



HOW TRADE CAN SUPPORT DEVELOPMENT IN ASIA: Making Global Trade Work for People

by

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Linking Human Development and Trade

Trade can be a powerful source of economic growth. But while broadly based economic growth is necessary for human development, it is not enough.

Human development also requires enlarging people's choices and opportunities—especially poor people's.

Liberalizing trade does not ensure poverty reduction or human development, nor does it guarantee economic growth. [Rather, this is largely determined by internal and external institutional and social pre-conditions and policies.]

The nature of resource allocation and social inclusion — especially for women and those participating in the informal sector — are also important determinants of growth leading to poverty reduction and human development.



Trade Liberalization and Growth

International trade can expand markets, facilitate competition and disseminate knowledge, creating opportunities for growth, poverty reduction and human development.

Trade can also raise productivity and increase exposure to new technologies, which often spur growth.

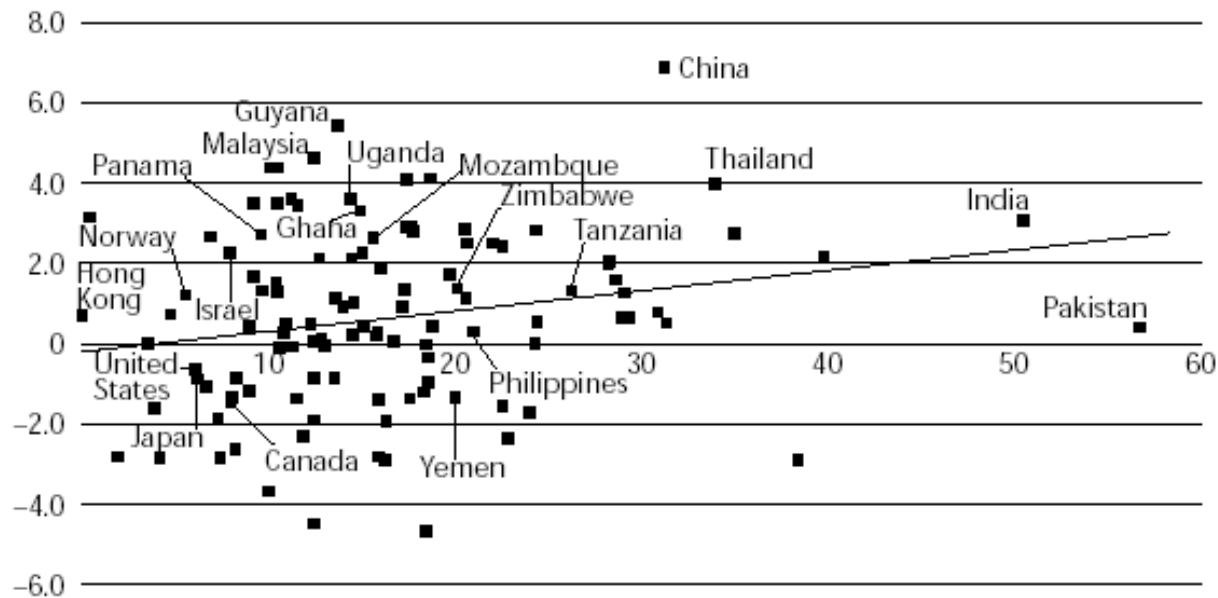
Nevertheless, cross-national comparisons reveal no systematic relationship between countries' average levels of tariffs and non-tariff barriers and their subsequent economic growth (see figures 1 and 2).



Low import tariffs are good for growth? Think again

Figure 1

Annual average per-capita GDP growth rate during the 1990s (unexplained part, per cent) vs. average import tariff rate (per cent)



Note: All data are averages for the 1990s. Specifications are based on Dollar and Kraay (2000), replacing trade-GDP ratios with tariff levels and controlling separately for inflation, initial income and government consumption as a share of GDP.

Source: Dollar and Kraay, 2000, cited in Rodrik (2001).

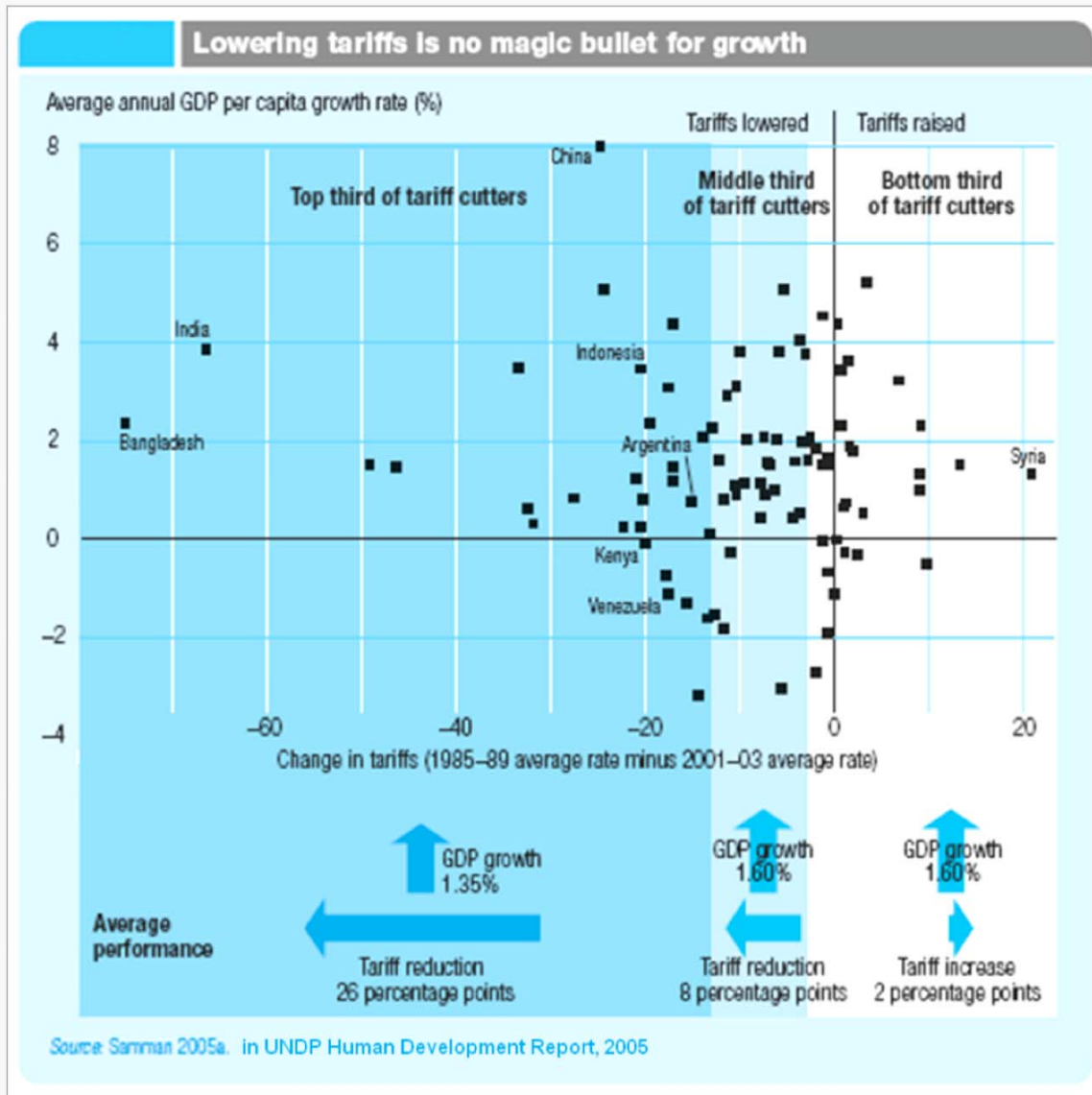


Figure 2



Trade and Growth Literature

The best-known literature that claims trade liberalization promotes higher growth—including the Sachs-Warner (1995) and Dollar (1992) studies—are flawed in important respects.

The approaches used for classifying developing countries as 'open' or 'closed' have the following widespread problems:

- ✦ Policy outcomes such as trade as percent of GDP (which are often not in governments' control) are used as measures instead of actual trade policies (e.g. tariff reduction).
- ✦ Linked to the above, the measurements are based on rates of growth in trade volumes, which are the outcome of many things, including an economy's overall performance.
- ✦ Many such measures of openness are actually correlated with alternative explanatory variables such as: macroeconomic instability, poor institutions, and geographic location.



Once these problems are corrected, the only systematic relationship found is that countries dismantle trade barriers as they get richer.

The experiences of industrial and successful developing countries provide the following additional lessons:

- ✦ Integration with the world economy is an outcome of growth and development, not a prerequisite.
- ✦ Institutional innovations — many of them unorthodox and requiring considerable domestic policy space and flexibility — have been crucial for successful development strategies and outcomes.



Key Messages:

- I. **A Global Trade Regime friendly to Human Development should be based on four simple principles of international trade**
 - ✦ Trade as a means to an end
 - ✦ Trade rules should allow for diversity in national institutions, development strategies and standards
 - ✦ Countries should have the right to protect their institutions and development priorities
 - ✦ No country has the right to impose its institutional preference on others



Among the priorities for such a regime are:

- ⊕ Regular human development assessments of trade agreements and issues
- ⊕ Policy space for the coexistence of diverse development strategies
- ⊕ Asymmetric rules for industrial and developing countries. This will necessitate making the principle of special and differential treatment in favour of developing countries operational and real. A declaration on special and differential treatment and human development similar to the Doha Declaration on TRIPS and Public Health will be a good first step.

While these messages focus on the global trade regime, no amount of reform to the multilateral and regional trade regimes can substitute for greater national ownership and better governance of trade policy-making in both developed and developing countries.



Six Key National Trade and Development Policy Messages

- 1) International trade : two-way virtuous relationship between human development and economic growth is possible
- 2) Raising the returns to investment through industrial and export policies remains key
- 3) Both selective and general government interventions are needed to improve market outcomes. The question is not whether governments should intervene but “How”, “When” and “Where” to intervene



Six Key Policy Messages (cont.)

- 4) A key public policy intervention is simultaneously investing in all levels of education, including selectively and strategically in tertiary levels of education (institutes of science & technology, management, public health, education)
- 5) Building the state's capabilities to make effective public investment and selective interventions to stimulate a virtuous circle of economic growth, poverty reduction and human development should be a first order priority
- 6) There is a vital link between macroeconomic policies and trade competitiveness



Thank you.

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