accountable to perhaps multiple types of representative bodies. In an age of rapid technological change, the form of governance itself can be expected to be subject to considerable innovation.\footnote{See Frey 1996 on some intriguing ideas for the design of federal political systems.}

Many things can go wrong with this scenario. One alternative possibility is that an ongoing series of financial crises will leave national electorates sufficiently shell-shocked that they willingly, if unhappily, don the Golden Straitjacket for the long run. Another possibility is that governments will resort to protectionism to deal with the distributive and governance difficulties posed by economic integration. For the near term, either one of these scenarios should be regarded as more likely than global federalism. But a longer time horizon leaves room for greater optimism.

**CONCLUDING REMARKS**

This chapter provides a framework for thinking about the governance of economic globalization. I have argued that we are presently nowhere near complete international economic integration, and that traveling the remaining distance will require either an expansion of our jurisdictions or a shrinking of our politics. We can envisage a long run in which politics and jurisdictions expand to match the scope of a truly integrated global economy. This is my scenario of global federalism. Reaping the efficiency benefits of complete international economic integration requires the further empowering of multilateral institutions and greater reliance on international standards. But in the short run, more realistic solutions are needed and we need to scale down our ambitions. As long as nation-states predominate, neither is likely to be sustainable unless escape-clause or opt-out mechanisms are explicitly built into international economic rules. In a famous passage from *The Economic Consequences of the Peace*, Keynes (1920) drew a vivid picture of an integrated world economy at the pinnacle of the gold standard. While sipping his morning tea in bed, Keynes reminisced nostalgically, the Englishmen of his time could order by telephone various commodities of the world, invest in far-off places, purchase unlimited amounts of foreign currency or precious metals, and arrange for international travel without even requiring a passport. Keynes, who was writing in the aftermath of a devastating world war and was anticipating a period of economic turbulence and protectionism—correctly, as it turned out—considered this a lost era of great magnificence.

Will we experience a similar rebound from globalization in the first decades of the twenty-first century? The answer depends on our ability to devise domestic and international institutions that render economic globalization compatible with the principles of the mixed economy.

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**WHAT** objectives does (or should) the World Trade Organization serve? The first substantive paragraph of the agreement establishing the WTO 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.” 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 toward 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 its critics.

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 viewed as synonymous by the WTO and multilateral lending agencies, such that the latter

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\footnote{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.}
substitutes for the former. As the WTO’s former director general, Mike Moore (2000) put 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 claims to identify 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 from 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 its recognition that there is more to integration than simply lowering tariff and nontariff 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.

There is an alternative account of economic development—one that I have presented earlier (see especially Chapter 1). 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 not purely focused on enhancing 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 to achieve broad-based, equitable 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 chapter 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 mind-set of trade negotiations that significant change can be accomplished.

One of the key arguments of the chapter is that developing countries shortchange 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 mind-set 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.

I begin in the next section by discussing 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 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

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2 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.
associated with subsequent economic growth. In the third section, 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 trade-offs in the fourth section.

The fifth section 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 final section offers concluding remarks.

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, "There are few significant barriers to U.S. exports." 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, suffered deteriorating social indicators, and 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. Country 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 "nonglobalizers" 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 income growth, greater poverty reduction, and worsened income distribution. The answers tend 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 nontariff barriers, membership in the WTO, compliance with its agreements, and so on. The relevant question is this: 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 nontariff 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 8.1). 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

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4 See, for example, Dollar and Kraay 2000. A critique of this paper can be found at [http://ksphome.harvard.edu/~drodrik/academic_lsg/Rodrik%20on%20Dollar-Kraay.PDF](http://ksphome.harvard.edu/~drodrik/academic_lsg/Rodrik%20on%20Dollar-Kraay.PDF).
The problem is a general one. In a detailed review of the empirical literature, Francisco Rodríguez 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. 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.

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 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.7 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

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5 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.

6 This is also the conclusion of the careful country studies collected in Helleiner 1994.

7 This does not rule out the possibility of selective infant industry policies in certain segments of capital-goods industries.
cases—East Asia, China, India since the early 1980s—involves partial and gradual opening up to imports and foreign investment.

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. 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 remained (as late as the mid-1990s) among the highest in the world. As I discussed in earlier chapters, 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 8.2 makes clear, India's trend growth rate increased substantially in the early 1980s (a fact that stands out clearly when one benchmarks India's growth against other developing countries, as is done in the figure). Meanwhile, serious trade reform did not start until 1991-93. The tariff averages displayed in the figure 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.

Of course, both India and China did "participate in international trade," and by that measure they are both globalizers. But the relevant question for policymakers 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, the experiences of India and China suggest the benefits of a gradual, sequenced approach.

An important reason for delaying significant import liberalization until after economic dynamism has set roots is that doing so shelters employment in the transition. In rapidly liberalizing economies (such as those in Latin America and eastern Europe), the labor released by previously protected sectors has ended up not in tradable activities with higher productivity but in informal activities with even lower productivity (or in unemployment). This explains why economy-wide productivity has suffered in these countries (even as labor productivity in the shrinking modern sector has increased). Countries (such as those in Asia) that have promoted

export orientation through promotion of new activities and export incentives at the margin (rather than import liberalization across the board) have avoided this fate. To repeat, the appropriate conclusion is not that trade protection is inherently preferable to trade liberalization; certainly, there is scant evidence from the last 50 years that inward-looking economies experience systematically faster economic growth than open ones. The relevant point is that 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.

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8 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, 3).

9 The model I have in mind is one where there are three types of tradable goods: import-competing activities, traditional exportables, and nontraditional exportables. The Latin American model is premised on the idea that removing protection from the first category of goods will spur enough new production of both types of the other two goods. But when the supply elasticity of traditional exports is limited (and their labor intensity low) and new exports do not arise automatically (for reasons discussed in chapter 4), this expectation may not be realized. The Asian model, by contrast, is based on direct support for nontraditional exports.

10 Much the same can be said about the promotion and subsidization of inward flows of direct foreign investment. See Hanson 2001 for a good overview of the evidence and the policy issues.
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.

THE LIMITED BENEFITS FROM (FURTHER) MARKET ACCESS IN DEVELOPED COUNTRY MARKETS

But what about access to markets in rich countries? Wouldn’t developing countries be far worse off if they were unable to export goods to industrial country markets? Surely yes. A world with high import barriers in rich countries would be one that is far less hospitable to developing countries than the one that we live in currently. What is not clear is that developing countries stand to gain much from further liberalization in advanced country markets. The world economy is more open today than it has ever been, and will remain so even if the Doha talks can never be resuscitated. Barriers to trade on manufactured goods and in many services are at a historic low in rich countries. (The most significant exception relates to labor services, a topic I will pick up in chapter 9.) It would be hard to identify any poor country whose development prospects are seriously blocked by restrictions on market access abroad. Any country with a sensible development strategy has the opportunity to grow its economy, with assistance from trade.

The Doha Round has made much of global liberalization in agriculture. One often hears the claim that farm supports in the United States and European Union undercut the livelihood of millions of poor farmers, and that their phasing out would make a significant dent in world poverty. The reality is that the global impact of agricultural liberalization in the rich countries would be relatively small and highly uneven. These policies may hurt agricultural producers elsewhere, but they also benefit poor urban consumers. The balance depends on the poverty profile of individual countries and on whether they are food exporters or importers. Most sensible estimates suggest that complete trade liberalization (including in manufactures and by developing nations themselves) would produce a net gain to the developing world of one percentage point of their income or less—a meager impact that the World Bank and the WTO do their best to hide behind more impressive-sounding claims.

To be sure, there are some big gainers from agricultural reform, but these are chiefly consumers and taxpayers in the rich countries themselves. Some large middle-income food exporters (such as Brazil and Argentina) will also reap gains. Such outcomes are not unimportant, but they represent a far cry from the picture painted by trade fundamentalists.

THE INTEGRATIONIST AGENDA AND THE CROWDING OUT OF DEVELOPMENT PRIORITIES

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 nontariff 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, 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 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 (Rodrik 2001b).

11 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.
Here are some illustrative trade-offs. It has been estimated 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 (Finger and Schuler 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 in the 1990s 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 parallel importation of basic medicines, even if that means running afoul of existing WTO rules? The United States has charged in the past 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.12

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 anticorruption strategy? Should it target the “grand” corruption that foreign investors complain about, or the petty corruption that affects the poor? Perhaps, as the proponents of permanent normal trade relations (PNTR) with China used to argue in U.S. debates, 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 for all?

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 antidumping, subsidies and countervailing measures, agriculture, textiles, TRIMs (Trade Related Investment Measures), and TRIPS are utterly devoid of 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.

As I discussed in chapter 4, 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 United States only under strict rules of origin, thereby ensuring that few economic linkages are generated in the African countries themselves. The United States-Jordan Free Trade Agreement imposes more restrictive intellectual property rules on Jordan than exist under the WTO. In its free-trade agreement with Chile, the United States successfully obtained severe restrictions on Chile’s ability to employ capital controls.

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 an agenda that is more fully developmental. 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 throughout this book, successful development strategies have always required a judicious blend of imported practices with domestic institutional innovations. Policymakers 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.

12 Since the adoption of the Doha Declaration on the TRIPS Agreement and Public Health in 2001, these have become less serious problems.
even better market access in the North is a bad bargain so far as development is concerned.

Consider the old GATT system. Under the GATT, the international trade regime did not reach much beyond tariff and nontariff barriers to trade. The developing countries were effectively exempt from prevailing disciplines. The MFN (most-favored nation) 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 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 direct foreign investment), directed credit, and so on—that are either precluded by today's rules or highly frowned upon. In fact, such policies were part of the arsenal of today's advanced industrial countries until quite recently. 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), 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 are not a serious obstacle to the provision of one-sided free market access in the North to the vast 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 quota-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 by incorporating a general least-developed-country 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. 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.

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.

1. Trade is a means to an end, not an end in itself. Step number 1 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

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13 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 issue of vision, 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 performing countries such as South Korea, Taiwan, and Mauritius subsidized their export industries for years without incurring similar sanctions.

14 On patents and compulsory licensing, for example, see Scherer and Vatal 2001.
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 ends with means. Trade serves at best as an instrument for achieving the goals that societies seek: prosperity, stability, freedom, and quality of life. Nothing enforces 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 alleviating poverty.

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.

2. Trade rules have to allow for diversity in national institutions and standards. As I have repeatedly emphasized, there is no single recipe for economic advancement. This does not mean that anything and everything works: market-based incentives, effective property 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. 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 coexistence among national practices, not harmonization.

3. Non-democratic countries cannot count on the same trade privileges as democratic ones. National standards that deviate from those in trade partners and 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. Of course 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 nondemocratic countries, such as China, do not pass the same prima facie test. The assertion that labor rights and the environment are trampered for the benefit of commercial advantage cannot be as easily dismissed in those countries. Consequently, exports of nondemocratic 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 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: nondiscrimination, 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.”

4. 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 toward 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 approach would render the international trade system more compatible with the goal of local ownership of development programs. Advanced countries might seek temporary protection against imports originating from countries with weak enforcement of labor rights when such imports 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. 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 permit the application of opt-outs under a broader range of circumstances. This would require recasting 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, 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 toward 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 antidumping 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 (a) gather testimony and views from all relevant parties, including consumer and public-interest groups, importers and exporters, civil society organizations, and (b) 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 balance 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

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17 This discussion draws on Rodrik 1997b.
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 they may appropriately be suspended. 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 comply 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 would be 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. The “more of the same” approach that is embodied in current practice is unlikely to produce many 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 “gray area” measures entirely outside multilateral discipline. These consequences are worse than the expanded safeguard regime I have just described.

5. 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 United States 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.

6. 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: 18

- It would greatly restrict the use of antidumping (AD) measures in advanced industrial countries when exports originate from 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), as discussed in the next chapter.
- 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.

Conclusions: From a Market-Exchange Mind-Set to a Development Mind-Set

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 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

18 For a comprehensive compendium of proposals from the perspective of developing countries, see UNCTAD 2000. Raghavan (1996) presents developing countries’ perspective on the so-called new issues.
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 United States 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 (intellectual property rights) 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 are designed to further development.

Hence, there are at least three sources of slippage between what development requires and what the WTO does. 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 they are not harmful in themselves, crowds out a more fully developmental agenda—both at the international and national level. I have developed the second and third of these arguments more fully in the main body of this chapter.

My key argument has been that the world trading regime has to shift from a “market access” mind-set to a “development” mind-set. Essentially, the shift means that we 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.

The Doha “development round” falls far short of this goal, as it focuses on agricultural reform and is based largely on a market-access mind-set. Indeed, one of the mysteries of the current round of trade negotiations is that developing nations have let themselves be bamboozled into accepting an agenda centered on agricultural liberalization as a “development round.” In fact, the developing countries’ interest in agricultural liberalization has always been ambiguous. Aside from a few middle-income members of the Cairns group, such as Argentina, Brazil, Chile and Thailand, which are important agricultural exporters, few developing countries have traditionally looked at this area as a major source of gain. Research done at the World Bank during the Uruguay Round highlighted the possibility that most sub-Saharan African nations could actually end up worse off as a result of the rise in world food prices produced by the reduction in European export subsidies. More recently, a range of careful, microeconomic studies have shown that the poverty impact of increases in relative agricultural prices tends to be heterogeneous and uncertain, even for the producers themselves.

Moreover, most global trade models predict very modest increases in agricultural prices—increases that are likely to be swamped by the sheer volatility in commodity prices. Consider cotton for example. The largest estimate of the price impact of the eventual and complete removal of U.S. cotton subsidies is around 15 percent. Compare this to the impact of the devaluation of the CFA franc in 1994 by 50 percent, which in principle should have raised agricultural incomes in countries such as Burkina Faso and Benin by a full 50 percent. There is little evidence that such a boost in incomes actually took place, however, since the most direct beneficiaries of increases in border prices tend to be traders and intermediaries, rather than farmers. In all likelihood, poor farmers will reap very few of the gains generated by agricultural liberalization in the North. The real (economic) winners will be taxpayers and consumers in the North and traders and intermediaries in the South.

A shift to a real developmental mind-set in trade negotiations 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 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. At present, two groups feel 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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Globalization for Whom?

GLOBALIZATION has brought little but good news to those with the products, skills, and resources to market worldwide. But does it also work for the world’s poor?

That is the central question around which the debate over globalization revolves. Antiglobalization protesters may have had only limited success in blocking world trade negotiations or disrupting the meetings of the International Monetary Fund (IMF), but they have irrevocably altered the terms of the debate. Poverty is now the defining issue for both sides. The captains of the world economy have conceded that progress in international trade and finance has to be measured against the yardsticks of poverty alleviation and sustainable development.

For most of the world’s developing countries, the 1990s were a decade of frustration and disappointment. The economies of sub-Saharan Africa, with few exceptions, stubbornly refused to respond to the medicine meted out by the World Bank and the IMF. Latin American countries were buffeted by a never-ending series of boom-and-bust cycles in capital markets and experienced growth rates significantly below their historical averages. Most of the former socialist economies ended the decade at lower levels of per capita income than they started it—and even in the rare successes, such as Poland, poverty rates remained higher than under Communism. East Asian economies such as South Korea, Thailand, and Malaysia, which had been hailed previously as “miracles,” were dealt a humiliating blow in the financial crisis of 1997. That this was also the decade in which globalization came into full swing is more than a minor inconvenience for its advocates. If globalization is such a boon for poor countries, why so many setbacks?

THE ARGUMENTS

Globalizers deploy two counterarguments against such complaints. One is that global poverty has actually decreased. The reason is