported from abroad. Opening up the economy is hardly ever a key factor at the outset. The initiating reforms instead tend to be a combination of unconventional institutional innovations with some of the elements drawn from the orthodox recipe. These combinations tend to be country-specific, requiring local knowledge and experimentation for successful implementation. They are targeted at domestic investors and tailored to domestic institutional realities.

In this alternative view, a development-friendly international trading regime is one that does much more than enhance poor countries' access to markets in the advanced industrial countries. It is one that enables poor countries to experiment with institutional arrangements and leaves room for them to devise their own, possibly divergent solutions to the developmental bottlenecks that they face. It is one that evaluates the demands of institutional reform not from the perspective of integration ("what do countries need to do to integrate?") but from the perspective of development ("what do countries need to do achieve broad-based, equitable

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[4] For a recent official statement of this enlightened standard view, see "Trade, Development and Poverty Reduction," paper prepared jointly by the staff of the World Bank and the IMF for the consideration of the Development Committee, March 31, 2000.

economic growth?"). In this vision, the WTO would serve no longer as an instrument for the harmonization of economic policies and practices across countries, but as an organization that manages the interface between different national practices and institutions.

Therefore, a reinvigorated focus on development and poverty alleviation, along with a nuanced, empirically-based understanding of the development process, would have far-reaching implications for the manner in which the international trading regime and the WTO function. This paper is devoted to making the case for such a reorientation. My focus will be on the broad principles, rather than specific recommendations, because it is only through a change in the overall mindset of trade negotiations that significant change can be accomplished.

One of the key arguments of the paper is that developing countries are short-changing themselves when they focus their complaints on specific asymmetries in market access (tariff peaks against developing country exports, industrial country protection in agriculture and textiles, and so on). This way of posing their grievances reflects acceptance of a market-access mindset that does developing countries limited good. They would be far better served by pressing for changes that enshrine development at the top of the WTO's agenda, and correspondingly provide them with a better mix of enhanced market access and maneuvering room to pursue appropriate development strategies.

Since this paper is as much about the approach to development that should inform our thinking of the international trade regime as it is about the WTO itself, I will devote much of the paper to the empirical content of the ideas just summarized. I begin in section II by disposing of an unhelpful and counterproductive distinction between development strategies that focus on growth versus those that focus on poverty alleviation. In practice, these two ends are inseparable. The main strike against existing trade rules is not that they over-emphasize trade

and growth at the expense of poverty alleviation, but that they over-emphasize trade at the expense of poverty reduction and growth. Next, I turn to the fundamental determinants of economic growth (section III). I argue that the enlightened standard view encompasses an impossibly broad and unfocussed development agenda, and one that is too biased towards a particular set of institutional arrangements. I emphasize instead the centrality of domestic institutional innovations (comprising a mix of orthodoxy with "local heresies") and of investment strategies that are tailored to circumstances of each country. The argument is illustrated with a brief review of some successful development strategies.

Section IV discusses the evidence on the links between trade policy and economic performance. The voluminous literature in this area, which forms the basis for the extravagant statements on the benefits of trade openness which one often hears, has to be approached with extreme care. A close look at this literature, and the evidence underlying the conclusions drawn, suggests that the issues are hardly clear-cut. Essentially, there is no convincing evidence that trade liberalization is predictably associated with subsequent economic growth. In section V, I argue that this raises serious questions about the priority that the integrationist policy agenda typically receives in orthodox reform programs. The problem is not trade liberalization per se, but the diversion of financial resources and political capital from more urgent and deserving developmental priorities. I illustrate some of these tradeoffs in this section.

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these simple principles are accepted and internalized in trade rules, developmental priorities of poor nations and the needs of the industrial countries can be rendered compatible and mutually supportive. This section discusses an opt-out mechanism to operationalize these ideas. Finally, section VII offers concluding remarks.

II. Growth versus poverty alleviation: a meaningless debate

Should governments pursue economic growth first and foremost, or should they focus on poverty reduction? Recent debate on this question has generated more heat than light because it has become embroiled in broader political controversies on globalization and its impact on developing economies. Critics of the WTO often take the organization to task for being overly concerned about the level of economic activity (and its growth) at the expense of poverty alleviation. Its defenders argue that expanded trade and higher economic growth are the best ways to reduce poverty around the world.

This is a largely unproductive debate that detracts attention from the real issues. In practice, economic growth and poverty alleviation do tend to correlate closely, and to that extent WTO's defenders have a valid answer to the critics. However, the real question is (or ought to be) whether open trade policies are a reliable mechanism for generating self-sustaining growth and poverty alleviation. On this, the defenders of the enlightened standard view have a much less convincing answer. I defer this second issue for later, and focus for the moment on the relationship between growth and poverty reduction.

Let me start with some of the easier questions. Does growth benefit the poor? Yes, in general. The proportion of people living in poverty has dropped in all of the developing countries that have sustained rapid growth over the past few decades. In theory, a country could enjoy a

high average growth rate without any benefit to its poorest households, if income disparities grew significantly—in other words, if the rich got richer while the incomes of the poor stagnated or declined. However income distribution (as measured by the Gini coefficient for example) tends to be stable over time within countries.

Moreover, to the extent that income distribution changes, its relationship to economic growth varies from country to country. Growth has been accompanied by greater equality of income in Taiwan Province of China, Bangladesh, and Egypt, for example, but by greater inequality in Chile, China, and Poland. This suggests that the magnitude of the poverty-reduction payoff from growth depends, in part, on a country's specific circumstances and policies.

Is poverty reduction good for growth? Again, yes, in general. It is hard to think of countries where a large decrease in the absolute number of people living in poverty has not been accompanied by faster growth. Just as we can imagine growth occurring without any reduction of poverty, we can also imagine a strategy of poverty reduction that relies exclusively on redistributing wealth from the rich and the middle classes to the poor. In principle, a country pursuing redistributive policies could reduce poverty even if its total income did not grow. But we would be hard pressed to find real-world examples. Policies that increase the incomes of the poor, such as investments in primary education, rural infrastructure, health, and nutrition, tend to enhance the productive capacity of the whole economy, boosting the incomes of all groups.

What does a high correlation between growth and the incomes of the poor tell us? Practically nothing, for the reasons outlined above. All it shows is that income distribution tends to be stable and fairly unresponsive to policy changes. Moreover, a strong correlation between economic growth and poverty reduction is compatible with *both* of the following arguments: (1)

only policies that target growth can reduce poverty; and (2) only policies that reduce poverty can boost overall economic growth. Therefore, the observed correlation between growth and poverty reduction tells us little of interest as far as policy choices and priorities are concerned.

A somewhat different question is whether the well-being of the poor should enter as an independent determinant of policy choices, in addition to the usual focus on macroeconomic stability, microeconomic efficiency, and institutional quality. In other words, should economic reform strategies have a poverty focus?

Yes they should, for at least three reasons. First, in considering social welfare, most people, and democratically elected governments in particular, would give more weight to the well-being of the poor than to that of the rich. The economy's growth rate is not a sufficient statistic for making welfare evaluations because it ignores not only the level of income but also its distribution. A policy that increases the income of the poor by one rupee can be worthwhile at the margin even if it costs the rest of society more than a rupee. From this perspective, it may be entirely rational and proper for a government considering two competing growth strategies to choose the one that has greater potential payoff for the poor even if its impact on overall growth is less assured.

Second, even if the welfare of the poor does not receive extra weight, interventions aimed at helping the poor may still be the most effective way to raise average incomes. Poverty is naturally associated with market imperfections and incompleteness. The poor remain poor because they cannot borrow against future earnings to invest in education, skills, new crops, and entrepreneurial activities. They are cut off from economic activity because they are deprived of many collective goods (such as property rights, public safety, and infrastructure) and lack information about market opportunities. It is a standard tenet of economic theory that raising real

average incomes requires interventions targeted at closing gaps between private and social costs. There will be a preponderance of such opportunities where there is a preponderance of poverty.

Third, focusing on poverty is also warranted from the perspective of a broader, capabilities-oriented approach to development. An exclusive focus on consumption or income levels constitutes too narrow an approach to development. As Amartya Sen has emphasized, the overarching goal of development is to maximize people's capabilities—that is, their ability to lead the kind of life they value. The poor face the greatest hurdles in this area and are therefore the most deserving of urgent policy attention.

Priorities matter a lot. Policymakers make choices all the time. The lens through which they perceive development will profoundly affect the outcomes. Keeping poverty in sight ensures that their priorities are not distorted. Consider some illustrative tradeoffs.

- Fiscal policy. How should a government resolve the tradeoff between higher spending on poverty-related projects (rural infrastructure, say) and the need for tight fiscal policies? Should it risk incurring the disapproval of financial markets as the price it must pay for better irrigation? How should it allocate its educational budget? Should more be spent on building primary schools in rural areas or on training bank auditors and accountants?
- Market liberalization. Should the government maintain price controls on food crops, even if such controls distort resource allocation in the economy? Should it remove capital controls on the balance of payments, even if that means fiscal resources will be tied up in holding additional foreign reserves—resources that could otherwise have been used to finance a social fund?
- Institutional reform. How should the government design its anti-corruption strategy? Should it target the large-scale corruption that foreign investors complain about or the

petty corruption in the police and judicial systems that affects ordinary citizens? Should legal reform focus on trade and foreign investment or domestic problems? Whose property rights should receive priority, peasants or foreign patent holders? Should the government pursue land reform, even if it threatens politically powerful groups?

As these examples illustrate, in practice, even the standard, growth-oriented desiderata of macroeconomic stability, microeconomic efficiency, and institutional reform leave considerable room for maneuver. Governments can use this room to better or worse effect. A poverty focus helps ensure that the relevant tradeoffs are considered explicitly.

Since growth and poverty reduction go largely hand in hand, the real questions are: What are the policies that yield these rewards? How much do we know about policy impacts? The honest answer is that we do not know nearly enough. We have evidence that land reforms, appropriately targeted price reforms, and certain types of health and education expenditures benefit the poor, but we are uncertain about many things. It is one thing to say that development strategies should have a poverty focus, another to identify the relevant policies.

But this is not a strike against poverty-oriented programs, since we are equally uncertain about growth-oriented programs. The uncomfortable reality is that our knowledge about the kinds of policies that stimulate growth remains limited. We know that large fiscal and macroeconomic imbalances are bad for growth. We know that "good" institutions are important, even though we have very little idea about how countries can acquire them. And, despite a voluminous literature on the subject, we know next to nothing about the kinds of trade policies that are most conducive to growth (as I shall argue below).

For reasons just discussed, it is unproductive to make a sharp distinction between policies that promote growth and policies that target poverty alleviation directly. The requisite policies

are likely to vary considerably depending on institutional context, making it difficult to generalize with any degree of precision. The next section turns to the questions that should be our real focus: what works, how, and under what circumstances?

III. Achieving economic growth: what really matters?

The enlightened standard view of development policy grew out of dissatisfaction with the limited results yielded by the Washington Consensus policies of the 1980s and 1990s. The disappointing growth performance and increasing economic insecurity in Latin America (the region that went furthest with policies of privatization, liberalization, and openness), the failures in the former Soviet Union, and the Asian financial crisis of 1997-98 all contributed to the refashioning of the Washington Consensus around a number of institutional prerequisites. The resulting "augmented Washington Consensus" (shown in Table 1) goes beyond liberalization and privatization to emphasize the need to create the institutional underpinnings of market economies. The reforms on the list include financial regulation and prudential supervision, governance and anti-corruption, legal and administrative reform, labor-market "flexibility," and social safety nets.

Operationally, these institutional reforms have two noteworthy features. First, they are heavily influenced by an Anglo-American conception of what constitutes desirable institutions (as in the preference for arms-length finance over "development banking" and flexible labor markets over institutionalized labor markets). Second, they are driven largely by the requirements of integration into the world economy. The latter explains the emphasis on the international harmonization of regulatory practices, as in the case of financial codes and standards and of the WTO agreements.

Market economies rely on a wide array of non-market institutions that perform regulatory, stabilizing, and legitimizing functions (see Rodrik 2001a for a discussion). Cross-national econometric work shows that the quality of a country's public institutions is a critical, and perhaps the most important, determinant of a country's long-term development (Acemoglu et al., 2000). For these reasons, the recent emphasis on institutions is highly welcome. However, it needs to be borne in mind that institutional basis for a market economy is not uniquely determined. There is no single mapping between a well-functioning market and the form of non-market institutions required to sustain it. This finds reflection in the wide variety of regulatory, stabilizing, and legitimizing institutions that we observe in today's advanced industrial societies. The American style of capitalism is very different from the Japanese style of capitalism. Both differ from the European style. And even within Europe, there are large differences between the institutional arrangements in, say, Sweden and Germany. Over the long term, each of these variants has performed equally well.[5]

The point about institutional diversity has in fact a more fundamental implication. The institutional arrangements that we observe in operation today, varied as they are, themselves constitute a subset of the full range of potential institutional possibilities. This is a point that has been forcefully and usefully argued by Roberto Unger (1998). There is no reason to suppose that modern societies have already managed to exhaust all the useful institutional variations that could underpin healthy and vibrant economies. We need to maintain a healthy skepticism towards the idea that a specific type of institution--a particular mode of corporate governance,

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[5] One needs to guard against the common journalistic error of supposing that one set of institutional arrangements must dominate the others in terms of overall performance. Hence the fads of the decade: with its low unemployment, high growth, and thriving culture, Europe was the continent to emulate throughout much of the 1970s; during the trade-conscious 1980s, Japan became the exemplar of choice; and the 1990s have been the decade of U.S.-style freewheeling capitalism. It is anybody's guess which set of countries will capture the imagination once the effects of the correction of the U.S. stock market play themselves out.

social security system, or labor market legislation, for example--is the only type that is compatible with a well-functioning market economy.

Leaving aside the question of long-term choice over institutional forms, the enlightened standard view also suffers from a fatal flaw insofar as it is presented as a recipe for stimulating economic growth: it provides no sense of priorities among a long and highly demanding list of institutional prerequisites. This kitchen-sink approach to development strategy flies in the face of practical reality and is at odds with the historical experience of today's advanced industrial economies. What are today regarded as key institutional reforms in areas such as corporate governance, financial supervision, trade law, and social safety nets did not take place in Europe or North America until quite late in the economic development process (Chang 2000). Indeed, many of the items on the augmented Washington Consensus agenda (Table 1) should be properly viewed as the outcome of successful economic development rather than a prerequisite thereof.

The reality of growth transformations is that they are instigated by an initially narrow set of policy and institutional initiatives, which might be called "investment strategies" (Rodrik 1999). Adequate human resources, public infrastructure, social peace and stability are all key enabling elements of an investment strategy. But often the key is a set of targeted policy interventions that kindle the animal spirits of domestic investors. These investment strategies set off a period of economic growth, which in turn enables a virtuous cycle of institutional development and further growth. The initiating reforms are rarely replicas of each other, and they bear only partial resemblance to the requirements highlighted by the enlightened standard view. Typically, they entail a mix of orthodoxy with unconventional domestic innovations.

I discuss below three sets of investment strategies briefly, to elucidate this central point and to highlight the diversity of paths taken to greater prosperity: import-substitution, East-Asian style outward orientation, and two-track reform strategies.

Import-substituting industrialization (ISI). Import-substituting industrialization (ISI) is based on the idea that domestic investment and technological capabilities can be spurred by providing home producers with (temporary) protection against imports. It might seem odd that I include ISI among my successful investment strategies, as this approach to development policy has fallen into disgrace since the 1980s. However, the reality is that ISI did quite well for a substantial period of time in scores of developing nations. Until the first oil shock hit in 1973, no fewer than 42 developing grew at rates exceeding 2.5 percent per capita per annum.[6] At this rate, incomes would double every 28 years or less. Most of these countries followed ISI policies. The list includes twelve countries in South America, six in the Middle East and North Africa, and even 15 in Sub-Saharan Africa. In fact, there were no less than six Sub-Saharan African countries among the 20 fastest-growing developing countries in the world prior to 1973: Swaziland, Botswana, Cote d'Ivoire, Lesotho, Gabon, and Togo, with Kenya ranking 21st. There can be little doubt that economic growth led to substantial improvements in the living conditions of the vast majority of the households in these countries. Between 1967 and 1977, life expectancy at birth increased by four years in Brazil (from 58 to 62), by five years in Cote d'Ivoire (from 43 to 48), by five years in Mexico (from 60 to 65), and by five years in Pakistan (from 48 to 53). In Kenya, infant mortality fell from 112 (per 1,000 live births) in 1965 to 72 in 1980.

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[6] The following is based on Rodrik (1999), chapter 4. The reader is referred to this source for further information and references.

ISI policies spurred growth by creating protected and therefore profitable home markets for domestic entrepreneurs to invest in. Contrary to received wisdom, ISI-driven growth did not produce technological lags and inefficiency on an economy-wide scale. In fact, the productivity performance of many Latin American and Middle Eastern countries was, in comparative perspective, exemplary. According to estimates produced by Collins and Bosworth (1996), not only was average total facto productivity (TFP) growth during the period preceding the first oil shock quite high in the Middle East and Latin America (at 2.3 and 1.8 percent, respectively), it was actually significantly higher than in East Asia (1.3 percent)! Countries like Brazil, Dominican Republic, and Ecuador in Latin America, Iran, Morocco, and Tunisia in the Middle East, and Cote d'Ivoire and Kenya in Africa all experienced more rapid TFP growth than any of the East Asian countries in this early period (with the possible exception of Hong Kong, for which comparable data are not available). Mexico, Bolivia, Panama, Egypt, Algeria, Tanzania and Zaire experienced higher TFP growth than all but Taiwan. Of course, not all countries following ISI policies did well: Argentina is a striking counter-example, with an average TFP growth of only 0.2 percent during 1960-73.

The dismal reputation of ISI is due partly to the subsequent collapse experienced by many of its adherents in the 1980s, and partly to the influential studies of Little, Scott, Scitovsky (1970) and Balassa and associates (1971). What these two important studies did was to document in detail some of the static economic inefficiencies generated by high and extremely dispersed rates of effective protection (ERP) in the manufacturing sectors of the countries under study. The discovery of cases of negative value added at world prices—that is, cases where countries would have been better off by throwing away the inputs than by processing them as they did in highly protected plants—was particularly shocking. However, neither study claimed

to show that countries which had followed "outward oriented" strategies had been systematically immune from the same kind of inefficiencies. In fact, their evidence can be read as suggesting that there was no such clear dividing line.[7] Moreover, the systematic evidence on TFP growth reviewed above belies the idea that ISI produced more dynamic inefficiency than "outward orientation."

Hence, as a strategy of industrialization, intended to raise domestic investment and enhance productivity, import substitution apparently worked pretty well in a very broad range of countries until at least the mid-1970s. ISI achieved a more than respectable record as a successful "investment strategy."

However, starting in the second half of the 1970s, a disaster befell the vast majority of the economies that had been doing well. Of the 42 countries with growth rates above 2.5 percent prior to 1973, less than a third (twelve) managed the same record over the next decade. The Middle East and Latin America, which had led the developing world in TFP growth prior to 1973, not only fell behind, but actually began to experienced negative TFP growth on average. Only East Asia held its own, while South Asia actually improved its performance (see Collins and Bosworth 1996).

Was this the result of the "exhaustion" of import-substitution policies? As I have argued elsewhere (Rodrik 1999), the common timing implicates the turbulence experienced in the world economy following 1973—the abandonment of the Bretton Woods system of fixed exchange rates, two major oil shocks, various other commodity boom-and-bust cycles, plus the Volcker interest-rate shock of the early 1980s. The fact that some of the most ardent followers of ISI

[7] For example, the figures provided by Little et al. (1970, 174-190) show Taiwan to have had a higher average ERP in manufacturing, as well as greater variation in ERPs, than Mexico long after Taiwan's trade reforms were introduced. This is significant since we commonly think of these two countries as exemplars of two diametrically opposed styles of development.

policies in South Asia (India and Pakistan in particular) managed to either hold on to their growth rates after 1973 (Pakistan) or increase them (India) also suggests that more than just ISI was involved.[8]

The actual story implicates macroeconomic policies rather than the trade regime. The proximate reason for the economic collapse was the inability to adjust macroeconomic policies appropriately in the wake of these external shocks. Macroeconomic maladjustment gave rise to a range of syndromes associated with macroeconomic instability—high or repressed inflation, scarcity of foreign exchange and large black-market premia, external payments imbalances and debt crises—which greatly magnified the real costs of the shocks. Countries that suffered the most were those with the largest increases in inflation and black-market premia for foreign currency. The culprits were poor monetary and fiscal policies and inadequate adjustments in exchange-rate policy, sometimes aggravated by shortsighted policies of creditors and the Bretton Woods institutions. The bottom line is that in those countries that experienced a debt crisis, the crisis was the product of monetary and fiscal policies that were incompatible with sustainable external balances: there was too little expenditure reducing and expenditure switching. Trade and industrial policies had very little to do with bringing on the crisis.

Why were some countries quicker to adjust their macroeconomic policies than others? The deeper determinants of growth performance after the 1970s are rooted in the ability of domestic institutions to manage the distributional conflicts triggered by the external shocks of the period. Social conflicts and their management—whether successful or not—played a key role in transmitting the effects of external shocks on to economic performance. Societies with

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[8] India did liberalize its trade regime partially and gradually after 1991, but its relative performance began to improve a full decade before these reforms went into effect (in the early1980s). So India's superior performance after the oil shock cannot be attributed to changes in its trade regime.

deep social cleavages and poor institutions of conflict management proved worse at handling shocks.[9]

"Outward-oriented" industrialization. The experience of the East Asian tigers is often presented as one of export-led growth, in which opening up to the world economy unleashed powerful forces of industrial diversification and technological catch-up. However, the conventional account overlooks the active role taken by the Taiwanese and South Korean governments (and Japan before them) in shaping the allocation of resources. In neither of these countries was there significant import liberalization early in the process of growth. Most of their trade liberalization took place in the 1980s, when high growth was already firmly established.

The key to these and other East Asian countries' success was a coherent strategy of raising the return to private investment, through a range of policies that included credit subsidies and tax incentives, educational policies, establishment of public enterprises, export inducements, duty-free access to inputs and capital goods, and actual government coordination of investment plans. In Korea, the chief form of investment subsidy was the extension of credit to large business groups at negative real interest rates. Korean banks were nationalized after the military coup of 1961, and consequently the government obtained exclusive control over the allocation of investible funds in the economy. Another important manner in which investment was subsidized in Korea was through the socialization of investment risk in selected sectors. This emerged because the government—most notably President Park himself—provided an implicit guarantee that the state would bail out entrepreneurs investing in “desirable” activities if circumstances later threatened the profitability of those investments. In Taiwan, investment subsidies took the form of tax incentives. In both cases, public enterprises played a very important role in

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[9] See Rodrik 1999 for further discussion and evidence on this point.

enhancing the profitability of private investment by ensuring that key inputs were available locally for private producers downstream. Not only did public enterprises account for a large share of manufacturing output and investment in each country, their importance actually increased during the critical take-off years of the 1960s. Singapore too heavily subsidized investment, but it differs from Korea and Taiwan in that its investment incentives heavily on foreign investors.

While trade policies that spurred exports were part of this complex arsenal of incentives, investment and its promotion was the key goal in all the countries. To that end, governments in Korea and Taiwan freely resorted to unorthodox strategies: they protected the home markets to raise profits, implemented generous export subsidies, encouraged their firms to reverse-engineer foreign patented products, and imposed performance requirements such as export-import balance requirements and domestic content requirements on foreign investors (when foreign companies were allowed in). All of these strategies are now severely restricted under the WTO agreements.

The two-track strategy. A relatively minimal set of reforms in China in the late 1970s set the stage for the phenomenal economic performance that has been any poor country' envy since then. The initial reforms were relatively simple: they loosened the communal farming system and allowed farmers to sell their crops in free markets once they had fulfilled their quota obligations to the state. Subsequent reforms allowed the creation of township and village enterprises and the extension of the "market track" into the urban and industrial sectors. Special economic zones were created to attract foreign investment. What stands out about these reforms is that they are based on gradualism, experimentation, and dual tracks (state and market "tracks" co-exist side by side).

One can interpret Chinese-style gradualism in two ways. One perspective, represented forcefully in work by Sachs and Woo (2000), underplays the relevance of Chinese particularism by arguing that the successes of the economy are not due to any special aspects of the Chinese transition to a market economy, but instead are largely due to a convergence of Chinese institutions to those in non-socialist economies. In this view, the faster the convergence, the better the outcomes. "[F]avorable outcomes have emerged not because of gradualism, but *despite* gradualism" (Sachs and Woo, 2000, 3). The policy message that follows is that countries that look to China for lessons should focus not on institutional experimentation but on harmonizing their institutions with those abroad.

The alternative perspective, perhaps best developed in work by Qian and Roland, is that the peculiarities of the Chinese model represent solutions to particular political or informational problems for which no blueprint-style solution exists. Hence Lau, Qian, and Roland (1997) interpret the dual-track approach to liberalization as a way of implementing Pareto-efficient reforms: an alteration in the planned economy that improves incentives at the margin, enhances efficiency in resource allocation, and yet leaves none of the plan beneficiaries worse off. Qian, Roland, and Xu (1999) interpret Chinese style decentralization as allowing the development of superior institutions of coordination: when economic activity requires products with matched attributes, local experimentation is a more effective way of processing and using local knowledge. Qian et al. find much to praise in the Chinese model because they think the system generates the right incentives for developing the tacit knowledge required to build and sustain a market economy, and therefore are not overly bothered by some of the economic inefficiencies that may be generated along the way.

A less well-known instance of a successful two-track strategy is that of Mauritius.

Mauritius' superior economic performance has been built on a peculiar combination of orthodox and heterodox strategies. An export processing zone (EPZ) operating under free-trade principles enabled an export boom in garments to European markets and an accompanying investment boom at home. Yet the island's economy has combined the EPZ with a domestic sector that was highly protected until the mid-1980s.[10] Mauritius is essentially an example of an economy that has followed a two-track strategy similar to that of China. This economic strategy was in turn underpinned by social and political arrangements that encouraged participation, representation and coalition-building.

The circumstances under which the Mauritian EPZ was set up in 1970 are instructive, and highlight the manner in which participatory political systems help design creative strategies for building locally adapted institutions. Given the small size of the home market, it was evident that Mauritius would benefit from an outward-oriented strategy. But as in other developing countries, policy makers had to contend with the import-substituting industrialists who had been propped up by the restrictive commercial policies of the early 1960s prior to independence. These industrialists were naturally opposed to relaxing the trade regime.

A Washington economist would have advocated across-the-board liberalization, without regard to what that might do the precarious ethnic and political balance of the island. The EPZ scheme provided a neat way around the political difficulties. The creation of the EPZ generated new opportunities for trade and employment, without taking protection away from the import-substituting groups and from the male workers who dominated the established industries. The segmentation of labor markets early on between male and female workers--with the latter

[10] The IMF gave Mauritius its highest (i.e., "worst") score on its "policy restrictiveness" index for the early 1990s, and reckoned that the country remained one of the world most protected economies even by the late 1990s. See Subramanian (2001).

predominantly employed in the EPZ--was particularly crucial, as it prevented the expansion of the EPZ from driving wages up in the rest of the economy, thereby disadvantaging import-substituting industries. New employment and profit opportunities were created at the margin, while leaving old opportunities undisturbed. This in turn paved the way for the more substantial liberalizations that took place in the mid-1980s and in the 1990s. Mauritius found its own way to economic development because it was able to devise a strategy that was unorthodox, yet effective.

The bottom line. The experience we have reviewed lends itself to some generalizations. Market incentives, macroeconomic stability, and sound institutions are key to economic development. But these requirements can be generated in a number of different ways--by making the best use of existing capabilities in light of resource and other constraints. There is no single model of a successful transition to a high growth path. Each country has to figure out its own investment strategy. Once the appropriate strategy is identified (or stumbled upon), the institutional reforms needed may not be extensive. Most of institutional development occurs alongside economic development, not as a prerequisite to it.

IV. Trade liberalization, growth and poverty alleviation: what do the facts really show?

Consider two countries that I shall call A and B. Country A engages in state trading, maintains import monopolies, retains quantitative restrictions and high tariffs (in the range of 30-50 percent) on imports of agricultural and industrial products, and is not a member of the WTO. Country B, a WTO member, has slashed import tariffs to a maximum of 15 percent and removed all quantitative restrictions, earning a rare commendation from the U.S. State Department that

"there are few significant barriers to U.S. exports."[11] One of the two economies has experienced GDP growth rates in excess of 8 percent per annum, has sharply reduced poverty, has expanded trade at double-digit rates, and has attracted large amounts of foreign investment. The other economy has stagnated and suffered deteriorating social indicators, and has made little progress in integrating with the world economy as judged by trade and foreign investment flows.

Country A is Vietnam, which since the mid-1980s has followed Chinese-style gradualism and a two-track reform program. Vietnam has been phenomenally successful, achieving not only high growth and poverty alleviation, but also a rapid pace of integration into the world economy despite high barriers to trade. County B is Haiti. Haiti has gone nowhere even though the country undertook a comprehensive trade liberalization in 1994-95.

The contrasting experiences of these two countries highlight two important points. First, a leadership committed to development and standing behind a coherent growth strategy counts for a lot more than trade liberalization, even when the strategy departs sharply from the enlightened standard view on reform. Second, integration with the world economy is an outcome, and not a prerequisite, of a successful growth strategy. Protected Vietnam is integrating with the world economy significantly more rapidly than open Haiti, because Vietnam is growing and Haiti is not.

I have started with this example because it illustrates a common misdiagnosis. A typical exercise at the World Bank consists of classifying developing countries into "globalizers" and "non-globalizers" based on their rates of growth of trade volumes. Next, the analyst asks whether globalizers (i.e., those with the highest rates of trade growth) have experienced faster

[11] See "1999 Country Report on Economic Policy and Trade Practices: Haiti" (http://www.state.gov/www/issues/economic/trade_reports/1999/haiti.pdf).

income growth, greater poverty reduction, and worsened income distribution.[12] The answers tends to be yes, yes, and no. As the Vietnam and Haiti examples show, however, this is a highly misleading exercise. Trade volumes are the outcome of many different things, including most importantly an economy's overall performance. They are not something that governments control directly. What governments control are trade policies: the level of tariff and non-tariff barriers, membership in the WTO, compliance with its Agreements, and so on. The relevant question is: do open trade policies reliably produce higher economic growth and greater poverty reduction?

The cross-national evidence on this issue is easily summarized. The available studies reveal no systematic relationship between a country's average level of tariff and non-tariff restrictions and its subsequent economic growth rate. If anything, the evidence for the 1990s indicates a *positive* (but statistically insignificant) relationship between tariffs and economic growth (see Figure 1). The only systematic relationship is that countries dismantle trade restrictions as they get richer. That accounts for the fact that today's rich countries, with few exceptions, embarked on modern economic growth behind protective barriers, but now have low trade barriers.

The absence of a robust positive relationship between open trade policies and economic growth may come as a surprise in view of the ubiquitous claim that trade liberalization promotes higher growth. Indeed, the literature is replete with cross-national studies concluding that growth and economic dynamism are strongly linked to more liberal trade policies. For example, a particularly influential study by Sachs and Warner (1995) finds that economies that are open, by the study's own definition, grew 2.4 percentage points faster annually than closed ones—an

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[12] See for example Dollar and Kraay (2000). A critique of this paper can be found at http://ksghome.harvard.edu/~.drodrik.academic.ksg/Rodrik%20on%20Dollar-Kraay.PDF

enormous difference. Without such studies, organizations such as the World Bank, IMF, and the WTO could not have been as vociferous in their promotion of trade-centric development strategies.

Upon closer look, however, these studies turn out to be flawed. The classification of countries as "open" or "closed" in the Sachs-Warner (1995) study, for example, is not based on actual trade policies but largely on indicators related to exchange rate policy and location in Sub-Saharan Africa. The Sachs-Warner classification of countries in effect conflates macroeconomics, geography, and institutions with trade policy. It is so correlated with plausible groupings of alternative explanatory variables--macroeconomic instability, poor institutions, location in Africa--that one cannot draw from the subsequent empirical analysis any strong inferences about the effects of openness on growth (see Rodriguez and Rodrik 2001).

The problem is a general one. In a detailed review of the empirical literature, Francisco Rodriguez and I have found that there is a major gap between the policy conclusions that are typically drawn and what the research has actually shown.[13] A common problem in this line of research has been the misattribution of either macroeconomic phenomena (overvalued currencies or macroeconomic instability) or geographic determinants (e.g., location in the tropical zone) to trade policies proper. Once these problems are corrected, any meaningful relationship across countries between the level of trade barriers and economic growth evaporates.[14]

There are in fact reasons to be skeptical about the existence of a general, unambiguous relationship between trade openness and growth. The relationship is likely to be a contingent on

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[13] Besides Sachs and Warner (1995), our detailed analysis covers four other papers that together constitute the best known in the field: Dollar (1992), Ben-David (1993), Edwards (1998), and Frankel and Romer (1999).

[14] This is also the conclusion of the careful country studies collected in Helleiner (1994).

a host of country and external characteristics. The fact that practically all of today's advanced countries embarked on their growth behind tariff barriers, and reduced protection only subsequently, surely offers a clue of sorts. Moreover, the modern theory of endogenous growth yields an ambiguous answer to the question of whether trade liberalization promotes growth. The answer varies depending on whether the forces of comparative advantage push the economy's resources in the direction of activities that generate long-run growth (via externalities in research and development, expanding product variety, upgrading product quality, and so on) or divert them from such activities.

No country has developed successfully by turning its back on international trade and long-term capital flows. Very few countries have grown over long periods of time without experiencing an increase in the share of foreign trade in their national product. In practice, the most compelling mechanism that links trade with growth in developing countries is that imported capital goods are likely to be significantly cheaper than those manufactured at home. Policies that restrict imports of capital equipment, raise the price of capital goods at home, and thereby reduce real investment levels have to be viewed as undesirable prima facie.[15] Exports, in turn, are important since they allow purchases of imported capital equipment.

But it is equally true that no country has developed simply by opening itself up to foreign trade and investment. The trick in the successful cases has been to combine the opportunities offered by world markets with a domestic investment and institution-building strategy to stimulate the animal spirits of domestic entrepreneurs. Almost all of the outstanding cases--East Asia, China, India since the early 1980s--involve partial and gradual opening up to imports and foreign investment.

[15] This does not rule out the possibility of selective infant industry policies in certain segments of capital-goods industries.

The experiences of China and India are particularly noteworthy, as these are two huge countries that have done extremely well recently, and are often pointed to as examples of what openness can achieve.[16] The reality, once again, is more complicated. In both China and India, the main trade reforms took place about a decade after the onset of higher growth. Moreover, these countries' trade restrictions remain among the highest in the world. As I discussed briefly above, the increase in China's growth started in the late 1970s with the introduction of the household responsibility system in agriculture and of two-tier pricing. Trade liberalization did not start in earnest until much later, during the second half of the 1980s and especially during the 1990s, once the trend growth rate had already increased substantially.

As Figure 2 makes clear, India's trend growth rate increased substantially in the early 1980s (a fact that stands out particularly clearly when one benchmarks India's growth against other developing countries, as is done in the chart). Meanwhile, serious trade reform did not start until 1991-93. The tariff averages displayed in the chart show that tariffs were actually higher in the rising growth period of the 1980s than in the low-growth 1970s. Of course, tariffs hardly constitute the most serious trade restrictions in India, but they nonetheless display the trends in Indian trade policy fairly accurately.

Of course, both India and China did "participate in international trade," and by that measure they are both globalizers. But the relevant question for policy makers is not whether trade per se is good or bad—countries that do well also increase their trade/GDP ratios as a by-product—but what the correct sequencing of policies is and how much priority deep trade liberalization should receive early on in the reform process. With regard to the latter questions,

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[16] Here is a typical statement: "Growth rates for these recent globalizers have generally accelerated as they have become more open. This trend is clearest for China and India…" (Stern , 2000, p. 3).

the experiences of India and China are suggestive of the benefits of a gradual, sequenced approach.

To repeat, the appropriate conclusion is not that trade protection is inherently preferable to trade liberalization as a rule; certainly, there is scant evidence from the last 50 years that inward-looking economies experience systematically faster economic growth than open ones. But the benefits of trade openness are now greatly oversold. Deep trade liberalization cannot be relied on to deliver high rates of economic growth and therefore does not deserve the high priority it typically receives in the development strategies pushed by leading multilateral organizations.[17]

As Helleiner (2000, 3) puts it, there are "few reputable developing country analysts or governments who question the positive potential roles of international trade or capital inflow in economic growth and overall development. How could they question the inevitable need for participation in, indeed a considerable degree of integration with, the global economy?" The real debate is not over whether integration is good or bad, but over matters of policy and priorities. Quoting Helleiner (2000, 4) again, "[i]t isn't at all obvious either (1) that further external liberalization ('open-ness') is now in every country's interest and in all dimensions or (2) that in the over-arching sweep of global economic history what the world now most requires is a set of global rules that promote or ease the path to greater freedom for global market actors, and are universal in application."

V. The integrationist agenda and the crowding out of development priorities

[17] Much the same can be said about the promotion and subsidization of inward flows of direct foreign investment as well. See Hanson (2001) for a good overview of the evidence and the policy issues.

Priorities are important because in the enlightened standard view integration with the world economy is no longer a matter simply of removing trade and investment barriers. Countries have to satisfy a long list of institutional requirements, so that they can, as the cliché goes, maximize the gains and minimize the risks of participation in the world economy. Global integration remains the key prerequisite for economic development, but there is now a lot more to it than just throwing the borders open. Reaping the gains from openness requires a full complement of institutional reforms.

So trade liberalization entails not only the lowering of tariff and non-tariff barriers, but compliance with WTO requirements on subsidies, intellectual property, customs procedures, sanitary standards, and policies vis-à-vis foreign investors. Moreover, these legal requirements have to be complemented with additional reforms to ensure favorable economic outcomes: tax reform to make up for lost tariff revenues; social safety nets to compensate displaced workers; credibility enhancing institutional innovations to quell doubts about the permanence of the reforms; labor market reform to enhance labor mobility across industries; technological assistance to upgrade firms adversely affected by import competition; training programs to ensure that export-oriented firms and investors have access to skilled workers; and so on. Reading World Bank reports on trade policy, one can be excused for thinking that the list of complementary reforms is virtually endless.

Many of the institutional reforms on the integrationist agenda are perfectly sensible ones,[18] and in a world without financial, administrative, or political constraints, there would be little argument about the need to adopt them. But in the real world, fiscal resources, administrative capabilities, and political capital are all scarce, and choices need to be made about

[18] Many, but not all. As argued earlier, the Washington agenda for integrationist reform is influenced too heavily by an Anglo-American conception of institutional possibilities.

how to deploy them. In such a world, viewing institutional priorities from the vantage point of insertion in the global economy has real opportunity costs.

Here are some illustrative tradeoffs. It has been estimated that that it costs a typical developing country $150 million to implement requirements under just three of the WTO agreements (those on customs valuation, sanitary and phytosanitary measures (SPS), and intellectual property rights (TRIPs)). As the World Bank's Michael Finger points out, this is a sum equal to a year's development budget for many of the least-developed countries (Schuler and Finger, 1999).

In the area of legal reform, should the government focus its energies on "importing" legal codes and standards, or on improving existing domestic legal institutions? In Turkey, a weak coalition government spent several months gathering political support for a bill that would provide foreign investors the protection of international arbitration. Wouldn't it have been a better strategy for the long run to reform the existing legal regime for the benefit of foreign *and* domestic investors alike?

In public health, should the government pursue tough policies on compulsory licensing and/or parallel importation of basic medicines, even if that means running afoul of existing WTO rules? The U.S. has charged that Brazil's highly successful anti-AIDS program violates WTO rules because it allows the government to seek compulsory licensing when a foreign patent holder does not "work" the patent locally.

In industrial strategy, should the government simply open up and let the chips drop wherever they might, or should it emulate East Asian experience of industrial policies through export subsidies, directed credit, and selective protection?

How should the government focus its anti-corruption strategy? Should it target the "grand" corruption that foreign investors complain about, or the petty corruption that affects the poor the most? Perhaps, as the proponents of permanent normal trade relations (PNTR) with China argued in the recent U.S. debate, a government that is forced to protect the rights of foreign investors becomes more inclined to protect the human rights of its own citizens too. But isn't this, at best, a trickle-down strategy of institutional reform? Shouldn't institutional reform be targeted on the desired ends directly—whether those ends are the rule of law, improved observance of human rights, or reduced corruption?

The rules for admission into the world economy not only reflect little awareness of development priorities, they are often completely unrelated to sensible economic principles. WTO rules on anti-dumping, subsidies and countervailing measures, agriculture, textiles, TRIMs, and TRIPs are utterly devoid of any economic rationale beyond the mercantilist interests of a narrow set of powerful groups in the advanced industrial countries. The developmental payoff of most of these requirements is hard to see.

Bilateral and regional trade agreements are often far worse, as they impose even tighter prerequisites on developing countries in return for crumbs of enhanced "market access" in the larger partners. The Africa Growth and Opportunity Act signed by President Clinton in May, 2000, contains a long list of eligibility criteria, including the specific requirement that African governments minimize interference in the economy. It provides free market access into the U.S. only under strict rules of origin, thereby ensuring that few economic linkages are generated in the African countries themselves. The U.S.-Jordan Free Trade Agreement imposes more restrictive intellectual property rules on Jordan than exist under the WTO.

In each of these areas, a strategy focused on integration crowds out alternatives that may be more development-friendly. Many of the institutional reforms needed for insertion in the world economy can be independently desirable, or produce broader spillovers. But these priorities do not necessarily coincide with the priorities of a more fully developmental agenda. A strategy that focuses on getting the state out of the way of the market overlooks the important functions that the state needs to play during the process of economic transformation. What belongs on the agenda of institutional reform is building up state capacity--not diminishing it (Evans 2000).

World markets are a source of technology and capital; it would be silly for the developing world not to exploit these opportunities. But, as I have argued above, successful development strategies have always required a judicious blend of imported practices with domestic institutional innovations. Policy makers need to forge a *domestic* growth strategy, relying on domestic investors and domestic institutions. The most costly downside of the integrationist agenda is that it is crowding out serious thinking and efforts along such lines.

VI. An international trade regime that puts development first: general principles and illustrations

Access to the markets of the industrial countries matters for development. But so does the autonomy to experiment with institutional innovations that diverge from orthodoxy. The exchange of reduced policy autonomy in the South for improved market access in the North is a bad bargain where development is concerned.

Consider the old GATT system. Under the GATT, the international trade regime did not reach much beyond tariff and non-tariff barriers to trade. The developing countries were effectively exempt from prevailing disciplines. The MFN principle ensured that they benefited

from the tariff cuts negotiated among the industrial countries, while they themselves "gave up" little in return. The resulting pattern of liberalization may have been asymmetric (with many products of interest to developing countries either excluded or receiving less beneficial treatment), but the net effect for the developing world was still highly salutary.

It is in such an external environment that the most successful "globalizers" of an earlier era--the East Asian tigers--managed to prosper. South Korea, Taiwan, and the other East Asian countries had the freedom to do their own thing, and they used it abundantly. As I discussed previously, they combined their reliance on trade with unorthodox policies--export subsidies, domestic-content requirements, import-export linkages, patent and copyright infringements, restrictions on capital flows (including on DFI), directed credit, and so on--that are either precluded by today's rules or highly frowned upon.[19] In fact, such policies were part of the arsenal of today's advanced industrial countries as well until quite recently.[20] The environment for today's globalizers is quite different and significantly more restrictive.

For the world's poorest economies (the so-called least developed countries, LLDCs), something along the old GATT lines is still achievable, and would constitute a more development-friendly regime than the one that exists currently. These are economies that are individually and collectively small enough that "adjustment" issues in the advanced countries is not a serious obstacle to the provision of one-sided free market access in the North to the vast

[19] See Amsden (2000) for a more optimistic reading of WTO rules. Amsden argues that WTO rules remain permissive insofar as industrial policies are concerned, and that what developing countries lack is a "vision" for transforming their economies. While I agree with her on the vision issue, I also think that current WTO regulations do preclude many of the strategies that were usefully employed by the East Asian countries. A recent illustration is the dispute between Brazil and Canada over Brazil's subsidization of its aircraft manufacturer, Embraer. Brazil lost this case in the WTO, and will either remove the subsidies or have to put up with retaliation from Canada. Successful performers such as South Korea, Taiwan, and Mauritius subsidized their export industries for years without incurring similar sanctions.

[20] On patents and compulsory licensing, for example, see Scherer and Watal (2001).

majority of products of interest to them. Instead of encumbering these countries with all kinds of institutional requirements that come attached to a "single undertaking," it would be far better to leave them the room to follow their own institutional priorities, while providing them with duty- and QR-free access in Northern markets. In practice, this can be done either by extending existing "phase-in" periods until certain income thresholds are reached, or incorporating a general LLDC exception.

In the case of middle-income and other developing nations, it is unrealistic to expect that advanced industrial countries would be willing to accept a similar arrangement. The amount of political opposition that imports from developing countries generate in the advanced industrial countries is already disproportionate to the volume of trade in question. Some of these objections have a legitimate core, and it is important that developing nations understand and accept this.[21] Under a sensible set of global trade rules, industrialized countries would have as much right to "protect" their own social arrangements--in areas such as labor and environmental standards, welfare-state arrangements, rural communities, or industrial organization--as developing nations have to adopt divergent institutional practices. Countries such as India, Brazil, or China, whose exports can have a sizable impact on, say, labor-market institutions and employment relations within the advanced countries cannot ask importing countries to overlook these effects while demanding at the same time that the constraints on their own developmental agenda be lifted. Middle-income developing countries have to accept a more balanced set of rights and obligations

[21] See Mayda and Rodrik (2001) for an empirical analysis of the determinants of individuals' attitudes towards trade in the rich countries. We show in this paper that these attitudes are shaped by values having to do with communitiarian/patriotic feelings as well as narrow material self-interest.

Is it possible to preserve developing countries' autonomy while also respecting the legitimate objectives of advanced industrial countries to maintain high labor, social, and environmental standards at home? Would such a regime of world trade avoid collapsing into protectionism, bilateralism, or regional trade blocs? Would it be development-friendly after all? The answer to all these questions is yes, provided we accept five simple principles.

Trade is a means to an end, not an end in itself. Step number one is to move away from attaching normative significance to trade itself. The scope of market access generated by the international trade regime and the volume of trade thereby stimulated are poor measures of how well the system functions. As I have argued throughout, and as the WTO's own preamble emphasizes, trade is useful only insofar as it serves broader developmental and social goals. Developing countries should not be obsessed with market access abroad, at the cost of overlooking more fundamental developmental challenges at home. Industrial countries should balance the interests of their exporters and multinational companies with those of their workers and consumers.

Advocates of globalization lecture the rest of the world incessantly about the adjustments countries have to undertake in their policies and institutions in order to expand their international trade and become more attractive to foreign investors. This is another instance of confusing means for ends. Trade serves at best as an instrument for achieving the goals that societies seek: prosperity, stability, freedom, and quality of life. Nothing enrages WTO bashers more than the suspicion that, when push comes to shove, the WTO allows trade to trump the environment or human rights. And developing countries are right to resist a system that evaluates their needs from the perspective of expanding world trade instead of poverty alleviation.

Reversing our priorities would have a simple but powerful implication. Instead of asking what kind of multilateral trading system maximizes foreign trade and investment opportunities, we would ask what kind of multilateral system best enables nations around the world to pursue their own values and developmental objectives.

Trade rules have to allow for diversity in national institutions and standards. As I have emphasized above, there is no single recipe for economic advancement. This does not mean that anything and everything works: market-based incentives, control rights, competition, macroeconomic stability are key everywhere. More broadly, political freedom, civil liberties, and human rights are universal principles. But even these universal requirements and principles can, and have been, embodied in diverse institutional forms. Investment strategies, needed to jump-start economies, can also take different forms. Moreover, citizens of different countries have varying preferences over the regulations that should govern new technologies (such as genetically modified organisms), restrictiveness of environmental regulations, intrusiveness of government policies, extensiveness of social safety nets, or the relationship between efficiency and equity more broadly.[22] Rich and poor nations have very different needs in the areas of labor standards or patent protection. Poor countries need the space to follow developmental policies that richer countries no longer require.

When countries use the trade system to impose their institutional preferences on others, the result is erosion of the system's legitimacy and efficacy. Trade rules should seek peaceful co-existence among national practices, not harmonization.

[22] This is not to deny that in practice these preferences are aggregated through social choice mechanisms that can be highly imperfect, sometimes reflecting the excessive power of organized lobbies. But the appropriate response to these shortcomings is to enhance the working of representative and participatory democracy, not to undercut it.

Non-democratic countries cannot count on the same trade privileges as democratic ones. National standards that deviate from those in trade partners and thereby provide "trade advantages" are legitimate only to the extent that they are grounded in free choices made by citizens. Think of labor and environmental standards, for example. Poor countries argue that they cannot afford to have the same stringent standards in these areas as the advanced countries. Indeed, tough emission standards or regulations against the use of child labor can easily backfire if they lead to fewer jobs and greater poverty. Democratic countries such as India and Brazil can legitimately argue that their practices are consistent with the wishes of their own citizens, and that therefore it is inappropriate for labor groups or NGOs in advanced countries to tell them what standard they should have. Democratic governments are presumptively accountable to their own NGOs and electorates, which is as it should be. Ofcourse democracy never works perfectly (even in the advanced countries), and one would not want to make the stronger argument that there are no human rights abuses in the countries just mentioned. The point is simply that the presence of civil liberties and political freedoms provides a presumptive cover against the charge that labor, environmental, and other standards in the developing nations are inappropriately low.

But non-democratic countries, such as China, do not pass the same *prima facie* test. The assertion that labor rights and the environment are trampled for the benefit of commercial advantage cannot be as easily dismissed in those countries. Consequently, exports of non-democratic countries deserve greater scrutiny when they entail costly dislocations or adverse distributional consequences in importing countries. In the absence of the presumptive cover provided by democratic rights, such countries need to make a "developmental" case for policies that generate adjustment difficulties in the importing countries. For example, minimum wages

that are significantly lower than in rich countries or health and other benefits that are less generous can easily be justified by pointing to lower labor productivity and living standards in poor nations. Lax child labor regulations can also often be justified by the argument that under conditions of widespread poverty it is not feasible or desirable to withdraw young workers from the labor force. In other cases, the "affordability" argument carries less weight: non-discrimination, freedom of association, collective bargaining, prohibition of forced labor do not "cost" anything; compliance with these "core labor rights" does not harm, and indeed possibly benefits, economic development. The latter are examples that do not pass the "development test."

Countries have the right to protect their own institutions and development priorities. Opponents of today's trade regime argue that trade sets off a "race to the bottom," with nations converging towards the lowest levels of environmental, labor, and consumer protections. Advocates counter that there is little evidence trade leads to the erosion of national standards. Developing nations complain that current trade laws are too intrusive, and leave little room for development-friendly policies. Advocates of the WTO reply that these rules provide useful discipline to rein in harmful policies that would otherwise end up wasting resources and hampering development.

One way to cut through this morass is to accept that countries can uphold national standards and policies in these areas, by withholding market access or suspending WTO obligations if necessary, when trade demonstrably undermines domestic practices enjoying broad popular support. For example, poor nations might be allowed to subsidize industrial activities (and indirectly their exports) when this is part of a broadly supported development strategy aimed at stimulating technological capabilities. This would render the international trade system

more compatible with the goal of local ownership of development programs, much in vogue in Washington today. Advanced countries might seek temporary protection against imports originating from countries with weak enforcement of labor rights when such imports serve to worsen working conditions at home. The WTO already has a "safeguard" system in place to protect firms from import surges. An extension of this principle to protect developmental priorities or environmental, labor, and consumer-safety standards at home–with appropriate procedural restraints against abuse–might make the world trading system more development-friendly, more resilient, and more resistant to ad-hoc protectionism.

Currently the Agreement on Safeguards allows (temporary) increase in trade restrictions under a very narrow set of conditions.[23] It requires determination that increased imports "cause or threaten to cause serious injury to the domestic industry," that causality be firmly established, and that injury be not attributed to imports if there are multiple causes for it. Safeguards cannot be applied to developing-country exporters unless their share of imports of the product concerned is above a threshold. A country applying safeguard measures has to compensate the affected exporters by providing "equivalent concessions," lacking which the exporter is free to retaliate.

A broader interpretation of safeguards would acknowledge that countries may legitimately wish to restrict trade or suspend existing WTO obligations--exercise what I will call "opt-outs"--for reasons going beyond competitive threats to their industries. As I have discussed, developmental priorities are among such reasons, as are distributional concerns or conflicts with domestic norms or social arrangements in the industrial countries. We could imagine recasting the current agreement into an Agreement on Developmental and Social Safeguards, which would

[23] This discussion draws on Rodrik (1997).

permit the application of opt-outs under a broader range of circumstances. This would require re-casting the "serious injury" test. I would replace the injury criterion with another hurdle: the need to demonstrate broad domestic support, among all concerned parties, for the proposed measure.

To see how that might work in practice, consider what the current agreement says:

> A Member may apply a safeguard measure only following an investigation by the competent authorities of that Member pursuant to procedures previously established and made public in consonance with Article X of the GATT 1994. This investigation shall include reasonable public notice to all interested parties and public hearings or other appropriate means in which importers, exporters and other interested parties could present evidence and their views, including the opportunity to respond to the presentations of other parties and to submit their views, inter alia, as to whether or not the application of a safeguard measure would be in the public interest. The competent authorities shall publish a report setting forth their findings and reasoned conclusions reached on all pertinent issues of fact and law. (Emphasis added.)

The main shortcoming of this clause is that while it allows all relevant groups, and exporters and importers in particular, to make their views known, it does not actually compel them to do so. Consequently, it results in a strong bias in the domestic investigative process towards the interests of import-competing groups, who are the petitioners for import relief and its obvious beneficiaries. Indeed, this is a key problem with hearings in anti-dumping proceedings, where testimony from other groups besides the import-competing industry is typically not allowed.

The most significant and reliable guarantee against the abuse of opt-outs is informed deliberation at the national level. A key reform, then, would be to require the investigative process in each country to: (i) gather testimony and views from all relevant parties, including consumer and public-interest groups, importers and exporters, civil society organizations, and (ii) determine whether there exists broad enough support among these groups for the exercise of the opt-out or safeguard in question. The requirements that groups whose incomes might be adversely affected by the opt-out--importers and exporters--be compelled to testify, and that the

investigative body trade off the competing interests in a transparent manner would help ensure that protectionist measures that benefit a small segment of industry at large cost to society would not have much chance of success. When the opt-out in question is part of a broader development strategy that has already been adopted after broad debate and participation, an additional investigative process need not be launched. This last point deserves special emphasis in view of the emphasis placed on "local ownership" and "participatory mechanisms" in strategies of poverty reduction and growth promoted by the international financial institutions.

The main advantage of the proposed procedure is that it would force a public debate on the legitimacy of trade rules and when it may be appropriate to suspend them. It ensures that all sides would be heard. This is something that rarely happens even in the industrial countries, let alone the developing nations. This procedure could also be complemented with a strengthened monitoring and surveillance role for the WTO, to ensure that domestic opt-out procedures are in compliance with the expanded safeguard clause. An automatic sunset clause could ensure that trade restrictions and opt-outs do not become entrenched long after their perceived need has disappeared.

Allowing opt-outs in this manner would not be without its risks. The possibility that the new procedures are abused for protectionist ends and open the door to unilateral action on a broad front, despite the high threshold envisaged here, has to be taken into account. But as I have already argued, the current arrangements are not riskless either. The "more of the same" approach that is embodied in the industrialized countries' efforts to launch a comprehensive new round of trade negotiations is unlikely to produce benefits for developing nations. Absent creative thinking and novel institutional designs, the narrowing of the room for institutional divergence will continue to harm development prospects. It may also lead to the emergence of a

new set of "grey area" measures entirely outside multilateral discipline. These are consequences that are worse than the expanded safeguard regime I have just described.

But countries do not have the right to impose their institutional preferences on others. The exercise of opt-outs to uphold a country's own priorities has to be sharply distinguished from using them to impose these priorities on other countries. Trade rules should not force Americans to consume shrimp that are caught in ways that most Americans find unacceptable; but neither should they allow the U.S. to use trade sanctions to alter the way that foreign nations go about their fishing business. Citizens of rich countries who are genuinely concerned about the state of the environment or of workers in the developing world can be more effective through channels other than trade—via diplomacy or foreign aid, for example. Trade sanctions to promote a country's own preferences are rarely effective, and have no moral legitimacy (except for when they are used against repressive political regimes).

This and the previous principle help us draw a useful distinction between two styles of "unilateralism"--one that is aimed at protecting differences, and another aimed at reducing them. When the European Union drags its feet on agricultural trade liberalization, it is out of a desire to "protect" a set of domestic social arrangements that Europeans, through their democratic procedures, have decided are worth maintaining. When, on the other hand, the United States threatens trade sanctions against Japan because its retailing practices are perceived to harm American exporters or against South Africa because its patent laws are perceived as too lax, it does so out of a desire to bring these countries' practices into line with its own. A well-designed world trade regime would leave room for the former, but prohibit the latter.

Other development-friendly measures. In addition to providing unrestricted access to least developed countries' exports and enabling developing countries greater autonomy in the use

of subsidies, "trade-related" investment measures, patent regulations and other measures, a development-friendly trade regime would have the following features:[24]

- It would greatly restrict the use of anti-dumping (AD) measures in advanced industrial countries when exports originate form developing countries. A small, but important step would be to require that the relevant investigating bodies take fully into account the consumer costs of AD action.
- It would allow greater mobility of workers across international boundaries, by liberalizing for example the movement of natural persons connected to trade in labor-intensive services (such as construction).
- It would require that all existing and future WTO agreements be fully costed out (in terms of implementation and other costs). It would condition the phasing in of these agreements in the developing countries on the provision of commensurate financial assistance.
- When a dispute settlement panel rules in favor of a developing country complainant, it would require additional compensation or (when compensation is not forthcoming) that other countries join in the retaliation.
- It would provide expanded legal and fact-finding assistance to developing country members of the WTO in prospective dispute settlement cases.

VII. Conclusions: from a market-exchange mindset to a development mindset

Economists think of the WTO as an institution designed to expand free trade and thereby enhance consumer welfare, in the South no less than the North. In reality it is an institution

[24] For a comprehensive compendium of proposals from the perspective of developing countries, see UNCTAD

enabling countries to bargain about market access. "Free trade" is not the typical outcome of this process; nor is consumer welfare (much less development) what the negotiators have chiefly in mind. Traditionally, the agenda of multilateral trade negotiations has been shaped in response to a tug-of-war between exporters and multinational corporations in the advanced industrial countries (which have had the upper hand), on one side, and import-competing interests (typically, but not solely, labor) on the other. The chief beneficiaries of free trade mentioned in textbooks--consumers--sit nowhere at the table. The features of the WTO can best be understood in this context, as the product of intense lobbying by specific exporter groups in the U.S. or Europe or of specific compromises between such groups and other domestic groups. The differential treatment of manufactures and agriculture, or of clothing and other goods within manufacturing, the anti-dumping regime, and the IPR regime, just to pick some of the key anomalies, are all the results of this political process. Understanding this is essential since it underscores the important point that there is very little in the structure of multilateral trade negotiations to ensure that their outcomes are consistent with developmental goals, let alone that they be designed to further development.

Hence there are at least three sources of slippage between what development requires and what the WTO does in practice. First, even if free trade were optimal for development in its broad sense, the WTO does not fundamentally pursue free trade. Second, even if free trade were what the WTO was about, there is no guarantee that free trade is the best trade policy for countries at low levels of development. Third, compliance with WTO rules, even when these rules are not harmful in themselves, crowds outs a more fully developmental agenda--both at the

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(2000). Raghavan (1996) presents developing countries' perspective on the so-called new issues.

international and national level. I have developed the second and third of these arguments more full in the main body of this paper.

My key argument has been that the world trading regime has to shift from a "market access" mindset to a "development" mindset.[25] Essentially, the shift means that we should stop evaluating the trade regime from the perspective of whether it maximizes the flow of trade in goods and services, and ask instead "do the trading arrangements--current and proposed--maximize the possibilities of development at the national level?" I have discussed why these two perspectives are not the same, even though they sometimes overlap, and have outlined some of the operational implications of such a shift. One key implication is that developing nations have to articulate their needs not in terms of market access, but in terms of the policy autonomy that will allow them to exercise institutional innovations that depart from prevailing orthodoxies. A second implication is that the WTO should be conceived of not as an institution devoted to harmonization and the reduction of national institutional differences, but as an institution that manages the interface between different national systems.

This shift to a developmental mindset would have several important advantages. The first, and the most obvious one, is that this would provide for a more development-friendly international economic environment. Countries would be able to use trade as a means for development, rather than being forced to view trade as an end in itself (and being forced to sacrifice developmental goals in the bargain). It would save developing countries precious political capital by obviating the need to bargain for "special and differential treatment"--a principle that in any case is more form than substance at this point.

[25] This argument has to be distinguished from the idea of making the next round a "development round," which is largely a rhetorical effort aimed at capturing the higher moral ground from the WTO's critics. See also Helleiner (2000, 19), who argues forcefully that "the WTO needs to make it unambiguously clear that it … is to be a 'development institution'."

Second, viewing the WTO as an institution that manages institutional diversity (rather than imposing uniformity) gets the developing countries out of a conundrum inherent in their current negotiating stance. The conundrum arises from the inconsistency between their demands for maneuvering space to implement their development policies, on the one hand, and their complaints about northern protectionism in agriculture, textiles, and labor and environmental standards, on the other. As long as the issues are viewed in market-access terms, developing countries will remain unable to make a sound and principled defense of their legitimate need for space. And the only way they can gain enhanced market access is by restricting their own policy autonomy in exchange. Once one views the objective of the trading regime differently--to let different national economic systems prosper side by side--the debate can become a more fruitful one about each nation's institutional priorities and how they may be rendered compatible in a development-friendly way.

The third advantage is that this shift in perspective provides a way out of the impasse in which the trading system finds itself post-Seattle. At present, two groups feel particularly excluded from the decision-making machinery of the global trade regime: developing country governments and northern NGOs. The former complain about the asymmetry in trade rules, while the latter charge that the system pays inadequate attention to fundamental values such as transparency, accountability, human rights, and environmental sustainability. The demands of these two disenfranchised groups are often perceived to be conflicting--over questions such as labor and environmental standards or the transparency of the dispute settlement procedures--allowing the advanced industrial countries and the leadership of the WTO to seize the "middle" ground. It is the demands of these two groups, and the apparent tension between them, that has paralyzed the process of multilateral trade negotiations.

But once one views the trade regime--and the governance challenges it poses--from a developmental perspective, it becomes clear that the developing country governments and many of the Northern NGOs share the same goals: policy autonomy to pursue one's own values and priorities, poverty alleviation, and human development in an environmentally sustainable manner. The tensions over issues such as labor standards become manageable if the debate is couched in terms of developmental processes--broadly defined--instead of the requirements of market access. On all counts, then, the shift in perspective provides a better foundation for the multilateral trading regime.

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TABLE 1

The Original Washington Consensus

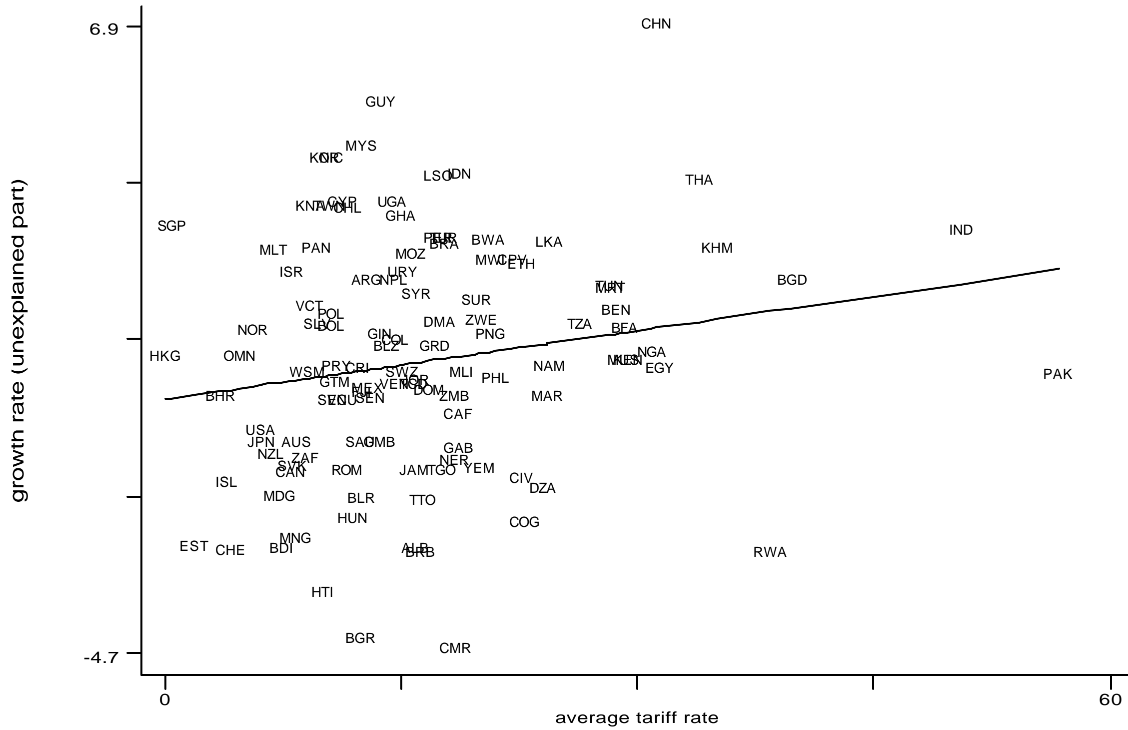
- Fiscal discipline
- Reorientation of public expenditures
- Tax reform
- Financial liberalization
- Unified and competitive exchange rates
- Trade liberalization
- Openness to DFI
- Privatization
- Deregulation
- Secure property rights

The Augmented Washington Consensus

The original list plus:

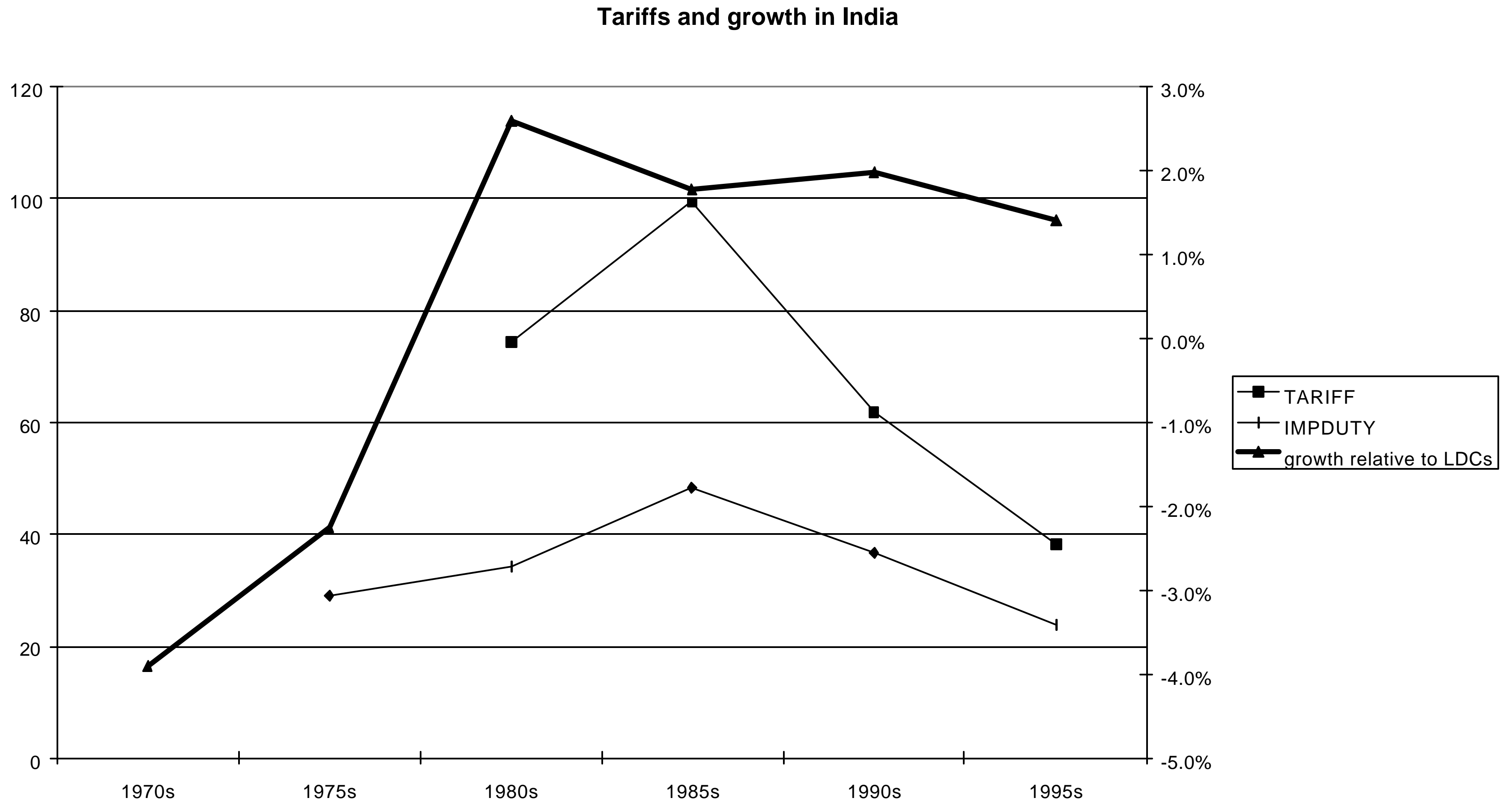
- Legal/political reform
- Regulatory institutions
- Corruption
- Labor market flexibility
- WTO agreements
- Financial codes and standards
- "Prudent" capital-account opening
- Non-intermediate exchange rate regimes
- Social safety nets
- Poverty reduction

Figure 1: Low import tariffs are good for growth? Think again



Notes: All data are averages for the 1990s, and come from the Dollar and Kraay (2000) data set. I base my specification on Dollar and Kraay (2000), replacing trade/GDP with tariff levels. As in Dollar and Kraay (2000), initial income, government consumption/GDP, and inflation rate are separately controlled for.

Figure 2:



Source: Author's calculations from data in Dollar and Kraay (2000) [TARIFF] and World Bank, World Development Indicators 2000 CD-Rom.

This preview shows page 1 - 3 out of 58 pages. THE GLOBAL GOVERNANCE OF TRADE AS IF DEVELOPMENT REALLY MATTERED* Dani Rodrik Harvard University John F. Kennedy School of Government 79 Kennedy Street Cambridge, MA 02138 (617) 495-9454 Revised July 2001 * This is a paper prepared for the UNDP. I thank Kamal Malhotra, Yilmaz Akyuz, Murray Gibbs, Gerry Helleiner, Gita Sen, UNDP staff and participants in a brainstorming meeting held in New York on October 13-14, 2000 for comments and suggestions, and Zoe McLaren for editorial assistance. The paper draws extensively on several of my previous writing