

Trade Liberalisation

The steady liberalisation of world markets for goods and services in the postwar period has underpinned an enormous increase in global prosperity. Trade enhances efficiency and factor productivity and by opening markets for efficient producers it boosts growth. In addition, as noted above, open trade regimes help to combat corruption and promote good governance by eliminating rent-seeking opportunities; they are thus good for democracy and poverty reduction.

Having said that, it is also important to recognise that: (a) the sequence of reform in regard to trade liberalisation could be of some significance in regard to its overall impact on growth and poverty; and (b) that while trade *per se* is good, the current international trade regime hurts the poor.

9.1 Sequence of Reform

Several scholars have argued that while trade liberalisation can bring immense benefits, unless trade liberalisation is undertaken in such a way that the factors of production can move into expanding high productivity areas, it can cause net losses to a country and may enhance poverty. As Joseph Stiglitz (2002) argues:

Trade liberalisation is supposed to enhance a country's income by forcing resources to move from less productive uses to more productive uses ... But moving resources from low-productivity uses to zero productivity does not enrich a country, and this is what happened all too often under [structural adjustment programmes]. ... It takes capital and entrepreneurship to create new firms and jobs, and in developing countries there is often a shortage of the latter. ...

The most successful developing countries, those in East Asia, opened themselves to the outside world but did so slowly and in a sequential way. These countries took advantage of globalization to expand their exports and grew faster as a result. But they dropped protective barriers carefully and systematically, phasing them out only when new jobs were created. ...

The fact that trade liberalisation fails to live up to its promise – but instead simply leads to more unemployment – is why it provokes strong opposition.

Gustav Ranis, Director of Yale Centre for International and Area Studies, USA, takes a similar view. He writes:

... the conventional IMF wisdom emphasises import liberalisation from word go, while critics point out that 'learning by doing may require a prior period of import substitution.

After all, with the exception, historically, of England, and more recently, of Hong Kong, successful development has always seen a period of infant industry protection – hopefully mild and brief – precede the effort at competitive entry into world markets with the help of import liberalisation.³³

While one may dispute whether England was an exception to the Ranis insight, the central point here is that unless the liberalising country sets in train competition measures that would enable its tradeable sectors to compete well, premature reform could be damaging. Of course, these arguments could be exploited by policy-makers to go to the other extreme of export pessimism and lose out from participation in the growth of world trade altogether, at severe long-term cost. This possibility arises because very high tariffs and other restrictions on imports could raise input costs to such a level that the capacities created under protective regimes become uncompetitive in world markets, as the experience of India before the economic reforms of the 1990s bears out. One also needs to reckon with the danger that high protection creates its own vested interests, locking the country into a semi-permanent protective regime, until a crisis develops. The trick then is to discover where the balance lies, and find room for the political processes needed – and that that might involve the invocation of external pressure for change. This argues for a more nuanced approach and proper sequencing – as Ranis calls for in his letter – rather than an all or no-trade reform stance.

9.2 Why the Present Trade Regime Hurts the Poor

Following the Uruguay Round, there was widespread disappointment among many developing countries that, while the industrialised countries pushed for liberalisation in the products they exported, they continued to protect those sectors in which the developing countries had a comparative advantage: agriculture and labour-intensive manufactures such as textiles. As a result of these restrictions, industrial country tariffs on imports from developing countries are on average four times those on imports from the other industrial countries.³⁴

It is estimated that the benefits lost by developing countries from these restrictions amount to some \$100 billion a year – twice the ODA flows to developing countries. A World Bank calculation showed that sub-Saharan Africa, the poorest region in the world, saw its income decline by 2 per cent as a result of the Uruguay Round agreement.³⁵

The barriers to the exports of developing countries are in those sectors where growth could have benefited the poor of those countries; at the same time, the agricultural subsidies in the industrial countries, amounting to one billion dollars a day, largely benefit the richer farmers of Europe and the US. The policy of subsidies and trade restrictions thus increases inequalities in both poor and rich countries.

For example, as *The Economist* of 1 June 2002 noted, Uganda faces a 164 per cent

tariff on peanut exports to the US; 93 per cent of the Japanese market is reserved for Japanese producers; and if Ugandans try to sell sugar to Europe, 'they must hack their way through a jungle of rules so thick that even experts cannot get through it!'

Industrial countries have until 2005 to liberalise trade in textiles and clothing; the liberalisation undertaken so far is very limited.

The Uruguay Round has also failed to produce any agreement on the movement of natural persons, i.e. labour – an agreement that holds great potential for reducing poverty. (After the events of September 11, even the limited movement of labour that currently exists has become even more difficult.) This denial of opportunities for economic migration of unskilled labour is in contrast to the experience of Europe when it was industrialising. For example, open migration from Europe between 1870 and 1910 to the New World – amounting to some 13 per cent of its labour force – reduced pressures on Europe's poor rural areas and helped to raise productivity.³⁶ It could be argued that the movement of unskilled labour is of benefit to both the sending and receiving countries, as many of the latter find their populations ageing. The development of an institutional framework that is non-discriminatory – for example, that accords national treatment and follows the WTO practice of most favoured nation (MFN) provisions – could also help improve transparency and consistency in this area of trade in services³⁷ and may help stem the tide of illegal migration that tends to criminalise people. As illegal migrants operate outside the 'white' economy, and become prey to money laundering and terrorist influences, such a step is highly desirable on other than strictly economic grounds.

It is widely recognised that the Trade Related Aspects of Intellectual Property Rights agreement (TRIPS), reached in the Uruguay Round, has been generally more beneficial to the industrialised countries than to the developing countries, who are net importers of technology (see also Section 14 below).

The recent increases in agricultural subsidies in the US, and the frequent resort to anti-dumping rules, are harming the world trade system.

The global commitment to reduce poverty has thus not translated into corresponding action in the area of trade.

The Everything-but-Arms (EBA) initiative of Europe, which offers restriction free entry to the exports of the Least Developed countries, the US African Growth and Opportunity Act and other such initiatives (including that by Canada) are welcome developments – though they could be trade distorting as they favour one group of developing countries against the other.

The Doha Work Programme, now commonly referred to as the Doha Development Agenda, launched in November 2000 sets out to correct some of these wrongs, including issues of implementation. The follow-up, however, has been slow; it needs to be seen whether there is sufficient political will to make progress in such areas as agriculture, where reform has become linked with inter-country distribution of gains and losses

within Europe. But the granting of fast-track trade negotiating authority to the President of the United States by the House of Representatives in July 2002 augurs well.

In pursuing the Doha Agenda, it is important to guard against the risk of linking trade liberalisation with environmental and labour standards, as some countries are keen to do. As David Dollar and Aart Kray (2002), two World Bank economists, have noted: 'such measures would be neo-protectionist in effect, because they would thwart the integration of developing countries into the world economy and discourage trade between poor and rich countries'. One may also recall the position of the Commonwealth Heads of Government who opposed such a linking:

We fully believe in the importance of upholding labour standards and protecting the environment. But these must be addressed in an appropriate way that does not, by linking them to trade liberalisation, end up effectively impeding free trade and causing injustice to developing countries.

The Fancourt Commonwealth Declaration (1999)

If the global community is to translate its commitment to reduce global poverty into meaningful action, the single most important measure it can take is to dismantle the barriers to the exports of developing countries, and not allow either visible or invisible barriers to impede trade.