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African Trade Policy Centre

Trade Liberalization and Development: *Lessons for Africa*

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Abstract

This paper argues that trade policies must be dynamic, adaptable, and differentiated between sectors and between the various segments of a given sector in order to contribute effectively to development efforts. It draws on the Asian experience to demonstrate that trade policy must avoid giving constant and linear support to the economy as a whole, as was the case in many sub-Saharan African countries. It goes on to reject the restricted and sterile nature of current trade policy debate between openness and control; and instead focuses on seeking the optimal combinations of the different instruments of trade policy that can support the economic development process and improve the competitiveness of national economies.

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I. INTRODUCTION

Until quite recently, there was widespread agreement on the relationship between trade liberalization, growth and development. The literature on development reflected a broad consensus on the positive impact of trade liberalization on growth and economic development. Opening up to external markets would ensure better allocation of resources and promote the orientation of investments towards exporting sectors which had previously been held back by development strategies focused on domestic markets; causing considerable distortions in the functioning of the laws of the market in the developing countries. Protective measures applied since the 1960s led to misallocation of scarce resources and weak growth and productivity in those economies. Trade liberalization should therefore correct these distortions and promote optimal allocation of resources and investments in the developing countries. It would also revive economic growth and enable developing economies to play a more competitive role in a globalized world.

The unanimous agreement on the beneficial effects on growth and development of trade liberalization goes back to the emergence of the Washington Consensus in the early 1980s. The Consensus emerged in response to the economic crisis affecting most developing countries at the time, triggered by the debt crisis. The development model adopted by developing countries from the 1960s onwards, involving heavy State intervention and preferences for investments connected to the domestic market, had reached its historical limits. Weak growth, inefficient State corporations, investments with low yields and productivity, and soaring external and internal debts were the main symptoms of the failure of these strategies. The Washington Consensus sought to tackle that problem and help developing countries resolve the debt crisis and head towards strong, dynamic growth. The Structural Adjustment Programmes (SAPs) inspired by the Consensus and implemented with support from the Bretton Woods institutions were designed to help countries restore major macroeconomic balances and carry out structural reforms needed in order to reduce distortions and rents that had arisen in the recent history of the economic development process[1]. These reforms were based on two major priorities. The first is a major effort towards macroeconomic stabilization through considerable reduction in public and private demand. The reform effort also focused on economic structures through a major reduction in State intervention so that prices in the various markets could be determined freely by supply and demand. These reforms sought to depart from the self-centred thinking that had dominated development strategies, and to open economies to external markets. On that basis, structural reforms would act mainly on the supply side and reabsorb sectoral imbalances in order to promote the production of export goods, thereby restoring balance-of-payments equilibrium in the long term. The decision to liberalize external trade was part of a broad set of reforms aimed at restoring major macroeconomic balances, promoting growth and improving the global integration of developing countries.

(Footnotes)

[1] Cf. John Williamson, What Washington means by policy reform, in John Williams (ed.), Latin American Adjustment: how much has happened?, Institute for International Economics, Washington 1990.

However, the Washington Consensus has come in for considerable criticism in recent years as outcomes of the reforms implemented by developing countries fell short of expectation[2]. Although some economies achieved improvements in their internal and external imbalances, growth rates remained low. The reforms failed to deliver new forms of growth needed to take the place of the tired import-substitution strategies, which dated back to the 1970s. Underdeveloped economies remain uncompetitive and strongly dependent on traditional exports. The social benefits of SAPs are even weaker: obstacles to growth have led to a fall in job creation. This downturn, together with strong demographic growth, has caused a steep rise in unemployment. Falling growth rates, cuts in social spending, increased unemployment, lower real incomes and the dismantling of social security mechanisms established by States have brought about an unprecedented explosion in poverty around the world. More than a quarter of the population of developing countries now live in absolute poverty[3]. A third of the population of those countries, or almost 1.3 billion people, have to live on an income of less than one United States dollar per day. Even more significant is the rate at which poverty is increasing: between 1987 and 1993, the number of people having incomes of less than one dollar a day increased by 100 million.

These results have called into question the theoretical basis of the Washington Consensus and its development choices[4]. At the theoretical level, recent studies focus on market imperfections and unanimously recognize the plurality of forms of social regulation, particularly the role of social conventions and institutions in the coherence of individual choices in a decentralized economy. From the strategic viewpoint, criticism of the SAPs has been accompanied by the emergence of new development choices and practices. As early as the mid-1980s, UNICEF put forward the concept of adjustment with a human face[5]. UNDP, for its part, developed the notion of human development. The United Nations Conference on Environment and Development, held in Rio de Janeiro in 1992, emphasized the ecological risks facing humanity and showed the need to define sustainable development to ensure that economic growth is in harmony with the environment making it possible for future generations to inherit a liveable planet. Thus, social development and the environment are increasingly becoming major issues in development discourse. These new concerns led to a new consensus on development, which makes combating poverty the main goal of development strategies. This new consensus was strengthened by the adoption of the Heavily Indebted Poor Countries (HIPC) Initiative, which makes an elaboration of a participatory anti-poverty strategy a condition for debt reduction for the poor countries. This consensus has been ratified by the Millennium Summit and the adoption of the Millennium Development Goals (MDGs). The

[2] The outcome of adjustment programmes has been the subject of many research projects and studies, including:

- Lance Taylor, Varieties of stabilization experiences. Towards sensible macroeconomics in the Third World, WIDER/Clarendon Press, Oxford 1991.

[3] Cf. UNDP, Human Development Report 1997.

[4] Cf. the following:

- Joseph Stiglitz, More instruments and broader goals: moving towards the post-Washington consensus, WIDER, Helsinki, 1998
- Joseph Stiglitz, Towards a new paradigm for development: strategies, policies and processes, UNCTAD, Geneva, 1998.

[5] UNICEF, Adjustment with a human face, Oxford University Press, Oxford, 1987.

Washington Consensus, which restricted development strategies to macroeconomic stabilization, is now a thing of the past. The new choices make combating poverty and improving economic governance the spearheads of economic development.

Despite this new consensus prioritising poverty reduction, the trade liberalization element of old remained intact. Consensus on the beneficial effects on growth and development of the opening of borders continued to dominate the literature on economic development, particularly on Africa. Relatively recent studies explain the reasons for weak economic growth in Africa in the1990s, despite reforms, as the result of excessive controls on external trade and inward looking development strategies[6]. Restrictions on international trade in Africa, whether direct restrictions by means of quotas and non-tariff barriers, high customs tariffs and export taxes; or indirect ones such as foreign-exchange policies unfavourable to export activities; have made Africa one of the world's most closed regions in terms of the global economy. Furthermore, the gap between Africa and the Middle East, the second most restrictive region towards international trade, is greater than that between the Middle East and more open regions such as the Far East[7]. Other studies have sought to measure the impact of that lack of external openness on growth rates in Africa. According to Easterly and Levine, such restrictions have cost Africa about 0.4 percent growth per year on average[8], while Sachs and Warner put the figure at 1.2 percent[9]. From this viewpoint, it is undeniable that increased openness to external trade would lead to faster growth and improved economic well-being. Even with the unravelling of the Washington Consensus, the trade liberalization hypothesis escaped criticism and continues to exercise considerable influence on development theory and practice.

The supposed correlation between trade liberalization and growth has only recently become the subject of major discussions and debates in development economics, following the seminal article by Rodrik and Rodriguez[10]. The authors of this article attack the main studies suggesting a strong positive correlation between external openness and economic growth in developing countries. They suggest that

[6] Cf. the following:

- Paul Collier and Jan Willem Gunning, Explaining African economic performance, *Journal of Economic Literature*, vol. XXXVII, March 1999,

- Paul Collier and Jan Willem Gunning, Why has Africa grown slowly, *Journal of Economic Perspectives*, vol. 13, no.3, summer 1999.

[7] David Dollar, Outward-oriented development economies really do grow more rapidly: evidence from 95 LDCs 1976-85, *Economic Development and Cultural Change*, no.40, 1992.

[8] William Easterly and Levine Ross, Africa's growth tragedy: policies and ethnic divisions, *Quarterly Journal of Economics*, 112, 4, 1997.

[9] Jeffrey Sachs and Andrew M. Warner, Natural resources and economic growth, *Development Discussion Paper 517a*, Harvard Institute for International Development, Cambridge, MA, 1995.

[10] Dani Rodrik and Francisco Rodriguez, Trade policy and economic growth: a skeptic's guide to the cross-national evidence, *Working Paper 7081*, National Bureau of Economic Research, April 1999.

the methodological choices and empirical series used have had a preponderant influence on the nature of results and particularly on the conclusion of a positive relationship between external openness and growth. They emphasize the limitations of the methods used, and postulate that that relationship is not that clear. On the contrary, Rodrik and Rodriguez state that it is difficult to show that trade liberalization leads to any increase in rates of growth and development. Their contribution has led to considerable controversy in the field of development economics, since they have called into question a matter many believed had been settled. It has, however, had the advantage of opening up a debate on one of the most important issues in the economic literature.

In Africa, the contribution by Rodrik and Rodriguez heightened certain concerns among decision-makers on the impact of trade liberalization on Africa. The concerns are based on three trends. The first issue relates to the impact of reforms on the competitiveness of the region's economies. In this context, it is clear that trade liberalization has not produced the promised increase in growth rates or improved international integration for Africa. On the contrary, the continent has become increasingly marginalized in international trade, with a significant fall in its share of world exports, from 4.1 percent to 1.6 percent of global exports between 1980 and 2000. Africa's imports have also decreased steeply during the same period, from 3.2 percent to 1.3 percent of the world's overall imports. The marginalization of Africa in world trade has also affected trade in raw materials. The region's share in world trade in raw materials has fallen sharply, from eight percent in 1980 to 4.4 percent in 2000[11]. Thus, economic reforms and the liberalization of world trade have not led to an improvement in Africa's international position, and have failed to compensate for the growing marginalization of the continent's economies.

A second matter of concern to Africa's decision-makers relates to the consequences of trade liberalization on State revenue. It should be recalled that the budgetary income of many African countries is closely tied to customs revenue. Between 1999 and 2001, that revenue made up about 34 percent of State revenue in the least developed countries (LDCs) of Africa, more than 19 points higher than for the developing countries as a whole. For the remaining African countries that are not LDCs, the contribution of customs duties to overall State revenue (22%) is also higher than the average figure for developing countries (15%). From this viewpoint, trade liberalization could create a considerable gap in revenue and might lead to a worsening of the major macroeconomic imbalances.

The third worrying issue for Africa is the fact that developed countries continue to protect their markets and sensitive products, despite commitments made in multilateral trade negotiations. In particular, developed countries provide strong support to their agricultural producers through export subsidies, market protection and internal support for producers. This contrasts with the situation in developing countries, particularly in Africa, where large cuts in all forms of support for agricultural were made in the framework of SAPs. African industries are also affected by this State interventionism in the developed

[11] Cf. Arvind Submaramanian and Natalia Tamirisia, Is Africa integrated in the global economy?, *IMF Staff Papers*, vol.50, no.3, IMF, 2003.

countries, particularly because of tariff peaks and progressive customs duties, which are mostly applied to labour-intensive products exported by developing countries. So, while developing countries have implemented major reforms in order to make their economies more open, the issue of access to developed countries' markets is still a very difficult one.

Thus, the theoretical questions raised by Rodrik and Rodriguez tie in with the concerns of African decision-makers: the issue of external openness has been a major worry in recent years. This contribution is part of that debate and, on the basis of the experience of development in Africa, seeks to add some ideas on the relationships between trade liberalization, growth and development. This contribution does not claim to be a final answer to a question which has been at the centre of economic thinking for many years; but we believe it is important to contribute to this debate and enlighten it with recent experiences in African development. This experience is interesting in a number of ways. Firstly, in the 1960s and 1970s most African countries experimented with development strategies focused on the development of the internal market, with fairly restrictive trade policies. These choices were re-examined from the 1980s onwards, and following the failure of the import substitution strategy, the African economies turned towards greater external openness. Thus, we must call into question the relationship between liberalization and growth after the reorientation of development choices in Africa beginning in the early 1980s. One inevitable conclusion here is that the reforms implemented by African countries have not had the expected effects in terms of growth and improvement of global integration.

The African experience is also interesting if compared with South-East Asia, where there has been strong growth over the past three decades. As a result, South-East Asian countries are more competitive and integrated into the global economy, moving from export of raw materials to a more dynamic integration focused on high-technology products. A comparative study of these experiences is interesting because in the 1960s, a large number of African countries had a similar level of development, fairly close to that of the Asian countries. Since then, however, the situation has evolved differently in the two groups of States. While the African countries continue to experience poor growth rates and have great difficulty in dealing with their increasing marginalization in the global economy, the Asian countries have quickly become new economic and industrial powers. It is important to understand the significance of trade policy in these differing outcomes.

In our contribution to this debate we postulate that, in light of a comparative analysis of the African and Asian experiences, trade policy plays a major role in the economic performances of developing countries. Discussion of this issue should however not be limited, as it is in the current debate, to a consideration of exclusive choices in terms of liberalization or restrictions in international trade. The Asian experience

shows that trade policy cannot be limited to a choice between liberalization and excessive control of international trade. On the contrary, over the past three decades these various countries have used trade policy dynamically in order to support their development choices. The trade policies of the Asian countries are the result of complex combinations between openness and restriction, the object of which is to help their economies to build their competitive advantages. These observations enable us to postulate the existence of two types of trade liberalization strategy. One is dynamic and pragmatic, making little reference to theoretical debates and intellectual fashions in economics science; its main characteristic is its continuous adaptation to development strategies and to the changing needs of growth dynamics. These dynamic trade policies, which have contributed to the strong growth of the Asian economies, result from a complex combination of liberalization and control, sometimes excessive control, of the relations between the domestic economy and the outside world. The nature of external relations is neither definitive nor global in dynamic strategies. On the contrary, it evolves over time, is diversified according to the sectors involved, and differs even within a given sector. On the other hand, we can also see passive trade policies in which the relationship between the domestic and global economies has never reached such strategic dimensions and contributes only slightly to attaining the goal of building competitive economies. This perception has been predominant in African economies, with rather static trade policies applied globally and indiscriminately, encouraging rent-seeking rather than growth and development promoting behaviour.

Our hypothesis is in fact that the current discussion should not restrict itself to examining the relationship between liberalization and growth. On the contrary, it should go beyond that question, and look at the concrete developments in trade policies and their connection to national development strategies. This discussion could be enriched by considering historical development experiences and the use that has been made of trade policy in order to construct competitive national economies. From this viewpoint, analysing the experience of African economies and comparing it with development choices in South-East Asia could contribute usefully to the current debate on the relationship between liberalization and growth. Rather than an exclusive choice, future thinking should turn towards a search for optimal combinations between liberalization and control in order to promote growth and strengthen the competitiveness.

This contribution will be based on five points. In the first section, we will look at the experience of import substitution and the restrictive trade policies applied by the African countries throughout the 1960s and 1970s. The second section will consider the impact on growth, and on the integration of Africa into globalization, of the reforms implemented in Africa following the crisis of the 1980s. The poor results achieved by those reforms brings us to the third section, in which we consider the recent debate on the relationship between liberalization and growth which followed the publication of the article by Rodrik and Rodriguez. The fourth section will make a comparative analysis of the African and Asian experiences in order to better appreciate the role of trade policy and the nature of the combination of liberalization and restriction in growth dynamics and the consolidation of competitiveness in the developing economies.

The fifth and last section will look at the possibilities still open to such combinations, in the new context of trade liberalization, with the birth of the World Trade Organization (WTO); and we will formulate a number of recommendations for African decision-makers in order to ensure that trade policies make a dynamic contribution in the development strategies of the African economies.

II. Import Substitution and Restrictive Trade Policies in Africa

Beginning in the 1950s, and particularly in the 1960s and 1970s, most developing countries opted for import substitution strategies. The goal of these strategies was to produce locally the consumer goods previously imported from developed countries. Import substitution was seen as a means for revitalizing economic development and reducing dependence on former colonial powers, by diversifying productive structures. These strategies, which were to begin with the production of final goods and move up gradually towards intermediate goods and capital goods, were accompanied by restrictive external trade policies and considerable protection for emerging industries. In this way, they were expected to consolidate the new-found political independence of certain developing countries through greater economic autonomy.

In the economic literature of the time, import substitution strategies were justified by means of three major arguments. The first is historical in nature and relates to the experiences of countries whose development began during the 18th and 19th centuries[12]. In particular, the United States of America, France and Germany constructed their industrial development in a highly controlled context, and were able to take advantage of high levels of protectionism to achieve strong growth rates. The experience of Japan with the Meiji reforms illustrates the positive relationship between economic development and protection of local industry[13]. More recently, the experience of rapid industrialization launched by the Union of Soviet Socialist Republics in 1930, and by China and most of the countries of the former socialist bloc, appeared very attractive to developing countries. Thus, the historical argument had a considerable influence in the economic literature, and a broad consensus had then been constructed around the positive effects on development of a growth strategy oriented towards the internal market, with a high level of protection.

[12] Robert E. Baldwin, Openness and growth: what's the empirical relationship? *Working Paper 9578*, NBER, March 2003.

[13] Cf., on these historical experiences:

- Michael Clemens and Jeffrey G. Williamson, A tariff growth paradox? Protection's impact around the world 1875-1997, *Working Paper no.8459*, NBER, September 2001.
- Kevin O'Rourke, Tariffs and growth in the late 19th century, *Economic Journal* no. 110, 2000

Import-substitution strategies were also supported by the infant-industry argument developed by F. List in the 19th century. That argument encouraged German decision-makers to rely on protection to promote economic growth and build a coherent economic system[14]. The infant-industry argument would be picked up by classical economists such as John Stuart Mill, and was to play a major role in the economic literature up to the present. This argument justifies recourse to protection in a country in the early stages of industrial development, in order to help industrialists in such countries attain the average level of industrial know-how. Much more precisely, the argument calls for the use of external tariffs during a transitional period when the price of local products is higher than that of imported ones. This levy would then be used to finance the necessary investments, particularly in the field of human resources, in order to enable local products to stand up against foreign competition. The infant-industry argument still plays a major part in discussions of late industrialization in developing countries.

The third argument justifying import-substitution at the time related to the deterioration of the price of commodities exported by developing countries from the 1930s onwards. That argument put forward by Raúl Prebisch, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC) and Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), emphasized that the trend was not temporary but part of the evolution of the world economy, and that it was due to the lack of elasticity in commodity demand[15]. In response to the structural decline in the price of products exported by developing countries, Prebisch strongly recommended recourse to industrialization, so that products for export could be processed locally.

Prebisch and ECLAC rapidly became the founders of import-substitution strategies, and most developing countries made such strategies the framework for their approaches to industrial development. Their implementation went hand in hand with highly restrictive trade policies and a lack of external openness. Complex systems of tariff and non-tariff protection, exchange control and import licensing were set up in most developing countries to defend local production. Most of them had also opted for a policy of high exchange rates to discourage imports and help local products compete with imports. At the time, these protections were tolerated and accepted as specific, differentiated measures in favour of developing countries, in the context of multilateral trade rules in force under the General Agreement on Tariffs and Trade (GATT)[16]. This treatment enabled developing countries to enjoy exemptions in order to maintain production levels in their infant industries, and gave them favourable access to developed countries markets. At the same time, import-substitution strategies led to numerous regional integration

[14] Frederick List, *National system of political economy*, 1856.

[15] Raúl Prebisch, *The economic development of Latin America and its principal problems*. Lake Success, United Nations, Department of Economic Affairs, 1950.

[16] Cf. Alain Winter, Trade policy as development policy: building on fifty years' experience, in J. Toye (editors), *Trade and development. Directions for the 2lst century*, Edward Elgar Publishers, London 2003.

agreements, providing larger markets and providing greater scope for the development of these new industries[17]. Together with restrictive trade policies, import-substitution strategies were accompanied by heavy State interventionism in various areas, particularly financing through the application of negative interest rates to promote investment.

Like the rest of the developing world, African economies made import substitution the frame of reference of their development strategies in the 1960s and 1970s. They developed industries producing final goods, mostly intended for the new urban middle classes. Those industries included flour milling, industrial bakery, and breweries, as well as raw-material processing enterprises such as oil-mills, sugar refineries, fruit and vegetable canning factories and coffee processing plants. The textile industry also developed rapidly in most African countries. A few iron and steel-making factories opened in some countries, thanks to the development of small-scale electrical steelworks. Other industries that developed include the manufacture of small agricultural equipment and hardware articles, paint and varnish industries and mechanical and assembly workshops[18].

Import-substitution strategies enabled Africa to achieve high levels of economic development in the late 1960s and particularly in the 1970s. The average annual industrial GDP growth rate was estimated at 5.5 percent between 1970 and 1980. The rate was negative from 1980 to 1984 (minus 2.5%) and very low from 1984 to 1987 (0.4%). Manufacturing as a proportion of GDP has increased rapidly and, although agriculture is still predominant in the African economies, the role of industry is growing fast[19]. The growth of manufacturing has brought with it a rapid rise in industrial employment and in its share of overall employment in Africa. Thus, import-substitution strategies enabled African countries to embark on a major modernization drive of the archaic economic structures they inherited from colonialism.

Those strategies, however, were soon to show the same limitations in Africa as elsewhere in the world[20]. There are several reasons why these strategies failed as early as the late 1970s. The first relates to the lack of internal structuring in the industries concerned. The development of final goods production led to a rapid increase in imports of intermediate and capital goods, leading to worsening trade imbalances and the resulting balance-of-payments deficits. The failure of import-substitution strategies can also be explained by the weakness of internal markets and their inability to provide significant markets for new industries. The internal market in Africa was limited to a small urban middle class. The rural world, with its low agricultural productivity and resulting low incomes, was left out of modern consumption

[17] Charles A. Cooper and B. F. Massell, Towards a general theory of customs unions for developing countries, *Journal of political economy*, no.73, 1965.

[18] For an analysis of these industrial development experiments in Africa, see Hakim Ben Hammouda, *Afrique : pour un nouveau contrat de développement*, Editions L'Harmattan, Paris 1999.

[19] World Trade Organization (WTO), *World Trade Report 2003*, Geneva 2003.

[20] Cf. H. Bruton, A reconsideration of import-substitution, *Journal of Economic Literature*, vol 37, no.2, 1998.

patterns. Thus, the weakness of the internal market prevented new enterprises from taking advantage of economies of scale in order to improve their productivity.

Another factor in the import-substitution crisis was the reduced availability of financing for the developing countries. It should be recalled that throughout the 1970s, import-substitution strategies had benefited from rising prices of raw materials, which enabled States to intervene strongly in support of such development strategies. Whether it was through subsidies for industry and State-owned corporations, public investments, or meeting the cost of protectionist measures, governments used the rapid growth in export revenues to meet the rising costs of financing.

The argument most often used to explain the crisis in import-substitution strategies, however, is probably the poor productivity of the new enterprises[21]. The purpose of protection was to help enterprises in developing countries overcome their productivity differential in relation to competitors in developed countries. That implied that these new enterprises would use the protection provided by import-substitution strategies in order to make the needed investments to increase productivity and become more competitive. However, only on rare occasions did protection prompt the enterprises to invest and modernize their production capacity. In most cases, quite the opposite happened and rent-seeking became the norm as enterprises took advantage of the lack of competition. As a result, import-substitution strategies yielded very little improvement in the productivity of local enterprises and the competitiveness of developing economies.

The debt crisis of the early 1980s marked the end of the import-substitution. This was not only a crisis in strategy, but also the end of the consensus that had hitherto characterized development experiments. It called into question the two central ideas of the consensus regarding the importance of the internal market in promoting growth and the lack of openness to outside markets. A new consensus then began to dominate discussions on development, emphasizing liberalization and making exports the main engine of growth.

[21] Cf. Alan Winter, op.cit.

III. Failure of Import Substitution Strategies, and External Openness

Criticism of the domestic-market oriented development model began long before the crisis brought about by import-substitution strategies in the developing countries. These criticisms were strengthened by the fact that some Asian countries, and also African countries such as Tunisia and Mauritius, had from the early 1970s opened up their economies and channelled some of their resources and investments towards export promotion. These countries then experienced high growth and a sudden increase in the share of exports in GDP formation. Most of them recorded sharp increases in industrial production and its contribution to GDP, as well as in their exports. The "Asian miracle" was already being discussed in relation to countries like Japan and Korea[22]. Rapid growth experiences sparked debate on the role of exports and the external market[23]. For some, the strong growth in Asia showed the relevance of outward-oriented growth models[24]. For others, development strategies in Asia were more complex and therefore not seen as an illustration of free trade, but rather the result of strong support provided for their export activities, through direct subsidies or proper exchange arrangements[25].

Aside from that debate, however, the Asian successes caused a proliferation of research on the costs and effects of protection on growth and development. We should note the major studies by Ian Little, Tibor Scitovsky, Maurice Scott and Bela Belassa, who sought to calculate the rate of effective protection in a large number of developing countries and to study its impact on economic growth[26]. The calculation of effective protection rates took into consideration those applied to intermediate goods and raw materials. The studies showed that effective protection in developing countries was well above nominal protection, exceeding 100 percent in some countries. The studies further showed that most developing countries were discriminating against the agricultural sector and export activities.

[22] On the Korean experience of the 1970s, see Charles Frank Jr., Kwang Suk Kim and Larry E. Westphal, *Foreign trade regimes and economic development in South Korea*, NBER, New York, 1975.

[23] On this discussion, see A. Panagariya, Evaluating the case for export subsidies, *World Bank Working Paper No. 2276*, World Bank, Washington D.C., 2000

[24] Cf. Anne O. Krueger, Trade policy and economic development: how we learn, *The American Economic Review*, 87,1,1997.

[25] Cf. Dani Rodrik, Trade policy reform and institutional reform, in Bernard Hoekman, Aaditya Mattoo and Philip English, *Development, trade and the WTO*, The World Bank, Washington D.C., 2002.

[26] See:

-Ian Little, Tibor Scitovsky and Maurice Scott, *Industry and trade in some developing countries: a comparative study*, Oxford University Press, Oxford, 1970,

-Bela Belassa (ed.), *The structure of protection in developing countries*, The Johns Hopkins Press, Baltimore 1971.

This early research on the impact of self-sustained growth models was pursued and numerous studies were carried out on the issue during the 1970s[27]. The work was not limited to studying the effects of trade policies on growth as such, but integrated them into a wider analytical framework by including the macroeconomic environment and foreign-exchange policies. Most of these studies concluded that development strategies centred on the domestic market could not bring about sustainable growth in the developing countries and that only openness towards external markets could boost growth. The strong correlation between growth and openness was again highlighted by Balassa[28]. Anne Krueger added a substantial argument to this criticism of self-sustained development strategies: the protections introduced by these strategies promote rent-seeking behaviours in developing countries and lead to low investment efficiency and insufficient competitiveness in the economy[29].

In addition to these theoretical criticisms of domestic-market oriented development strategies, major studies on the Asian experience were carried out in the late 1970s and the early 1980s. Those experiences were quickly established as an illustration of the importance of export promotion strategies[30]. The openness option in development strategies should, according to the authors, ensure greater efficiency in resource allocation in the developing countries and give them easier access to new technologies and capital goods.

Thus, in the early 1980s, the debt crisis and the failure of import-substitution strategies were accompanied by the emergence of a new consensus on the importance of openness and exports in growth strategies. It was this new consensus that was to be the focus of the reforms initiated by African countries and the developing world in general from the early 1980s, within the framework of the SAPs.

From the mid-1980s, most African countries adopted SAPs with the support of the Bretton Woods institutions. These programmes are in two parts. The stabilization part seeks to reduce the short-term imbalance between supply and demand, in order to restore major macroeconomic balances, and puts forward measures aimed at curbing demand in order to reduce the major imbalances. The second part relates to adjustment, the purpose being to reduce sectoral imbalances and boost output, particularly of

[27] Since it would be hard to list all the studies conducted in the 1970s which examined the beneficial effects of liberalization on growth and development, we shall only list the works which had great influence on economic thinking at the time:

-Jadish Bhagwati, *Foreign trade regimes and economic development: anatomy and consequences of exchange control regimes*, NBER, New York, 1978,

-Anne Krueger, *Liberalization attempts and consequences*, NBER, New York, 1978.

[28] Cf. Bela Balassa, Export and economic growth: further evidence, *Journal of Development Economics*, 5, 1978.

[29] Anne O. Krueger, The political economy of rent-seeking, *American Economic Review*, No. 64, 1974.

[30] Cf. the work of Bela Balassa on the Asian experiences, and in particular:

-Bela Balassa, *The newly industrializing countries in the world economy*, Pergamon Press, 1981.

-Bela Balassa (ed.), *Development strategies in semi-industrial countries*, The Johns Hopkins University Press, Baltimore, 1982.

exportable goods, in order to restore the balance of payments in the long term. In this regard, the structural reforms would focus on supply and its redirection in the context of export promotion strategies. These reforms were basically of a microeconomic nature and sought to influence the arbitration and investment choices of businesses according to the requirements of the global market. These new development options, which marked Africa's total departure from import-substitution strategies, sought to redirect growth strategies towards the external market.

Trade policies in Africa underwent major changes within the framework of the SAPs. There was greater liberalization in foreign trade through the reduction of non-tariff barriers and decreases in customs levies applied to imports in a large number of countries. African countries stopped fixing exchange rates and overvaluing their currencies, and applied a series of devaluations in order to promote exports and help businesses become more competitive. The new trade policies adopted by African countries were part of the new development framework. They sought to promote greater openness in order to boost growth and encourage the competitive integration of the African economies into the globalization process.

The reforms were not, however, entirely successful in Africa. Growth recovered in the 1990s, with average annual rates of four percent in 1996, 2.9 percent in 1997 and 3.3 percent in 1998[31]. These results were positive because they were higher than population growth rates and resulted in an increase in per capita income. However, the growth remained unstable and the continent's economic performance was below the seven percent annual rate needed to halve poverty by the year 2015. Africa was able to maintain relative macroeconomic stability during the 1990s despite external imbalances and the fall in the flow of external resources. Budget deficits increased from 3.1 percent of GDP in 1997 to 4.6 percent in 1998 and inflation decreased from 14.6 percent to 12 percent during the same period.

The outcome of these reforms fell below expectations if we examine the continent's sectoral performances. The agricultural sector, which employs nearly half of the African population, dropped from 22.3 percent of GDP in 1980 to 19.4 percent in 1997. The performance of the industrial sector was no better, with a decline in its contribution to GDP from 39 percent to 32 percent during the same period. The sector's productivity also decreased from 3.8 percent in 1997 to 3.2 percent in 1998. The fall in agricultural production and the difficulties facing the industrial sector led to the decline in Africa's contribution to world trade. Thus, the share of African agricultural products in international raw-materials trade dropped from four percent to 3.2 percent between 1980 and 1994, while at the same time Latin America's share rose from 4.6 percent to 7.7 percent. The proportion of manufactured products in total exports increased from 6.4 percent to 22 percent between 1980 and 1995, but the increase was due to the fact that a few countries such as Tunisia, Mauritius, Egypt and Morocco had succeeded in diversifying their industrial structures and negotiating for international integration based on the export of manufactured products.

[31] Cf. the various yearly economic reports of the United Nations Economic Commission for Africa.

The downward trend in agriculture and manufacturing was accompanied by a strengthening of the mining and energy sectors. Between 1980 and 1995 there was a marked increase in the continent's position in the world trade in ores, from six percent to 13.5 percent of the total. These data reflect Africa's new type of integration into globalization, an integration increasingly based on the mining and energy industries. At the same time, the export earnings of the African economies also declined, owing to the continued downward trend in commodity prices. This decline was 17 percent between 1997 and 1998 for Africa.

The reorientation of development strategies towards the external market failed to yield the expected results in Africa. Opening up to external markets did not bring about a recovery in growth or more competitive integration into the international economy. This conclusion must be seen against the background of the political situation which prevailed on the continent in the 1990s, with the increase in the number of internal conflicts holding back growth. It should also be emphasized that trade liberalization efforts cannot yield results in an environment marked by weak infrastructure in a number of African countries. High transport costs, the inefficiency of logistical services to international trade and weaknesses in support services certainly affected the export performances of the African economies[32]. It should be noted that, for example, transport costs for landlocked countries are 200 percent higher compared with those at the nearest port. Also, handling costs at African ports are markedly higher than those in the developed countries. Thus, weak transport infrastructures and poor support and logistical services certainly weakened the export performance of African countries, heavily reducing the impact of the reforms undertaken.

In conclusion, we have to acknowledge the poor results of the reforms initiated since the early 1980s. Particularly in Africa, the dropping of import-substitution strategies and the choice of greater openness did not markedly boost growth or ensure more competitive integration into the global economy. This outcome clearly explains the latest controversy in the economic assessment of the impact of openness on economic growth.

[32] Cf. N. Limao and A.J.Venables, Infrastructure, geographical disadvantage, transport costs and trade, *World Bank Economic Review*, 15, 2001.

IV. Openness and Growth Amid New Controversy

The debate on international trade and growth saw major developments from the mid-1990s, with the emergence of endogenous growth theories. In the traditional model of growth and its periphery, emphasis was placed on exogenous factors, particularly population growth and exogenous technological change. These ideas came under heavy criticism during the 1980s owing to their inability to explain the evolution of growth dynamics, particularly falls in productivity despite the increased rate of technological change. These limitations led to new developments in the theoretical study of growth[33]. Unlike the traditional approach, the latest trends emphasized the endogenous nature of growth. The analysis of growth should not be limited to increases in production factors but must take into consideration other aspects such as level of human capital, growing yield and the importance of internal learning processes and endogenous technological change. P. Romer emphasizes the role of investments and includes the increasing-returns hypothesis[34]. In other studies, P. Romer assesses the impact on economic growth of technological change and research and development spending[35]. R. Lucas emphasizes human capital accumulation by individuals[36]. Thus, new thinking on endogenous growth no longer sees growth as merely an increase in production factors; it takes into consideration a multiplicity of significant new elements in the growing complexity of economic development in modern societies.

The new studies on growth had an impact on thinking on international trade, and endogenous growth theories brought in their wake the development of new thinking on that subject. The starting point of this thinking is criticism of the traditional theories and their inability to explain new trends in international trade, particularly the development of trade between countries having technological levels and factor endowments which are comparable and relate to similar products[37]. The authors then turn their attention to the impact of increasing returns on countries' international specialization. In the different models, increasing returns are behind a cumulative effect of growth and competitiveness favouring those countries which mobilize human capital, knowledge and the results of research and development the most.

[33] For a summary of studies on endogenous growth, see Robert J. Barro and X. Sala-i-Martin, *Economic growth*, McGraw Hill, New York 1995.

[34] P. Romer, Increasing returns and long-run growth, *Journal of Political Economy*, No. 94, 1986.

[35] P. Romer, Endogenous technological change, *Journal of Political Economy*, No............., 1990.

[36] Robert Lucas, On the mechanics of economic development, *Journal of Monetary Economics*, No. 22, 1988.

[37] Cf. the following:

-D. Greenway, The new theories of intra-industry trade, *Bulletin of Economic Research*, April 1987;

-E. Helpman and A. Azin (eds.), *International trade and trade policy*, The MIT Press, 1991;

-Gene M. Grossman and Elhanan Helpman, *Innovation and growth in the global economy*, The MIT Press, Cambridge, 1991; and

-Paul R. Krugman, *Rethinking international trade*, The MIT Press, Cambridge, 1991.

Research on the new theory of international trade, however, raised initial doubts and questions about the established consensus on the positive relationship between growth and liberalization. The beneficial effects of openness do not automatically appear in the different studies on the new theories of international trade. Indeed, other contributory factors promote this positive relationship, including national policies on human capital formation, the profile of countries' exports and imports and their support for export activities and fiscal policies. As a result, these new theories involve somewhat different versions of the impact of international trade on the growth and competitiveness of national economies[38]. Some people emphasize State interventions in an environment of imperfect competition to support their national enterprises[39]. Thus, the new theoretical developments have raised questions about the ability of free trade to guarantee optimum resource allocation and promote high growth dynamics. Addressing these concerns, P. Krugman comes to the defence of free trade, stressing the need to continue supporting it even if it is an imperfect solution[40]. He argues that free-trade strategies must be defended because they are easier to implement and cause fewer distortions in economic development.

The debate on the beneficial effects of trade liberalization on growth was to intensify with an article by Rodrik and Rodriguez[41]. In this major contribution, the authors raise from the outset the question of whether countries with greater openness to international trade have higher levels of growth than others. To answer this question, the authors consulted a number of major studies leading up to the establishment of the consensus dominating the debate on trade and development. More particularly, the authors conducted a critical review of the five most important contributions to the debate[42]. The choice of these contributions was motivated by the high frequency with which they are quoted, making them major reference works in economic theory, but also by the methodological innovations which the authors introduced in order to calculate the impact of liberalization on growth in the developing countries.

The first contribution studied by Rodrik and Rodriguez was that of Dollar. Its importance lies in the creation of two new indexes aimed at assessing the degree of openness of economies to international trade.

[38] These conclusions can be found in Robert E. Baldwin (2003), op.cit.

[39] J. Brander and B. Spencer, Export subsidies and international market share rivalry, *Journal of International Economics*, No. 18, 1985.

[40] Cf. Paul Krugman, The narrow and broad arguments for free trade, *American Economic Review*, No. 2, May 1993.

[41] D. Rodrik and F. Rodriguez (1999), op.cit.

[42] The five contributions are as follows:

-David Dollar, Outward-oriented developing economies really do grow more rapidly: evidence from 95 LDCs, 1976-1985, *Economic Development and Cultural Change*, 1992;

-Jeffrey Sachs and Andrew Warner, Economic reform and the process of global integration, *Brookings Papers on Economic Activity*, 1, 1995;

-Sebastian Edwards, Trade orientation, distortions and growth in developing countries, *Journal of Development Economics*, XXXI (3), July 1992;

-Sebastian Edwards, Openness, productivity and growth: what do we really know?, *Economic Journal*, 35 (1), March 1998; and

-Dan Ben-David, Equalizing exchange: trade liberalization and income convergence, *Quarterly Journal of Economics*, 108 (3), 1993.

The first is the real exchange-rate distortion index, and the second is the exchange-rate variability index. Both indexes give a picture of the degree of openness of an economy. That degree of openness results from the combination of two factors, namely the low protection rate for intermediate goods resulting in real exchange rates favourable to exporters, and low variability in the real exchange rate over time, designed to remove uncertainties in investment decisions. The distortion and variability indexes enable Dollar to grasp the two basic dimensions of external openness. To measure the relationship between growth and openness, he carries out an econometric regression between per capita income growth and distortions in the real exchange rate and its variability, as well as investment rates in 95 countries between 1967 and 1985. This test shows that the high level of distortion and greater exchange-rate variability are strongly correlated with a low per capita income growth level, a result which enables Dollar to assert that openness has a highly positive impact on growth and development.

Rodrik and Rodriguez questioned the methodological basis of the demonstration, considering that the distortion index does not constitute an accurate measurement of trade restrictions. In addition, they showed that the regression results are not satisfactory enough for alternative specifications. In particular, the authors demonstrated that in some cases the distortions are the result not of trade policies but rather of monetary or exchange-rate policies. It should also be noted that transport costs, particularly in African countries, create many distortions in liberalization. Lastly, the authors felt that although exchange-rate variability is significantly linked to growth rate, the linkage between openness and growth was not successfully demonstrated in Dollar's contribution.

The article by Sachs and Warner is the second contribution questioned by Rodrik and Rodriguez. The importance of this article is of a methodological nature and lies in the preparation of a new index for assessing openness, taking into account five major criteria: average tariffs, non-tariff barriers, the nature of the economic system, the existence of a State monopoly over main exports, and the presence in the country of a black market. The study by Sachs and Warner showed that their openness index is positively correlated with per capita income growth rate. Working from the analysis and estimates of Sachs and Warner, Rodrik and Rodriguez concluded that only two of the five criteria gave significance to the econometric results: the existence of a State monopoly over the country's main exports, and a black market in foreign currency. However, at this level, they explained that the existence and development of parallel markets in foreign currencies result from a number of political and economic decisions and cannot be explained solely by the lack of external openness. In addition, the export monopoly variable covered only the 29 African countries which had embarked upon SAPs between the late 1980s and early 1990s, and cannot therefore be generalized or lead to a global conclusion on the issue of trade and development. Thus, the results of the study by Sachs and Warner do not stem from variables directly linked to trade policy but rather from two variables which cannot be considered as proper estimates of distortions and trade restrictions.

Rodrik and Rodriguez also examined a contribution by Edwards, who sought to measure the relationship between growth, using the rate of growth in the total productivity of production factors, and nine different indicators, to determine openness[43]. The nine openness indicators are: the Sachs-Warner indicator, a subjective indicator on openness prepared by the World Bank in the World Development Report 1987, the Edwards-Leamer indicator, prepared from residual averages on trade flow regressions, an indicator for assessing black markets in foreign currency, an import tariff average calculated by Barro and Lee from an UNCTAD database, an indicator measuring the average of non-tariff barriers prepared by Barro and Lee from UNCTAD data, the Heritage Foundation subjective index which measures international trade distortions, the ratio of total revenue to revenue from exports and imports, and lastly the Holger Wolf index based on import distortions in 1985. Edwards concluded that the econometric results enabled him to postulate a strong positive relationship between openness and productivity growth.

Edwards' results are questioned by Rodrik and Rodriguez, who feel that despite his call for greater methodological precision, his contribution has major limitations. They noted that in the per capita income regression, if the logarithm were applied or if White's "heteroscedascity" method were used, the number of significant openness indicators would drop to five in the first case and four in the other. Rodrik and Rodriguez then studied the remaining four indicators and showed that each of them raised major methodological problems and that the correlation with productivity cannot be considered as a proof of the strong relationship between openness and growth.

Rodrik and Rodriguez studied other contributions to this important debate including those of Ben-David, Lee, Harrison and Wacziarg[44]. They arrived at the same conclusion and considered that it was difficult to demonstrate from these studies that there is a strong correlation between openness, economic growth and development. Part of the difficulty in the demonstrations stemmed from the methodological limitations of the different indicators used in the economic literature to assess the degree of openness of various economies. The authors reject these indicators and prefer the use of others that can be prepared more easily, including an average rate of tariffs on foreign trade, calculated by the ratio of revenue from import tariffs to the total volume of imports, and a second indicator measuring non-tariff barriers applied by different countries. Despite the limitations of these indicators, taking into consideration tariff peaks and tariff progressivity in particular, they are, according to Rodrik and Rodriguez, appropriate tools for assessing openness.

Rodrik and Rodriguez emphasized the major gap between pronouncements in favour of openness and

[43] In this contribution, Rodrik and Rodriguez mostly attacked S. Edwards' 1998 article.

[44] Cf. the following:

-Ann Harrison, Openness and growth: a time series, cross-country analysis for developing countries, *Journal of Development Economics*, 48, 1996;

-Jong-Wha Lee, International trade, distortions and long-run economic growth, *International Monetary Staff Papers*, 40, 2, 1993; and

-Romain Wacziarg, Measuring the dynamic gains from trade, *World Bank Working Paper* No. 2001, November 1998.

outward redirection of development strategies, and concrete research findings. Also, the recent increase in research on this issue shows that there are doubts as to the soundness of the conclusions drawn up to now. In this connection, they show that the absence of a rigorous demonstration of the relationship between openness and growth does not mean that excessive restrictions and controls are likely to promote growth and economic development. On the contrary, historical experiences in some countries have shown that it is difficult to create strong and competitive growth in an environment cut off from the rest of the world.

The main conclusion of this critical study of the literature, however, lies in the difficulty, recognized by Rodrik and Rodriguez, of convincingly proving the relationship between international trade and growth. The difficulty is first of all methodological, because it is difficult to produce accurate indicators capable of condensing the various aspects of trade policy. This methodological difficulty is only a reflection of a greater analytical difficulty associated with the strong linkage between trade policy decisions and other aspects of economic policy; this makes it difficult to isolate the impact of trade policy on growth. Rodrik and Rodriguez consider it futile to pursue research on this issue and that it is more useful to orient research on trade and growth towards two other areas. The first concerns abandoning the global and general perspective of the subject and moving towards more specific aspects of the complex relationship between trade policy and growth. In this connection they raise some concerns, including comparisons between low-income and high-income countries, small economies and major economies, and countries specializing in primary goods and those specializing in technology-intensive products. Other relevant issues could be the subject of historical comparisons, analysing the relationship between growth and trade policy during periods of expansion in international trade and periods of downturn. Comparative research can also be carried out to determine the relative impact on growth of certain restrictions compared with others, such as restrictions on capital compared with other production factors or the impact of granting benefits to exporting companies. Another subject of future research on growth and trade should, according to Rodrik and Rodriguez, turn towards microeconometric studies and the behavioural study of exporting companies.

Consideration of this debate is of major importance for our thinking on the impact of trade policy on growth and development in Africa. It is clear that major methodological difficulties remain, and may hamper our efforts to conduct a rigorous econometric study on the issue. To overcome this difficulty, we have decided to turn towards a comparative study between Africa and Asia in order to better understand African failure in the light of Asian success. The question is this: how did the South-East Asian countries succeed in making their trade policies a major factor in achieving economic growth and competitiveness in the global economy, and why have African economies not been able to do the same?

V. African Failure Versus Asian Success: Seeking to Understand the Role of Trade Policy in Growth

Throughout the 1990s, development experiences in South-East Asia were much debated in the literature on development. This debate was all the more important because at a time when most developing countries, especially in Africa, were suffering a considerable downturn in their growth rates and considerable marginalization in the world economy, the Asian countries were achieving record growth rates and becoming better integrated on the international scene, becoming dynamic exporters of new-technology intensive products. It is true that the 1997 crisis reversed some of this progress, but despite the difficulties of the late 1990s, the Asian models remained very attractive for the developing countries. Economic studies had strongly suggested that the African countries should follow the example of the Asian success story when seeking to boost their growth rates[45]. This comparison of the Asian and African experiences is needed in order to understand the factors underlying the economic performances of the countries concerned, and in particular to understand better the place and the role of trade policy in constructing the competitiveness of the Asian economies.

Asian Successes and African Failures: Elements for Comparison

A comparative study of growth trends in the Asian and the African countries over the past three decades reveals four major factors which explain the different growth rates of those economies. The elements on which we have to focus are the strength of growth trends, the role of agriculture in growth, the role of industry in development and the contribution of new technology.

The first difference between the African and Asian countries is the weak growth in the former and the record growth rates achieved by the latter. From 1965 to 1990, according to World Bank estimates, the eight Asian countries (Japan, South Korea, Taiwan, Hong Kong, Singapore, Malaysia, Thailand and Indonesia) had the world's highest growth rates[46]. In particular, while the world was going through a deep recession in the 1980s, with the rise of monetarism and deflationary policies, the Asian countries kept up their growth rates, with annual figures for the 1979-1992 period of 8.1 percent in South Korea, 7.6 percent in Taiwan, 6.7 percent in Hong Kong, 7.3 percent in Singapore, 7.5 percent in Thailand and 6.6 percent in Malaysia. In Africa, although growth remained strong in the 1970s, it fell back following the crisis of the 1980s.

[45] For example, cf. P. Harrold, M. Jayawickrama and D. Bhattasali, Practical lessons for Africa from East Asia in industrial and trade policies, *World Bank Discussion Papers*, Africa technical department series, Washington D.C., 11996.

[46] World Bank, *The East Asian miracle. Economic growth and public policy*, Oxford University Press, Oxford, 1993

It should also be noted that growth was accompanied by high investment rates in most of the Asian countries: the annual average was more than 20 percent of GDP between 1960 and 1990 [47]. However, while in Indonesia, Malaysia and Singapore growth was extensive and led by physical investments, it was more intensive and closely dependent upon productivity growth in Japan, South Korea, Hong Kong, Taiwan and Thailand. It also went hand in hand with considerable efforts in the areas of education and research. The African experience is different in that, even when investment rates were high in the 1970s, they never equalled those of the Asian countries. In the 1980s, those investment rates declined steeply with a fall in State investments. This fall pushed down growth all the more because the latter had long remained extensive and closely linked to physical accumulation rather than productivity growth.

It is therefore clear that the major difference between the Asian and African economies lies in the Asian countries' ability to maintain, over prolonged periods, strong growth rates together with high investment levels linked to considerable productivity gains. By contrast, the African economies have not managed to maintain high growth rates, and their investment efforts have remained weak.

Together with the role of growth, different levels of achievement in the South-East Asian countries and the African countries are also due to the part played in their development by agricultural modernization. Here, we should bear in mind the role of agriculture in the Asian experiences as early as the end of the Second World War. Under pressure from the United States of America, Japan, Korea and Taiwan implemented radical agrarian reforms, which rapidly led to strong growth in agricultural production. In South Korea, for example, agricultural value added progressed at rates higher than in Brazil, Argentina and even the United States, achieving annual rates of 10.3 percent between 1968 and 1979 [48]. Together with this strong production growth, there was also a rapid increase in South Korean agricultural yields, with average rates of 3.1 percent for wheat, 33.6 percent for soya and 4.6 percent for rice between 1965 and 1979. This enabled a large part of the rural population to work in industry, and there was a steep fall in agricultural employment as a proportion of overall employment.

In Africa, on the contrary, the agricultural crisis was central to the failure of development experiments. A number of agricultural modernization policies were tried out in Africa: a policy based on State interventionism in the 1960s and 1970s, and a more free-market policy beginning in the 1980s, with disengagement by the State and greater room for manoeuvre for private-sector actors. These strategies, however, were unable to modernize African agriculture. Archaic agrarian structures were reflected in heavy food dependency in a great number of countries. Low agricultural incomes were a considerable constraint

[47] J. M. Page, The East Asian miracle: an introduction, *World Development*, vol.22, No. 4, 1994.

[48] C. N. Kim, H. Hajiwara and T. Watanabe, A consideration on the compressed process of agricultural development in the Republic of Korea, *The Developing Economies*, June 1984.

upon import-substitution strategies adopted by most African countries in the 1960s and 1970s.

Thus, agricultural growth played an essential part in Asian development experiences because it promoted self-sufficiency in food and, as a result, reduced the imbalances caused by food imports. That growth also led to the development of rural incomes and, consequently, to that of industrial-sector demand. On the other hand, the failure of agricultural modernization experiments in Africa severely handicapped growth, worsening the food dependency of the African countries, impoverishing the rural population, and increasing migration to urban areas despite already serious urban unemployment.

In addition to growth rates and agricultural modernization, it is important to note the part played by industrial development in the differing courses of the Asian and African economies. In Africa, in addition to the failure of attempts to modernize agriculture, industrial development efforts were faced with considerable limitations. Although industrial growth was strong in the 1970s and the African countries were able to develop certain industrial sectors, the crisis of the 1980s counteracted those efforts and industrial development strategies were unable to provide the African economies with coherent and competitive industrial structures. The Asian experience was quite different: industrial development played a major part in the growth of the Asian economies. We should not forget that most of the South-East Asian countries enjoyed considerable growth in manufacturing-sector employment: between 1950 and 1990, it increased from 15.4 percent to 24.1 percent in Japan, from seven percent to 26.9 percent in South Korea, from 12 percent to 32 percent in Taiwan and from 19 percent to 29.5 percent in Singapore[49]. Growth in industrial output brought about a rapid transformation in export structures, with an increase in manufactured exports at the expense of traditional exports. Between 1967 and 1993, the proportion of industrial exports in total exports rose from 93.4 percent to 96.8 percent in Japan, from 67.3 percent to 93.7 percent in South Korea, from 21 percent to 78 percent in Singapore, from 3.7 percent to 50.5 percent in Indonesia, from 12.6 percent to 65.5 percent in Thailand and from 24.9 percent to 68.4 percent in Malaysia[50].

While these figures are important, it is most important to focus on the thinking behind industrial development in Asia. The first of these ideas, despite theoretical debates and recommendations and exclusive choices between internal and external markets, relates to efforts to find balances between import substitution and export promotion. Thus, following the end of the Second World War, Japan and the new first-generation industrialized countries (South Korea, Singapore, Taiwan and Hong Kong) chose development strategies oriented towards internal markets. This thinking was reinforced in the 1960s by export promotion strategies, particular in respect of the textile industry, in order to deal with external deficits resulting from the import of capital goods and intermediate goods. Those countries'

[49] World Bank (1993), op.cit.

[50] UNCTAD, *Trade and development report 1996*, Geneva 1996.

industrial development strategies underwent major changes in the 1970s, with the development of the production of capital goods, electrical and electronic industries, petrochemicals and the iron and steel industry. These industries were mostly oriented towards external markets, and constituted a new stage in import substitution. In the early 1980s, industrial development strategies saw the emergence of a new approach to export promotion, oriented towards new-technology intensive products such as machine tools, cars, semiconductors, computers and the products of the telecommunications, robotics and biotechnology sectors[51]. These strategies enabled the South-East Asian countries to maintain and develop their competitive advantages.

Thinking on industrial development in the countries of South-East Asia was also characterized by the adoption of a sector-by-sector bottom-upwards strategy, from downstream to upstream, to promote domestic production increasingly in the sectors of intermediate goods up to capital goods. This strategy makes it possible to build connections between internal markets and exports. Downstream production segments are export-oriented but intermediate sectors are oriented towards the internal market. Gradually, as the comparative advantages of economies evolve, export promotion will reach the intermediate sector and the capital-goods sector[52].

Thus, industrial development played a major role in the differentiated evolutions of development trends in Africa and Asia. Of greater significance than the rate of industrial development is the thinking behind it, especially the efforts to manage the internal and external markets which enabled the Asian markets to deal with the constraints of industrial development and make it a significant engine for growth and development.

Lastly, in order to understand the differences in development between the Asian and African countries, we should note the significance of strategies in the area of new technologies. At that level, the greatest concern of the developing countries relates to the means of mastering new technologies and making them a dynamic component in growth strategies. We can distinguish two major strategies for the import and mastering of new technologies. In Africa, various countries initially chose strategies based on turn-key technology transfers in order to reduce technical risks, but these strategies led to greater technical dependency for those countries, particularly through technical-maintenance contracts. Faced with this strategy based on recourse to external help, the Asian countries developed strategies based on local mastery of new technologies. Whereas the industrialization of the first capitalist countries in the 18th century was based on invention, and that of the industrialized powers of the 19th century on innovation, the Asian countries sought, as did the African countries, to gain access to new technologies by means of imports[53]. However, this import strategy was strengthened by a considerable local effort towards learning, adaptation and imitation of the imported technologies[54]. Efforts to master the new technologies, together

[51] Cf. Mario Lanzarotti, *La Corée du Sud : une sortie du sous-développement*. PUF/IEDES, Paris 1992.

[52] Hakim Ben Hammouda (1999), op.cit.

with learning curves, were behind the rapid development of scientific and technical capacities in the various countries of South-East Asia.

This comparative analysis highlights the different paths travelled by Asian and African countries. While the Asian countries succeeded in structuring strong and competitive growth dynamics, the African countries, in spite of all the reforms undertaken in the 1980s and 1990s, are experiencing fragile growth and marginalization in the world economy. While the role played by agricultural modernization, industrial development and new technologies in the Asian success stories can be clearly seen, it is equally important to reflect on the institutional arrangements which made such development possible in South-East Asia but difficult in Africa.

Asian successes: key lessons for Africa

Several explanations have been advanced for the success of the Asian countries. Such analyses go back to the 1970s, are based on the idea that State intervention to promote import-substitution activities was the key. At that time, the root of Asia's success was thought to be State neutrality towards those growth dynamics which promote export activity and position national economies within the global economy on the basis of comparative advantage. State neutrality could take several forms, including equal exchange rates for exports and imports[55] or equality in the price range of domestic manufactures and their world market prices and the gap between the domestic prices of exportable goods and their world market prices[56]. Such State neutrality in development dynamics, if not actually a slight bias in favour of export activities, is behind the success and performance of the Asian economies[57]. In this first generation of studies on the Asian success stories, mention should be made of B. Balassa who contended that developing countries should begin by pursuing import-substitution strategies based on labour-intensive manufacturing[58]. Those strategies soon ran into major constraints and compelled the countries to shift to development strategies based on broad openness to the outside world and the choice of export promotion. Accordingly, the first-generation studies of the Asian miracle attributed it to the openness of Asian economies to the outside world and external trade liberalization.

[53] Cf. in particular J. Bhagwati, *Foreign trade and economic development: anatomy and consequences of exchange control regimes*, NBER, New York, 1978.

[54] Alice Amsden, Third World industrialization: "global fordism" or a new model?, *The New Left Review*, No. 182, 1990.

[55] Cf. in particular J. Bhagwati, *Foreign trade and economic development: anatomy and consequences of exchange control regimes*, NBER, New York, 1978.

[56] A. Krueger, *Trade and employment in developing countries: synthesis and conclusions*, vol. 3, NBER, New York, 1983.

[57] A. Krueger, Trade policy as an input to development, *American Economic Review*, May 1980.

[58] See:

- B. Balassa, *The newly industrializing countries in the world economy*, Pergamon Press, 1981;
- B. Balassa (ed.), *Development strategies in semi-industrial economies*, The Johns Hopkins University Press, Baltimore, 1982.

The first-generation studies were soon challenged by fresh research, which demonstrated that Asia's success did not lie in State neutrality towards growth dynamics. On the contrary, States had played an important role in developing export activities in the region and had clearly promoted the building of their export competitiveness, using a complexity of mechanisms ranging from the maintenance of effective exchange rates that promoted export activity and the granting of major subsidies to export businesses[59]. These studies stressed the fact that consideration of the Asian experience could not be limited to reviewing the effects of opening up to the outside world, but should take place within a much broader context, taking into account their national development strategies.

The discussion of the role of open-door policies in Asian economic success was significantly enriched by the publication of the World Bank study[60], which focused on the development experience of Japan, Hong Kong, Taiwan, Singapore, South Korea, Indonesia, Malaysia and Thailand. It indicated that the development strategies had begun with the pursuit of import-substitution strategies. Subsequently, at different times in their economic history, the Asian countries had shifted development strategy to export promotion as far back as the late 1950s for Japan, the late 1960s for the first generation and the early 1980s for the second generation of countries. The study highlighted the structural patterns of those experiences, in particular the high rates of investment in human resources and new technologies that led to significant gains in productivity. The study also showed that States had intervened in many ways to build the competitiveness of their economies, in particular, by maintaining low interest rates, protecting some infant or declining industries, subsidizing exports, building export-support institutions and using export credit and other mechanisms.

The study challenges the assumption that liberalization and free-trade policies are the reason for Asia's success. It charts a new market-friendly approach, stressing the degree to which the State and the market worked together for success. In that approach, the market alone could not play the coordinating role given the imperfect nature of information and competition, so regulatory intervention became necessary to address the imperfections. The study opened the way to new thinking on the development experiences of the Asian countries, shedding more light on the place and role of institutions in regulating Asian economies. J. Stiglitz was among the first to stress the capacity of Asian economies to build effective institutions that were able to manage the development process and to infuse the needed dynamism[61]. He maintained that in the development experience of Asian countries, the State had in particular played the

[59] In the early 1980s, several research works sought to understand the complexity of Asian development experiences. These include:

-C. Johnson, Introduction – the Taiwan model, in J. Hsiung (ed.), *Contemporary Republic of China: the Taiwan experience*, Praeger Press, New York, 1981;

-C. Johnson, *MITI and the Japanese miracle: the growth of industrial policy 1925-1975*, Stanford University Press, Stanford 1982; and

-C. Johnson, The industrial policy debate re-examined, *California Management Review*, vol. 27, No.1, 1984.

[60] World Bank (1993), op.cit.

role of organizing competition and building institutions to support export activity. Stiglitz also considered the role of financial institutions in South-East Asian development strategies[62], stressing the degree to which the States had intervened in the operation of financial systems. The public authorities accordingly helped to create new banks and specialized financial institutions and strictly regulated their operations by channelling loans into some sectors at the expense of others and subsidizing them substantially. Some authors put forward the view that State control of the markets has been pivotal to the development experiences in Asia[63]. A. Amsden considers State intervention as one of the characteristics of late development in the Third World. Such intervention occurs particularly in the area of new technologies, where States encourage the imitation and adaptation of new technologies as a way of gaining access to the most modern techniques[64].

Accordingly, the neo-institutionalist school of thought emphasizes the role played by a plurality of institutions, most particularly States, in creating the Asian miracle by controlling the imperfections of the market. Stiglitz identifies six areas of State intervention which have played a primary role in the growth dynamics of Asia. These include the promotion of education, the acquisition of new technologies, support to the financial system, infrastructure development, environmental protection and the satisfaction of such basic needs as health[65]. While these authors did not confine their interest to the State, other studies have demonstrated that the Asian countries succeeded in building a complex network of institutions which allowed various business actors to address the problems of imperfect information and its asymmetry[66]. These studies held that, along with State intervention, the Asian countries, despite the diversity of their experiences, built the stability of their growth dynamics on a series of institutions including a stable constitutional order, an organized and qualified civil service, organized forums for negotiation and dialogue between government and business circles, not to mention dynamic sectoral institutions which supported the development of new industrial activities.

So the Asian successes can not be the result of shifting their development strategies towards exports and opening up more to the outside world. On the contrary, the strong growth dynamics in Asia and those countries' improved position globally can be explained by how densely the countries built their economic

[61] Joseph Stiglitz, Some lessons from the East Asian Miracle, *The World Bank Research Observer*, vol. 11, No. 2, August 1996.

[62] Joseph Stiglitz and M. Uy, Financial markets, public policy and the East Asian Miracle, *The World Bank Research Observer*, vol. 11, No. 2, August 1996.

[63] Cf. Robert Wade, *Governing the market. Economic theory and the role of government in East Asian industrialization*, Princeton University Press, Princeton, 1999.

[64] Cf. Alice Amsden, *Asia's next giant. South Korea and late industrialization*. Oxford University Press, Oxford, 1989.

[65] Joseph Stiglitz, The role of government in development economics, in M. Bruno and B. Pleskovic, *Annual World Bank conference on development economics 1996*, World Bank, Washington D.C., 1997.

[66] Cf. T. Cheng, S. Haggard and D. Kang, *Institutions, economic policy and growth in the Republic of Korea and Taiwan province of China*, UNCTAD, Geneva 1996.

and social fabrics in their recent economic history, structuring a host of institutions, setting standards and enabling people to do business. The role of trade policies can be understood only when seen within the context of a broader dynamic and of overall development strategies.

The research has challenged the idea that openness automatically leads to growth. It has highlighted the number of actors and institutions involved in the development process and who are responsible for maintaining strong growth dynamics and improving national economic competitiveness within the global economy. These analyses have been the source of major new thinking on development strategies and policies. With particular reference to trade policies, they have made it possible to move beyond analyses in terms of control as against the opening-up of economies. A better understanding has been gained about how such policies fit into global development strategies and how their dynamics are differentiated within time and by sector.

Trade policy as a component of development strategy

The analysis of Asian successes is important in more ways than one, because it shows the complexity of economic development and the number of actors, institutions and networks that come into play. Building a dense and multi-layered network of institutions makes it possible for growth dynamics to be stabilized and deepened. Sectoral policies then strengthen the fabric and help to consolidate it. Industrial, agricultural or macroeconomic policies help in this long-term institution- building that can lead economic development and improve the competitiveness of national economies. Trade policies are no exception to this rule and must be closely integrated into the process for accelerating growth and improving the national position in the global economy. For that reason, trade policies cannot be analysed or pursued in isolation from development options and strategies; they form the basic elements of any development strategy and therefore strengthen development options and choices. Trade policy dynamics follow, and must be integrated into the dynamics and evolution of overall development options. From this perspective, they help to deepen and strengthen the institutional fabric necessary for countries to develop[67].

The major difference between African and Asian countries does not lie in the extent to which they open up to the outside world, but rather in their development dynamics and their capacity to formulate medium and long-term visions to support the growth process begun in the mid-1960s. Indeed, while the Asian countries worked from a vision of the future which enabled them to make the changes needed to cope with the constraints of their growth strategies, most African countries passively pursued an import-substitution strategy which ran out of steam in the late 1970s with the advent of the debt crisis. The strategic development vision in South-East Asia enabled the State authorities to make the necessary

[67] Cf. Dani Rodrik, Trade policy reform as institutional reform, in Bernard Hoekman, Aaditya Mattoo and Philip English (eds.), *Development, trade and the WTO, a handbook*. The World Bank, Washington D.C., 2002.

choices in terms of investment, financing, subsidies or the provision of institutional support to specific sectors rather than others. The strategic development vision in Asia can be seen at three levels. The first has to do with the choice of sectors for public or private investment. As observed, the Asian countries embarked on development by pursuing import-substitution strategies based on final consumer goods. Gradually, the strategy evolved into export activities involving labour-intensive manufactures. Then came the development of import-substitution activities involving intermediate and capital goods. As they mastered these activities, the Asian countries were able to shift into export mode and to become exporters of new-technology intensive goods. These developments in the Asian countries merely reflected their response to the constraints of growth dynamics and sector burn-out. African countries were not able to make such needed changes and the bulk of their production and investment potential was channelled into import-substitution strategies relating to final consumer goods. They were unable to carry out the necessary liberalization or apply a bottom-upwards strategy in the production of goods for the domestic market.

The strategic vision in the Asian countries can also be seen in their preparedness to build growth dynamics around the meeting of domestic needs and global positioning. Since the late 1960s, opening up to the outside world and promoting exports have become part of the development dynamic, but such opening-up was controlled to meet the dual purpose of importing capital goods and those new technologies needed to pursue growth dynamics, and of addressing the need to export in order to maintain long-term equilibrium in the balance of payments. However, in the 1960s and 1970s most African countries opted exclusively for the domestic market. When in the 1980s they were forced to open up, the expected gains could not be realized because of the weakness of their production capacity.

The third level at which the strategic vision being pursued in the Asian countries can be seen has to do with State support for growth dynamics. As virtually all the studies show, that support has been substantial and constant[68]; but it was not directed passively at all economic sectors. In fact, the process was highly selective and directed at specific sectors. Early in the development experience, State support for the final consumer-goods sectors gradually shifted to focus on such new activities as the labour-intensive sectors or, later, on high-technology intensive manufactures. Africa's experience in this respect was different to the extent that the State support was constant and invariable and focused basically on those final consumer-goods sectors located within the import-substitution strategies with no regard for the speculative behaviour which began to develop in most of the countries.

Accordingly, trade policies were integrated into overall development strategies but the dynamism of these strategies in the South-East Asian countries drove their trade policies, while in Africa, like the development choices made in most countries of the continent, those policies remained passive. This is

[68] Cf. World Bank (1993), Alice Amsden (1989) and Robert Wade (1990).

how trade-policy tools ranging from tariff and non-tariff barriers, export subsidies and credits to exchange-rate policies were used to address development priorities and options. In South-East Asia, these tools were used robustly to deal with growth-dynamic constraints and difficulties while in Africa, they were handled indifferently and without strategic direction. From the foregoing, a more accurate perception can be gained of what trade policies mean to development dynamics. They cannot be analysed in isolation, they must be reviewed or pursued with reference to the global context of development strategies. Dynamic trade policies are therefore those that best fit into proactive development strategies and seek to sustain growth dynamics while improving national economic competitiveness. Such strategies are not a matter of choosing exclusively between openness and excessive control. Rather, they result from an unceasing quest to achieve optimum combinations between the two alternatives in order to consolidate development.

Thinking should focus on identifying the various possible compromises between openness and control, and on assessing their impact on growth; and it should draw on historical development experiences. Rather than engaging in an endless debate over the merits of openness and control, this paper will therefore seek, using a comparative analysis of Asian and African experiences, to determine the main characteristics of dynamic trade policies. At this juncture, three essential features must be highlighted. The first is how trade policy develops over time, and it cannot be a simple, static choice between openness and control. The Korean experience demonstrates that the import-substitution strategy pursued in the 1960s took the form of a restrictive trade policy adopted to defend domestic products against imports. Thereafter, the development of export activities from the late 1960s opened up certain economic sectors to the outside world. What is even more important here has to do with the timing of the opening or control of national borders; the studies conducted on these experiences provide some helpful indicators[69]. It would seem, in this regard, that the development of new industries was helped along by restrictive trade policies that enabled them to build their competitive edge, which corresponds to the infant-industry argument. At the same time, the country was wide open to the importation of capital, intermediate and high-technology goods needed for the development of new industrial activity. It is also noteworthy that these countries liberalize their trade greatly for those of their products or industries that have reached maturity. They find the openness necessary because it introduces the needed competition for improving business competitiveness and helps to avoid speculative behaviour. Put briefly, dynamic trade policies seek the appropriate timing for opening up national economies to the outside world or for introducing controls in order to sustain growth dynamics and build up national economic competitiveness.

The second feature of trade policies has to do with their diversity from sector to sector. This makes them distinct from the trade policies which African countries pursued throughout the 1970s and which were

[69] Cf. A. Amsden (1989) and R. Wade (1990).

applied wholesale to all economic sectors without distinction. The experiences of Japan and Korea show that the sectors which were protected in the 1960s and 1970s were not the same as in the 1980s. For example, the final consumption sectors in South Korea enjoyed substantial protection in the 1960s[70]. These measures were relaxed in the 1970s and shifted to other sectors. At the same time, the capital and intermediate goods sectors benefited from restrictive trade policies. Obviously then, within a dynamic trade policy, liberalization or control are not applied in the same way to all economic sectors. Strategic options are pursued in specific sectors at particular development stages, so the basic issue is not so much openness or control, but rather the ordering and sequencing of these options in the various sectors of the economy. In other words, the idea is to determine when to open up and when to control, and this can differ from one sector to another.

The last feature of trade policies is their differentiation, not only among sectors, but also within a given sector. The development of the electronics sector in Korea demonstrates quite significantly how differentiated trade policy tools can be used within the same sector. Korea's electronics industry had its beginnings in the 1960s, when it developed assembly plants to feed the local market. Those plants were heavily protected through the imposition of exorbitant customs duties on imports. From the late 1960s and the early 1970s, however, Korea changed its strategy in order to take advantage of the relocation strategies that the major Japanese and American businesses were pursuing. Export capacities developed in this area, and the economy opened up wider to imports of components, capital and other intermediate goods, and their re-export. In the mid-1970s, however, Korea and Taiwan instituted new strategies which aimed at producing electronic components locally and integrating them into computers and computer products. This change of strategy was also accompanied by a shift in the trade policy applied to this sector. The result was a policy of increasing openness to final consumer goods and more restrictive policies affecting components and other intermediate goods. Thus, we see the differentiated application of dynamic trade policies to various segments of a specific economic sector[71]. It remains to determine the sequence of openings and controls that can be used to sustain the internal dynamics of the various sectors.

Ultimately, trade policy has played an important role in the pursuit of development options and strategies. Demonstrably, dynamic trade policies are more than a mere choice between openness and control. They are closely integrated into development strategies to support the development choices made in terms of their evolution over time, their diversity by sector and their differentiation within the same sector.

While trade policies have supported growth and development dynamics, the question today is whether these tools can still be used within the context of the increasing liberalization of the world economy in

[70] Cf. A. Amsden (1989) and R. Wade (1990).

[71] Cf. Alice Amsden, *The rise of the rest: late industrialization outside the North Atlantic region*. Oxford University Press, New York, 2001.

the WTO framework. In other words, has trade policy died once and for all? Have its instruments been buried under trade liberalization?

VI. WTO and a Possible Trade Policy for Development

The use of trade policy, and particularly of the instruments referred to above, in order to protect economic development is not a recent innovation. The latest research has shown that, throughout their history, those countries which today are the most developed have not hesitated to resort to protective tariffs or import controls in order to support their infant industries[72]. In Britain, restrictive trade policies were implemented as early as the 15th century in order to support the wool industry. At that time, raw wool was exported to Holland, where it was processed in Dutch factories. At that time, heavy customs duties were imposed on raw wool exports in order to force producers to process the wool locally; prohibitive tariffs were also imposed on the import of finished products. These restrictive trade practices were still in force until the repeal of the Corn Laws in 1846, an event which historians see as the United Kingdom's real free-trade milestone. The competitiveness of British industries was considerably helped by that country's restrictive trade practices, and external openness did not begin until Britain emerged in the mid-19th century as the world's most developed nation.

The United States of America has also made use of trade policies and protected its infant industries in order to build up their competitiveness[73]. From 1830 until the end of the Second World War, the United States applied the world's highest customs duties on imports of industrial products. In addition, transport costs were very high until the late 19th century; consequently, American industry enjoyed the world's highest levels of protection. In 1930, the average tariffs imposed by the United States on imports of industrial products were estimated at 48 percent. Only after the war did the United States, now the world's greatest economic power, open up more to foreign trade. Other countries which are now among the developed economies, such as France and Germany, used various instruments of trade policy, such as customs duties and export subsidies, to promote the growth of industrial development and close the gap between themselves and Britain[74]. Japan also followed the example of the other developed countries in the early years of the 1868 Meiji revolution, using restrictive trade policies in support of its efforts to modernize its economic structures[75].

Recent development experiences in South-East Asia have shown that the countries of the subregion are no exception to the rule. In addition to the protection afforded to local industry, they have granted considerable

[72] Cf. Ha-Joon Chang, *Kicking away the ladder. Development strategy in historical perspectives*, Anthem Press, London 2002.

[73] Ha-Joon Chang (2002), op.cit.

[74] Paul Bairoch, *Mythes et paradoxes de l'histoire économique*, La Découverte, Paris, 1995.

[75] Ian Buruma Inventing *Japan: From Empire to economic miracle 1853-1964*. Weidenfel Press, London 2003

direct and indirect subsidies to their exports[76]. These policies have helped those countries' enterprises to strengthen their competitiveness in new sectors such as electronics, shipbuilding and semiconductors.

Thus, in contrast with the experiences of most African countries, trade policy has played a dynamic role in the development process and in improving the competitiveness of the developing economies. The issue today is whether the developing countries can continue to enjoy the same freedoms as in the past, in terms of using trade policy to help construct their development strategies. This question is all the more important because the reforms undertaken since the Uruguay Round, by restricting the use of trade-policy instruments, leave the developing countries little room for manoeuvre. Indeed, some have wondered whether the birth of the WTO has finally signalled the end of national trade policies. The Uruguay Round negotiations did indeed succeed in imposing greater trade liberalization. Together with lower customs duties, less progressive tariffs and the reduction of tariff peaks, they also imposed the transformation of non-tariff barriers into tariffs, and their reduction. The Uruguay Round also required States to undertake to reduce all forms of export subsidy apart from those on agricultural products. The WTO, which arose out of the Uruguay Round, aims to bring about greater openness in global markets and thereby to reduce all obstacles to trade.

These reforms do not, however, mean the end of national trade policies. Some authors believe that the new WTO rules still allow some flexibility which the developing countries could use to strengthen their development strategies and improve their competitiveness[77]. Firstly, the new rules give specific, differentiated treatment to the developing countries, especially the least developed countries, exempting them from the application of certain rules or giving them longer transitional periods. In particular, the new provisions allow the developing countries to defend themselves when imports pose major problems for their balance of payments or their local industries. In such cases the developing countries may raise their customs duties in order to deal with macroeconomic problems or increased competition from imports. These opportunities have been used by countries such as Mexico, which raised its customs duties from 20 percent to 35 percent in 1995, in the textile and clothing sectors, in order to cope with a rapid increase in imports[78].
Aside from customs protections, the new WTO rules, despite their restrictive nature, also give the developing countries some room for manoeuvre in respect of support for export industries. The Agreement

[76] On this subject, see:

-Alice Amsden (1989), op.cit.

-Gerald K. Helleiner, Introduction, in Gerald Helleiner (ed.), *Trade policy and industrialization in turbulent times: new perspectives*. Routledge, New York, 1994.

-Robert Wade (1990), op.cit.

[77] See Alice Amsden, Industrialization under new WTO law, in John Toye (ed.), *Trade and development. Directions for the 21st century*, Edward Elgar, Cheltenham 2003.

[78] Cf. OECD, *Trade policies liberalization in Mexico*, Paris, 1996.

on Subsidies and Countervailing Measures, which extends the Tokyo Round rules on subsidies, defines three types of subsidies: prohibited subsidies, actionable subsidies and non-actionable subsidies[79]. Prohibited subsidies are those connected to concrete results in terms of the export of local products or their use in the production of exported products. The new rules do, however, leave the way open for other kinds of subsidies, including those used for the funding of research activities, assistance to vulnerable regions or pre-competition development.

The new WTO rules reduce the latitude available to the developing countries for using trade policy in constructing their development dynamics and improving their competitiveness; but some flexibility remains, and the developing countries can take advantage of it. Some studies have focused on the difficulty for the developing countries of exploiting that flexibility, but the experiences of countries such as Thailand show that the available margin for manoeuvre can be useful for development strategies and can thereby assist efforts to modernize the developing economies and integrate them into global trade[80].

VII Conclusion

In this chapter, we have drawn attention to the role of trade policies in development strategies. In order to contribute effectively to development efforts, trade policies must be dynamic and must avoid giving constant and linear support to the economy as a whole or to certain sectors. On the contrary, they must be adaptable, and differentiated between sectors and between the various segments of a given sector. Consideration of this issue, therefore, must not be restricted to the sterile debate between openness and control; it must focus on seeking the optimal combinations of the different instruments of trade policy and on building the necessary institutions in order to support the economic development process and improve the competitiveness of national economies. While the recent reforms of the rules of international trade in the framework of the WTO have left the developing countries with less room for manoeuvre, they also offer them a degree of flexibility in order to use trade policy in their development efforts. It is this flexibility which the developing countries are seeking to strengthen in the context of international negotiations and the Doha round.

[79] Cf. UNDP, *Mettre le commerce international au service de tous*, Earthscan Publications, London 2003.

[80] Alice Amsden (2003), op.cit.