Globalization and the Nation-State:
Reasserting Policy Autonomy for Development

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In the face of increasing poverty, inequality, and environmental degradation across the developing world, the global community has reasserted the need for development through the Millennium Development Goals and the global commitment to sustainable development signed at the World Summit for Sustainable Development. At the same time, most of the world’s nations have also embarked on a new round of global trade negotiations – the Doha Round under the World Trade Organization (WTO). Citing the fact that developing countries gained very little from the Uruguay Round, developing countries agreed to enter a new round of trade negotiations only on condition that development be the centerpiece. There are growing concerns that this promise will go unfulfilled. Key among those concerns is the notion that additional commitments will not give the developing world the “policy space” to use the very instruments and tools that many industrialized nations took advantage of to reach their current levels of development.

This volume brings together prominent development economists – from North and South – who in their earlier work have shown how effective state intervention in national economies was a key ingredient for the development success stories that we have witnessed since World War II. Most of the authors here referred to such nations as “developmental states.” For this volume, the authors are asked the following questions:

• To what extent do new and proposed global trade rules under the WTO and other measures required by the International Financial Institutions (IFIs) restrict the ability of developing nations to establish effective development policy?
• To the extent that policy space is being limited, what policies should developing nations put in place to preserve and expand upon the existing spaces now available?

There is a consensus among the authors of this volume that existing and proposed rules for the global economy are restricting policy spaces for development in the nations that need development most. After analyzing the relationship between trade rules and policy space, the authors offer various avenues for reform. The chapters in this volume can be thought of as having three parts. First, drawing on economic theory and development success stories in East Asia, the chapters by Stiglitz, Lall, and Wade argue that state management to make markets more development friendly is more important now than it ever was. Yet these authors show that the spaces to use development policies have shrunk considerably. Articles by Chang, Kumar, and Cho and Dubash show that many of the development policies that are now scorned by industrialized nations are the very policies that were so essential to industrial development in the industrialized world. They also demonstrate that experiments with variations of those policies proved successful in many developing country contexts. Third, the cluster of articles by Bhaduri, Amsden, Singh, and Evans offers a range of alternative perspectives and policies that can help nations preserve and expand current policy space.

A Commitment to Development

Although the twentieth century ushered in an unprecedented level of technological change and advancement, poverty and inequality remain key characteristics of the global economy in the twenty-first century. The World Bank defines poverty as earning less than $2 per day (1999 purchasing power parity) and extreme poverty as earning less than $1. Using this definition, about half of the world’s population are poor, almost 3 billion people. Close to half of the poor – 1.4 billion people – live in extreme poverty.

The world’s poor are not always located where one would think. The economist William Cline has shown that “three-fourths of the world’s poor live in countries that are considered too developed to qualify for any of the special regimes oriented toward benefiting countries in these groupings” (Cline 2004: 16). Cline shows that only one-quarter of the world’s poor live in the least developed countries (LDCs), the heavily indebted poor countries, or sub-Saharan Africa. Since many countries fall in all three categories, the proportion may be even smaller due to double counting. Half of the poor live in China and India (Cline 2004).

With this as the backdrop, the United Nations General Assembly forged the Millennium Development Goals (MDGs) in 2000. Under the MDGs, governments have committed to the following by 2015: eradicating hunger and extreme poverty, reducing child mortality, achieving universal primary education, promoting gender equality, combating diseases such as HIV/AIDS and malaria, and ensuring environmental sustainability. The MDGs recognize that trade policies can play a role in achieving these goals, but only if done properly and with recognition of special and differentiated treatment for developing countries:

We believe that the central challenge we face today is to ensure that globalization becomes a positive force for all the world’s people. For while globalization offers great opportunities, at present its benefits are very unevenly shared, while its costs are unevenly distributed. We recognize that developing countries and countries with economies in transition face special difficulties in responding to this central challenge. Thus, only through broad and sustained efforts to create a shared future, based upon our common humanity in all its diversity, can globalization be made fully inclusive and equitable. These efforts must include policies and measures, at the global level, which correspond to the needs of developing countries and economies in transition and are formulated and implemented with their effective participation. (UNDP 2000a)

Parallel to these efforts at the UN, the WTO has been working to liberalize trade further. The Uruguay Round of world trade negotiations was completed in 1994 and culminated in the establishment of the WTO in 1995. It is estimated that the annual gains from the Uruguay Round were approximately $200 billion annually. However, it has also been estimated that 70 per cent of those gains have gone to the developed countries and most of the rest have gone to a small handful of developing countries. Indeed, it is estimated that in the first six years following the Uruguay Round the forty-eight LDCs were worse off by $600 million per year (Stiglitz and Clayton 2004). When the developed world proposed another round of global trade talks in 2001 in Doha, Qatar, the developing countries accepted on the condition that development form a core part of the negotiations.

Trade, Growth, and Development

Although the WTO has a stated “commitment to the objective of sustainable development,” the primary goal of the organization is to increase trade and investment. Many developed country free trade proponents argue that increasing trade and investment through WTO and more regional arrangements will automatically lead to growth and development. Though
grounded in economic theory, such claims rest on numerous assumptions that often do not hold, especially in the poorest of nations. It will come as no surprise, then, that the empirical evidence of a positive relationship between trade and growth is quite limited. Such empirical evidence is not reflected in the vast majority of predictions relating to the benefits of global trade liberalization.

The economist David Ricardo (1817) showed that because countries face different costs to produce the same product, if each country produces and then exports the goods for which it has comparatively lower costs, then all parties benefit. The effects of comparative advantage (as Ricardo’s notion became called) on factors of production were developed in the “Heckscher–Ohlin” model. This model assumes that in all countries there is perfect competition, technology is constant and readily available, there is the same mix of goods and services, and that factors of production (such as capital and labor) can move freely between industries. Within this rubric, the Stolper–Samuelson theorem adds that international trade can increase the price of products (and therefore the welfare) in which a country has a comparative advantage. Foreign direct investment (FDI) can contribute to development by increasing employment and by human capital and technological “spillovers,” where the foreign presence crowds in new technology and investment. In a perfect world, then, free trade and increasing exports could indeed be unequivocally beneficial to all parties.

The assumptions in these theories—such as full employment, perfect competition, and no technological change, among others—are one reason why there is limited evidence that trade openness and unbridled foreign investment lead to economic growth. In a comprehensive review of the literature, Rodriguez and Rodrik (1999) have shown that there is no systematic relationship between a nation’s average level of tariff and non-tariff barriers and its economic growth rate. An assessment of the literature on FDI and development came to similar conclusions: FDI alone was not correlated with local spillovers in developing countries (Gallagher and Zarsky 2004). Whereas developing country per capita income growth was 3 per cent on an annual basis between 1960 and 1980—a period of considerable levels of state management of developing economies—the more integrated period from 1980 to 2000 yielded average annual growth rates of 1.5 per cent in the developing world. The latter rate is less than 1 per cent per annum if India and China (two interventionist countries) are taken out (Chang 2003b).

Perhaps no region of the world has experimented with economic integration more than Latin America. Since the late 1980s, many Latin American nations have introduced a package of deep reforms, including: reducing tariffs and other protectionist measures; reducing barriers to foreign investment; restoring “fiscal discipline” by reducing government spending; and promoting the export sector of the economy.

Different countries in the hemisphere adopted these policies at different times and to different degrees, but as a region Latin America and the Caribbean for the last twenty years has followed such policies. In recent years, this orientation has been promoted through a growing range of trade agreements that seek more rapid global economic integration and a deeper liberalization process. After twenty years of reforms, the region has not experienced the promised economic growth. According to a sweeping assessment of the impacts of the reforms conducted by the Economic Commission for Latin America and the Caribbean (ECLAC), the region’s economies grew at an annual rate of less than 2 per cent between 1980 and 2000, compared to a rate of 5.5 per cent between 1960 and 1980. Growth was faster during the 1990s than in the 1980s, but it still did not compare to the period prior to the reforms. The ECLAC report concludes that the reforms contributed to an increase in inequality in the region (Stallings and Peres 2000).

An exception is Chile, where growth rates almost doubled over the past twenty years compared to the 1960 to 1980 period. In this volume Stiglitz shows how the Chilean case has to some degree been due to the heterodox approach taken toward integration in Chile. Stiglitz illustrates how Chile did not fully open itself to portfolio investments but instead levied a tax on the inflow of short-term capital. This measure played a key role in protecting Chile from the currency crises that plagued Latin America in the 1990s. Chile also undertook a highly selective and managed privatization process. Indeed, 20 per cent of all Chilean exports come from one government-owned enterprise. Alongside these measures, Chile put a great deal of expenditure into education and health, without needing to finance such activities through deficit spending.

Of course no country has developed successfully by turning away from global trade. What the vast array of studies show, however, is that the positive relationship between trade and investment and growth is contingent upon numerous other institutional factors. Earlier econometric studies found a positive relationship between liberalization and growth (Sachs and Warner 1995; Frankel and Roemer 1999). These studies have since been called into question. Although different countries have approached openness in vastly different ways, the definition of “openness” in many studies has included nations where the state has played a key role in economic development. For instance, in contrast to Latin American countries that were lax in terms of restrictions on FDI, South Korea strongly encouraged exports and borrowed funds from abroad but was very restrictive in terms of FDI. Nevertheless,
South Korea and many Latin American nations are treated the same in many models – as open economies (Rodriguez and Rodrik 1999).

More recent work has shown that trade liberalization alone is not a sufficient condition for economic growth. Institutional innovation coupled with macroeconomic and political stability is key to the growth process (Wacziarg and Welch 2003). Indeed, there is now fairly widespread agreement among growth economists that institutional quality is the strongest driver of economic growth, more so than trade or geographical contexts (Rodrik et al. 2004). Whereas traditional trade theory emphasizes obtaining welfare gains through specialization, institutional approaches emphasize obtaining welfare gains from increasing productivity by means not necessarily based on specialization. Two key elements of institutionalist success have been the focus on improving individual capacity to be productive and on improving the ability of people and firms to work together. To those successes we now turn.

In contrast with the empirical evidence, virtually every quantitative estimate of the benefits of trade liberalization predict that unbridled integration in the Latin American mode will bring growth and development to the countries that need it most. Such estimates are derived from and are built into computable general equilibrium models (CGE models) (Anderson 2004).

Drawing on prevailing economic theory and numerous simplifying assumptions, CGE models attempt to present a quantitative picture at one point in time of the full interaction of markets and industries throughout the economy. One of the more controversial assumptions necessary for CGE models to work properly is the assumption that there is no technological change in the economy. The assumption that is perhaps most unrealistic is the assumption that there is perfect competition in the economy. In other words, there are no barriers to entry among buyers and sellers (Munk 1990; Stanford 1993; see also Tims 1990). In essence, there is no room for oligopolistic multinational corporations in these models. These models also have to hold all other aspects of economic activity constant, such as inflation, exchange rate fluctuations, full employment, and so forth. In most developing countries unemployment, inflation, and exchange rate fluctuations are rampant. Moreover, these models will only examine the effects of tariff reductions, not investment and factor mobility factors related to further liberalization. Although the economic impacts of such provisions are forming a growing part of world trade, it is difficult to model them in a CGE framework.

In the end, the results of these exercises also ignore the distributional consequences of trade liberalization. On the one hand, CGE models will provide estimates about which sectors will gain or experience losses from a particular measure. Moreover, if the net benefits (where the winners win more than the losers lose) are positive then there is the potential for real development benefits – the increase in net welfare can be used to benefit the poor. However, it is well known that in developing countries a redistribution of the net benefits often does not occur, a factor that explains much of the resistance to globalization (Kanbur 2001, 2002). In fact, distributional policies and others that form the very institutions that are key to economic growth, if introduced into a CGE model, would cause distortions and provide estimates of negative effects.

In summary, the empirical evidence shows us that the relationship between trade and economic growth is very limited in the absence of the proper institutional mechanisms to make increases in imports and exports a force for growth. Yet the dominant modeling techniques are uniformly “built” to show that any increase in trade will be beneficial for growth and that most institutional interventions will distort such growth. This is cause for great concern, as CGE-based estimates drive public and official discussions of the benefits of integration.

The Developmental State

In the post–World War II era, developing countries found themselves far behind the technological frontier and in a global economy ripe with market failures. Important among those market failures was imperfect competition. Many of the markets for manufacturing and high technology products that are a key to value-added growth were virtually impossible to enter. In the face of these market failures, a small number of states successfully orchestrated a set of institutions and policies that eventually led to strong growth. Such nations have been termed “developmental states” (Wade 1990; Evans 1995). While many of the measures used by developmental states for development policy are justified in neoclassical economics, they are scorned by current and proposed trade rules.

As Stiglitz, Lall, Singh, Wade, and others in this volume show, states such as Taiwan, South Korea, Thailand, Singapore and to some extent Brazil and Mexico (among others) focused on the reliance on major public outlays for infrastructure, planning, tariffs, import licensing, quotas, exchange rate controls, wage controls, and direct government investment in key sectors. The engine of growth was the development of a strong manufacturing sector. Government subsidies and international protection, in addition to loans from national development banks, were given to industry in exchange for concrete results. Lending and support were conditional on local content requirements, price controls, technological innovation, capacity, and exports. Through this process, nations created “national leaders” in the form of key state-owned and
state-patronized enterprises in the petroleum, steel, and other industries. These sectors were linked to chemical, machinery, transport, and textiles industries that also received government patronage (Amsden 2001).

Many of these measures have been shown to be economically efficient in a second-best world. Rodrik (1987) has shown that performance requirements on FDI are often necessary to maximize welfare benefits in the context of imperfect competition. Dasgupta and Stiglitz (1983) have shown that industrial policies are important for dynamic learning effects and correcting for market failures. Other economists have argued for such policies on justifications beyond efficiency. Amsden (2001) and Krugman (1990) have shown that some protections may "get the prices wrong" but can be beneficial for countries looking to enter new markets. In this volume, Stiglitz, Lall, and Singh stress that the theoretical justification for such interventions is even stronger in today’s global economy.

The chapters by Chang, Cho and Dubash, and Kumar in this volume show that the very policies that have now fallen out of favor in global trade circles are mirror images of policies once (and still) employed by developed countries. Chang shows how in the United States "we can say that US industries were literally the most protected in the world until 1945." Cho and Dubash, and Kumar, show how many protectionist policies to create infant industries and attract investment are still present in the United States in the form of subsidies for alternative energy sources and to lure foreign car firms to enter the United States. Indeed, Dani Rodrik has noted that

Almost all successful cases of development in the last fifty years have been based on creative and often heterodox policy innovations. ... At the time, GATT rules were sparse and permissive, so nations combined their trade policy with unorthodox policies: high levels of tariff and non-tariff barriers, public ownership of large segments of banking and industry, export subsidies, domestic content requirements, import-export linkages, patent and copyright infringements, directed credit, and restrictions on capital flows. ... In all of these countries, trade liberalization was a gradual process, drawn out over a period of decades rather than years. (Rodrik 2004)

Intervening policies alone, however, will not ensure success. The notion of 'reciprocity' has been shown to be a key to success. Amsden has shown how a select group of developing nations industrialized through pure learning (rather than through proprietary innovation) by creating control mechanisms whereby subsidies and other forms of support were allocated to certain industries in return for monitorable performance standards that were redistributive and results oriented (Amsden 2001). In a comprehensive volume on the development of national high technology industries in Brazil, India, and South Korea, Peter Evans showed that getting the right balance between state and market

... was often very tricky. To Evans, success required "embedded autonomy," where states and private sectors acted together but with enough distance so as not to erode innovation and development. Evans witnessed that, in addition to the establishment of basic "custodial" rules and institutions in an economy, success was also determined by states playing roles as producers of certain types of goods; acting as "midwives" to assist in the development of new entrepreneurial groups; and performing "husbandry" activities in the form of "greenhouses" that allowed firms to experiment with innovation while protected from international competition (Evans 1995). In this volume, Lall sets out a number of institutional roles that are essential for state-facilitated development in the newly globalized economy:

- selectivity (picking a few activities at a time) rather than promoting all industrial activities indiscriminately and in an open-ended way;
- picking activities and functions that offer significant technological benefits and linkages;
- forcing early entry into world markets and using exports to discipline bureaucrats and enterprises;
- giving the lead role in productive activity to private enterprises but using public enterprises as needed to fill gaps and enter exceptionally risky areas;
- investing massively in skill creation, infrastructure and support institutions, all carefully coordinated with interventions in product markets;
- using selectivity in FDI to help build local capabilities (by restricting FDI or imposing conditions on it) or to tap into dynamic, high technology value chains;
- centralizing strategic decision-making in competent authorities that could take an economy-wide view and enforce policies in different ministries;
- improving the quality of bureaucracy and governance, collecting huge amounts of relevant information and learning lessons from technological leaders;
- ensuring policy flexibility and learning, so that mistakes could be corrected en route, and involving the private sector in strategy formulation and implementation.

Rodrik emphasizes that

The secret of economic growth lies in institutional innovations that are country-specific, and that come out of local knowledge and experimentation. These innovations are typically targeted on domestic investors and are tailored to domestic realities. Accordingly, a development-friendly trading regime evaluates the demands of institutional reform not from the perspective of integration ("What do countries
PUTTING DEVELOPMENT FIRST

need to do to integrate?"") but from that of development ("What do countries need to do to achieve broad-based, equitable economic growth?"). (Rodrik 2004)

If variations of these policies worked so well for developmental states toward the end of the last century, are they viable for other developing countries in the future?

The Shrinking of Policy Space

The authors in this volume unanimously argue that the trading regime is restricting the ability of developing countries to put in place the proper policies to raise standards of living in their countries. Most of the authors in the volume focus on WTO trade policies and corresponding IMF policies. The increasing bilateral and regional trade negotiating agenda shrinks policy space to an even greater degree.

In the WTO, four key agreements have been singled out in this volume as not being friendly toward development:

- **Trade-Related Investment Measures (TRIMs) Agreement** TRIMs affect trade in goods and restrict the use of instruments traditionally used to steer local benefits from FDI. Such tools include: local content requirements, technology transfer, local employment requirements, and so forth (see Kumar, Cho and Dubash, and Wade in this volume).

- **Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement** TRIPS’ copyright and patent restrictions make it very difficult for nations to develop strategies for R&D, reverse engineering, and generic drug development (see Wade, Correa, and Lall in this volume).

- **General Agreement on Trade in Services (GATS)** This restricts the ability to set market-correction policies to ensure competition regarding FDI (mode 3) for each subsector that a nation lists to other WTO members (called a positive list approach, discussed most in Wade).

- **Subsidies and Countervailing Measures (SCM) Agreement** Whereas it was once permissible (non-actionable) for states to put targeted subsidies toward R&D, regional inequality, and environmental protection, such measures are now actionable (see Amsden in this volume).

In the Doha Round, developed countries have proposed deepening these restrictions on investment, intellectual property, and services. Moreover, developed countries have proposed to add competition policy and other issues to the negotiations. In response to developing country objections, investment and competition have now fallen off the negotiating agenda, but they have not gone away. The WTO has created committees for each of these issues, where ongoing debate over their merits will take place. If history is any guide, they will eventually show up on the agenda, regardless of their developmental merits. Das (2003) has shown that many of the controversial issues in the trading system that were the subject of opposition by developing countries ended up as committees by compromise. Then, in bilateral and regional deals where developing countries have less bargaining power, many countries end up agreeing to such measures. Thus, the eventual constituency is developed on a multilateral scale.

Because of the general sluggishness of the Doha negotiations, countries such as the United States have engaged in numerous bilateral and regional deals. In these agreements, asymmetric bargaining power is an understatement (Ann-Eliot 2003). Moreover, they run deeper than their counterparts in the WTO and are an indication of the developed world’s wish list for future WTO agreements:

- The **North American Free Trade Agreement (NAFTA)** investment provisions are seen as “TRIMs plus” measures that run far deeper than TRIMs. Under NAFTA’s investment agreements, all forms of local content, performance requirement, and technology transfer are restricted. Perhaps most alarming is the fact that private foreign investors can now directly sue governments (as opposed to state-to-state disputes under the WTO) if a regulation is seen as “tantamount to expropriation.” Several social and environmental policies have been called into question in investor–state disputes under NAFTA and a host of bilateral deals. The United States has insisted on investor–state provisions in the Free Trade Area of the Americas (FTAA) negotiations and virtually every bilateral and regional treaty it has negotiated since NAFTA.

- The **United States–Chile Free Trade Agreement** restricts Chile’s ability to install import controls on foreign portfolio investments, even though such controls were seen as a key reason that Chile avoided the contagion of the crises in the 1990s and when the IMF has begun to soften its stance on the relationship between portfolio investment and economic development (French-Davis 2002; IMF 2003). Interestingly, Singapore did not give in to similar pressure in the United States–Singapore Agreement.

- The **United States–Morocco Free Trade Agreement**’s intellectual property provisions are seen as “TRIMs plus” and make it increasingly difficult for Morocco to produce and import generic drugs.

- The **Central American Free Trade Agreement**’s services provisions adopt a “negative list” approach (as does NAFTA) where nations have to list every sector that they wish to be exempt from trade rules. The saying goes,
"if you don’t list it you lose it.” This is in contrast to the WTO where nations only list sectors that they will subject to rules.

Aside from trade agreements, numerous authors in this volume, especially Stiglitz and Evans, stress how the fiscal and monetary policies advocated by the IMF also restrict policy space in developing countries. Tight fiscal policies have prohibited nations from spending their way out of recessions—which were often caused in part by opening up capital markets too quickly. Other economists have argued that measures mandated by the IMF and foreign investors as needed to keep inflation in check generate high interest rates and an overvalued exchange rate that inevitably lead to current account deficits, which can eventually cycle back into instability and low growth (Nadal 2003).

Pull Together and Carve Out or Pull Out Altogether?

The São Paulo Consensus forged in the summer of 2004 at the eleventh meeting of the United Nations Conference on Trade and Development (UNCTAD) explicitly recognizes the restriction of policy space under various international arrangements and calls on nations to “take into account the need for appropriate balance between national policy space and international disciplines.” The question is, how can the developing world do it and why should they? After all, whether it was under a WTO round or in specific agreements with the IMF, many countries have willingly signed on to the deep integration-based economic strategies.

It is true that developing countries have willingly signed on to many of the commitments that authors in this book argue are shrinking policy space. However, the concerted efforts that developing countries are conducting to make sure that no further shrinking occurs and that some space can be restored is evidence of the fact that many countries feel that mistakes were made during the last trade round. It is important to remember that concessions on intellectual property, investment, and services by the developing countries were seen as concessions in exchange for market access and institutional reforms in the industrialized world. As mentioned earlier, it has been documented that the industrialized nations have largely failed to follow through on their side of the deal. Blocking the negotiations on investment and competition policy in the Doha Round and the emergence of the G22 in general can be seen as attempts to correct for past mistakes.

Indeed, in his chapter in this volume, Peter Evans sees these current events as possible opportunities at both the international and the national levels. However, such an opportunity will arise only if states in the global South can overcome collective action problems. Contingent on this precursor, globally, Evans sees the WTO’s ‘one nation, one vote’ consensus decision-making process as a mechanism for change that has just begun to be taken advantage of. It is true that developed countries generate close to 80 per cent of the world’s GDP and have thus been able to frame negotiations successfully as bargains for entry into Northern markets. However, developing countries vastly outnumber the developed countries and have begun to use such voting power to their advantage. Evans points to the development of the G22’s role in halting the Cancún talks because developed countries failed to table development-friendly proposals, and to Brazil’s successful cases against developed country subsidies, as positive examples of what might come with a more concerted and coordinated effort on the part of the developing world.

On the domestic front, Evans also sees existing WTO laws as opportunities for reform-oriented developing country governments to shed themselves of rent-seeking firms that are dependent on state funds for survival. Developing countries can say “my hands are tied” in order to let go of lobbies that have a hold on the state and build new alliances with more productive areas of their economies.

The chapter by Singh offers further proposals that could come from the developing world. He shows how the concept of special and differentiated treatment (S&D) was radically changed with the establishment of the WTO. S&D under GATT allowed nations to follow a different path toward development that did not necessarily require that each nation follow the rules. The WTO was established as a single undertaking that requires nations to endorse and comply with every single agreement under the WTO. Moreover, S&D has been reconceptualized to be special treatment to make sure nations comply with the single undertaking, rather than special treatment to steer clear of certain provisions until a certain level of development is reached. Singh sees the endorsement of S&D at Doha as a chance to change course and offers a new conception of the S&D paradigm that gives developing countries the ability to join certain parts of the WTO system as they develop, but without the obligation to join all parts at once, in the absence of the proper institutions.

Amsden argues that the “heart of the WTO appears to be worse than its bite,” and ‘neodevelopmental States’ in ‘the rest’ have taken advantage of this, where necessary.” While acknowledging that policy space is shrinking under the WTO, especially in the form of industrial subsidies, Amsden points out how developing nations can creatively adhere to the letter but not necessarily the spirit of WTO law in order to achieve development. She outlines how nations such as Thailand and Taiwan have craftily set up effective control
mechanisms to steer the private sector toward growth and innovation while avoiding the bite of the WTO.

The fact that the developing world was able to halt the Cancún ministerial because the proposed packages were not good for development, and subsequently to force the developed countries into offering real targets and timetables for agricultural support reductions, shows that the developing world means business. The new world trade politics will be very interesting to observe. On the one hand, new power in the South as a collective entity may end up stalling multilateral talks that could harm development. On the other hand, if talks don’t yield positive outcomes for the developed countries, they have shown that they will sign bilateral and regional deals where Southern coalition-building is not as strong.

This volume will be far from the last word on this subject. However, it is the aim of this book to provide to policymakers and negotiators an immediate guide to current and proposed commitments under the WTO and in other regimes and the extent to which they are reducing policy space for development. Second, this book is a fresh and very contemporary look at the academic literature that examines the role of the nation-state in a globalizing world. The myriad commitments and agreements that have recently taken place or that are currently under way will have long-lasting effects on the world economy. Together, the chapters in this volume provide a solid theoretical and empirical analysis of the possible effects that current and proposed arrangements could have on development prospects in the nations that need development most. The volume also outlines a number of alternative policies and theoretical approaches that can help make a globalizing world economy work for development.

Throughout Latin America today the question is being debated, has globalization failed us, or has reform failed? What is clear is that there is disappointment in the policies that have been pushed for the past two decades, the policies focusing on liberalization, privatization, and stabilization which collectively have come to be called the Washington Consensus policies. The data for the 1990s, the first true test of these policies, when the countries were freed from the shackles of overhanging debt, help explain the sense of disillusionment. Growth during that decade was just over half of what it was in the pre-reform and pre-crisis decades of the 1950s, 1960s, and 1970s. Even in those countries which have seen significant growth, a disproportionate share of the gains have gone to the better off, the upper 30 per cent, or even the upper 10 per cent, with many of the poor actually becoming worse off. Little if any progress has been made in reducing inequality, already the highest of any region of the world, and the percentages, let alone numbers, in poverty actually increased. Unemployment, already high, has increased by three percentage points. And the performance in the last half-decade has been, if anything, even more dismal; with income per capita stagnating or declining, it is beginning to be known as the lost half-decade (see ECLAC 2002).

I have argued that there was a clear connection between these failures and the policies that were pursued. The outcomes should not have come as a surprise. They reflect both what was on the agenda and what was left off the agenda. The seeming success of the first two-thirds of the decade was but a mirage, partly a surge in growth caused by an unsustainable inflow of foreign capital; partly, as so often happens after a period of stagnation, a "catch-up" from the lost decade. The growth was not sustained. A convincing argument can be made that it was not sustainable.