

**TRADE LIBERALIZATION AND DEVELOPMENT:  
LESSONS FOR AFRICA**

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**Abstract:** This paper contributes to the debate over the impact of trade liberalization on development from an African perspective. It suggests that the current discussion should not restrict itself to examining the relationship between liberalization and growth alone, but can be enriched by comparing the development experiences of Africa and Asia. Future thinking should turn towards a search for optimal combinations between liberalization and control in order to promote growth and strengthen the competitiveness of developing economies.

**Keywords:** Trade Liberalization; Development; Africa

## **INTRODUCTION**

There has been little doubt as to the relationship between trade liberalization, growth and development until quite recently, with most of the literature reflecting a broad consensus on the positive impact of trade liberalization on growth and economic development. It had been accepted that opening up to external markets would ensure better allocation of resources and promote the orientation of investments towards exporting sectors. The exporting sectors were seen to have been held back by development strategies which focused on domestic markets,

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and had long been blamed for considerable distortions in the functioning of the laws of the market in developing countries. Protective measures applied since the 1960s were seen to have led to the misallocation of scarce resources and weak growth and productivity in developing economies. Trade liberalization would therefore correct these distortions and promote optimal allocation of resources and investment. It would also revive economic growth and enable the developing economies to play a more competitive role in a globalized world.

The consensus on the relationship between trade liberalization and growth has only recently become a topic of debate in the field of development economics. This debate follows the major article by Rodrik and Rodriguez (1999), which disputes the assumption of a strong positive correlation between external openness and economic growth in developing countries. The article suggests that the methodological choices and empirical series used in previous studies influenced the results so as to conclude that a positive relationship exists between external openness and growth. The authors emphasize the limitations of the methods used by various authors, and postulate that that relationship is not as clear as people had tended to believe in recent years. In Africa, the contribution by Rodrik and Rodriguez (1999) to the debate has heightened concerns on the part of decision-makers as to the impact of trade liberalization strategies on African economies. These concerns are based on three trends. The first 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.

The consequence of trade liberalization on State revenue in African countries is second trend which is of concern to policymakers. It should be recalled that the budgetary income of these countries is closely tied to customs revenue. Between 1999 and 2001, this revenue made up about 34 per cent of State revenue in the least developed countries (LDCs) of Africa, more than 19 percentage points higher than for developing countries as a whole. For the African countries that do not fall within the LDC category, the contribution of customs duties to overall State revenue (22 per cent) is still higher than the average figure for developing countries in other parts of the world (15 per cent). From this point of view, trade liberalization should create a considerable gap in revenue and may even lead to a worsening of the major macroeconomic imbalances.

The third issue relates to the fact that developed countries are continuing to protect their markets and their sensitive products, despite the commitments entered into in multilateral trade negotiations. In particular, these countries provide strong support to their agricultural producers through export subsidies,

market protection and internal support for producers at a time when developing countries, particularly in Africa, have made large cuts in all forms of support for their agricultural sectors in the framework of the structural adjustment programmes (SAPs). Thus, the theoretical questions raised by Rodrik and Rodriguez (1999) ties in with the concerns of African decision-makers over the issue of external openness, which has been a major concern in recent years.

The current article contributes to the debate on the relationship between trade liberalization, growth and development on the basis of the African development experiences. We postulate, in light of a comparative analysis of the African and East Asian experiences that trade policy plays a major role in the economic performance of developing countries. Discussion of this issue should not be limited to a consideration of exclusive choices in terms of liberalization or restrictions in international trade, as is demonstrated by the East Asian experience. Asian countries have used trade policy dynamically in order to support their development choices over the past three decades. The trade policies of the East Asian countries are the result of complex combinations between openness and restriction, the object of which is to help their economies build their competitive advantage.

These observations enable us to postulate the existence of two types of trade liberalization strategies - dynamic and pragmatic - making little reference to theoretical debates and intellectual fashions in the science of economics. The main characteristic of dynamic trade policies are their continuous adaptation to development strategies and to the changing needs of growth dynamics. These policies, which have contributed to the strong growth of the East Asian economies, result from complex combinations between liberalization and sometimes excessive control of the relationship between the domestic economy and the outside world. Under dynamic strategies, external relationships are neither definitive nor global. Rather, they evolve over time, are diversified according to the sectors involved, and differ even within a given sector.

At the opposite extreme, the predominant thinking guiding African economies has favoured 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 the African economies, with rather static trade policies applied globally and indiscriminately, encouraging rent-seeking rather than behaviour which promotes growth and development.

We hypothesize that the current discussion should not be restricted to examining the relationship between liberalization and growth. On the contrary, it should also look at concrete developments in trade policy 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. Analyzing the experience of the African economies and comparing this with development choices in East Asia could contribute usefully to the current debate on the relationship between liberalization and growth. Rather than focusing on 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 of developing economies.

This article will be based on six points. Following the introduction, section two will look at the experience of African countries throughout the 1960s and 1970s, particularly in relation to import substitution and restrictive trade policies. The third section will consider the impact of trade policy on growth, and on the integration of Africa into the global trading system in light of the reforms implemented in Africa following the crisis of the 1980s. The poor results achieved by these reforms bring us to the fourth section, in which we consider the recent debate on the relationship between liberalization and growth. The fifth 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 sixth and last section will look at the possibilities still open to such combinations, in the new context of trade liberalization and the mandate of the World Trade Organization (WTO).

## **I. IMPORT SUBSTITUTION AND RESTRICTIVE TRADE POLICIES IN AFRICA**

Beginning in the 1950s, and continuing into the 1960s and 1970s, most developing countries opted for import substitution strategies to locally produce goods which had previously been imported from developed countries. Import substitution was a means for those countries to revitalize their economic development and reduce their dependency on the former colonial powers by diversifying their productive structures. Import substitution strategies, which were to begin with the production of final goods and move gradually up 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 their new-found political independence through greater economic autonomy.

In the economic literature of the time, import substitution strategies were justified through three major arguments. The first was historical and focused on the experiences of countries whose development began in the 18<sup>th</sup> and 19<sup>th</sup> centuries (Baldwin, 2003). In particular, the United States, France and Germany began their industrial development in a highly controlled setting, and were able to take advantage of high levels of protectionism to achieve strong growth rates. The experience of Japan during the Meiji reforms illustrated the positive relationship between economic development and the protection of local industry (Clemens and Williamson, 2001; O'Rourke, 2000). The rapid industrialization programme launched by the Soviet Union in 1930, as well as the industrial growth by China and most of the former socialist bloc appeared very attractive to developing countries. Thus, the historical argument had had considerable influence in the economic literature, and a broad consensus had then been constructed around the positive effects that growth strategies oriented towards the internal market with high levels of protection had on development.

Import substitution strategies were also supported by the infant-industry argument developed by F. List (1856) in the 19<sup>th</sup> century. This argument encouraged German decision-makers to rely on protection to promote economic growth and build a coherent economic system. The infant-industry argument would be picked up by classical economists such as John Stuart Mill, and has played a major role in the economic literature up to the present day. This argument justifies recourse to protection in a country in the early stages of industrial development in order to help domestic industry maintain sustainable levels of industrial know-how.

The third argument centred on the deterioration of the export commodity prices of goods from developing countries since the economic crisis of the 1930s. This argument was put forward by Raúl Prebisch, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC) from 1950-1963 and Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) from 1964-1969, who emphasized that this trend, which was due to the lack of elasticity in commodity demand, was not temporary but was part of the evolution of the world economy. Prebisch strongly recommended recourse to industrialization in the face of structural decline in the prices of products exported by developing countries so that these products could be processed locally.

Like the rest of the developing world, the African economies based their development strategies on import substitution in the 1960s and 1970s. These

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 per cent between 1970 and 1980, while the rate was negative from 1980 to 1984 (minus 2.5 per cent) and positive but very low from 1984 to 1987 (0.4 per cent).

Using import substitution strategies, African countries began developing industries that produce finished goods, mostly intended for the new urban middle classes. These 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, with several iron- and steel-making factories starting production thanks to the development of small-scale electrical steelworks. Small agricultural equipment manufacturing and hardware articles, paint and varnish industries and mechanical and assembly workshops were among other industries which developed at the time.

Import substitution strategies, however, were soon to show the same limitations in Africa as they did elsewhere in the world. There were several reasons why these strategies failed as early as the late-1970s. The first was the lack of internal structuring in the industries concerned. The rise in production of finished goods led to a rapid increase in imports of intermediate and capital goods, resulting in worsening trade imbalances and balance-of-payments deficits. The failure of import-substitution strategies could also be explained by the weakness of internal markets, which in Africa were limited to a small urban middle class, and their inability to provide significant markets for new industries.

The argument most often used to explain the crisis in import-substitution strategies, however, was the poor productivity of newly developed enterprises. The purpose of protection was to help enterprises in developing countries overcome their productivity differential in relation to their competitors in developed countries. This implied that these enterprises would make use of the protection provided by import-substitution strategies in order to make the needed investments to increase their productivity and become more competitive. However, enterprises only rarely invested and modernized their production capacity, and soon began to demonstrate rent-seeking behaviour as they took advantage of the protection offered to them by the lack of external openness. 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 failure of both import-substitution strategies and of the consensus which until then had been central to development experiments. It called into question the previously accepted ideas of the importance of the internal market in promoting growth and the lack of openness to outside markets. A new consensus began to dominate discussions on development, emphasizing liberalization and exports as the main engines of growth.

## **II. 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 developing countries. This criticism was strengthened by the fact that some Asian countries, as well as African countries such as Mauritius and Tunisia, had from the early-1970s opened up their economies and channelled some of their resources and investments towards export promotion. This resulted in high growth and sudden increases in the share of exports in GDP formation of these countries.

The success of the East Asian economies also caused a proliferation of research on the costs and effects of protection on growth and development. We should note the major studies by Little, Scitovsky, Scott (1970) and Bela Belassa (1978), who sought to calculate the rate of effective protection in a large number of developing countries and to study its impact on economic growth. The calculation of effective protection rates took into consideration the rates applied to intermediate goods and raw materials and showed that effective protection in developing countries was well above nominal protection, exceeding 100 per cent in some countries. The studies further demonstrated that most developing countries were discriminating against their agricultural and export activities.

Numerous studies were carried out on the impact of self-sustained growth models during the 1970s<sup>2</sup>. These studies were 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 only development strategies that emphasized

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<sup>2</sup> 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.

openness towards external markets, rather than those that centred on the domestic market, could boost growth in developing countries. The strong correlation between growth and openness was also highlighted by Balassa (1978). Anne Krueger (1974) added a substantial argument to this area by stating that the protection introduced by these strategies promoted rent-seeking behaviour in developing countries and led to low investment efficiency and insufficient competitiveness in the economy.

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. This consensus 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. This marked a total departure from Africa's import-substitution strategies as it sought to redirect growth 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 instead applied a series of devaluations in order to promote exports and help businesses become more competitive.

The emphasis on trade policies adopted by African countries from the early-1980s was part of a new development framework which sought to promote greater openness in order to boost growth and encourage their competitive integration into the globalization process. The reforms were not entirely successful, however. Although growth recovered in the 1990s, with average annual rates of 4 per cent in 1996, 2.9 per cent in 1997 and 3.3 per cent in 1998<sup>3</sup>, the reorientation of development strategies towards the external market failed to yield the expected results. 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.

Trade liberalization efforts cannot yield results in an environment marked by the weak infrastructure that exists in a number of African countries. High transport costs, the inefficiency of logistical services to international trade and weaknesses

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<sup>3</sup> See the various yearly economic reports of the United Nations Economic Commission for Africa.

in support services shape the export performances of the African economies (Limao and Venables, 2001). Transport costs for landlocked countries are 200 per cent higher compared with those at the nearest port. Also, handling costs at African ports are markedly higher than those in developed countries. Thus, weak transport infrastructure and poor support and logistical services negatively affect 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.

### **III. OPENNESS AND GROWTH AMID NEW CONTROVERSY**

The debate on the correlation between international trade and growth saw major developments with the emergence of endogenous growth theories in the mid-1990s. Proponents of endogenous growth theories do not limit themselves to increases in production factors when explaining the endogenous nature of growth, but also take into consideration aspects such as the level of human capital, growing yield and the importance of internal learning processes and endogenous technological change. New studies on growth, as well as the development of endogenous growth theories, has had a significant impact on thinking on international trade, while research on the new theory of international trade raised questions about the established consensus on the positive relationship between growth and liberalization.

The article by Rodrik and Rodriguez (1999) intensified the debate on the effects of trade liberalization on growth. This article examined whether countries with greater openness to international trade have higher levels of growth by consulting a number of major studies leading 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<sup>4</sup>, which were determined by the frequency with which these contributions were quoted. Methodological innovations were also introduced in the article in order to calculate the impact of liberalization on growth in developing countries.

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<sup>4</sup> The five contributions are as follows:

- Dollar (1992); Edwards (1992); Dan Ben-David (1993), Sachs and Warner (1995) and Edwards (1998).

Rodrik and Rodriguez (1999) emphasized the major gap between proclamations in favour of openness and outward redirection of development strategies, and concrete research findings. The recent increase in research on this issue shows that there are still doubts as to the soundness of the previously accepted conclusions. Recent studies 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, regardless of the level of openness and liberalization.

Rodrik and Rodriguez (1999), among others, have recognized the difficulties in convincingly proving the relationship between international trade and growth. The difficulty is first of all methodological, as it is not easy to produce accurate indicators capable of condensing the various aspects of trade policy. This is only a reflection of a greater analytical difficulty associated with the strong linkage between trade policy decisions and other aspects of economic policy, thus making it difficult to isolate the impact of trade policy on growth.

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 address this, we will turn towards a comparative study between Africa and Asia in order to better understand Africa's failure in the light of Asia's success. We will therefore attempt to determine how East Asian countries succeeded 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.

#### **IV. AFRICAN FAILURE VERSUS EAST ASIAN SUCCESS: SEEKING TO UNDERSTAND THE ROLE OF TRADE POLICY IN GROWTH**

East Asia's development experience was a topic of debate in the literature throughout the 1990s. This debate came at a time when most developing countries, especially in Africa, were suffering a considerable downturn in their growth rates and were being increasingly marginalized in the world economy. East Asian countries, on the other hand, were becoming dynamic exporters of new technology-intensive products, achieving record growth rates and becoming better integrated on the international scene. While the 1997 crisis reversed some of this

progress, Asian economies remained models for the developing world. Economic studies had strongly suggested that African countries should follow the example of their East Asian counterparts when seeking to boost their growth rates. A comparison of the East Asian and African experiences is needed in order to understand the factors underlying the economic performances of the countries concerned, and in particular to better understand the place and the role of trade policy in constructing the competitiveness of the East Asian economies.

A comparative study of East Asian and the African countries over the past three decades reveals four major factors which explain their different growth rates, including the strength of growth trends, the role of agriculture in growth, the role of industry in development and the contribution of new technology. The major difference between the East Asian and African economies lies in East Asia's ability to maintain, over prolonged periods, strong growth rates together with high investment levels linked to considerable productivity gains. In contrast, the African economies have not managed to maintain high growth rates, and their investment efforts have remained weak.

The different levels of achievement between the East Asian and African countries are also due in part to the role played by agricultural modernization in their development. Here, we should bear in mind the role of agriculture in the East Asian experience following the Second World War. Under pressure from the United States, Japan, South Korea and Taiwan implemented radical agrarian reforms that led rapidly 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 per cent between 1968 and 1979 (Kim, Hajiwara and Watanabe, 1984).

In Africa, on the contrary, the agricultural crisis was central to the failure of development experiments. A number of agricultural modernization policies were tried in Africa, including 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 unsuccessful in their goal of modernizing African agriculture. Archaic agrarian structures were reflected in heavy food dependency in a number of countries, while low agricultural incomes were a considerable constraint upon import-substitution strategies adopted in the 1960s and 1970s. Industrial development also played an essential role in the differing courses of the East Asian and African economies. Africa faced considerable limitations in developing its industrial base. The debt crisis of the 1980s counteracted the industrial growth seen in the 1970s, when African countries were able to develop

certain industrial sectors. However, industrial development strategies were unable to provide the African economies with coherent and competitive industrial structures.

The East Asian experience was quite different, since industrial development played a major part in the growth of the Asian economies. We should not forget that most East Asian countries have enjoyed considerable growth in manufacturing-sector employment. Between 1950 and 1990, employment in this sector increased from 15.4 per cent to 24.1 per cent in Japan, from 7 per cent to 26.9 per cent in South Korea, from 12 per cent to 32 per cent in Taiwan and from 19 per cent to 29.5 per cent in Singapore. Growth in industrial output brought about a rapid transformation in East Asian export structures, with an increase in manufactured exports at the expense of traditional exports. Between 1967 and 1993, industrial exports as a proportion of total exports rose from 93.4 per cent to 96.8 per cent in Japan, from 67.3 per cent to 93.7 per cent in South Korea, from 21 per cent to 78 per cent in Singapore, from 3.7 per cent to 50.5 per cent in Indonesia, from 12.6 per cent to 65.5 per cent in Thailand and from 24.9 per cent to 68.4 per cent in Malaysia<sup>5</sup>.

Lastly, we should note the significance of the different strategies pursued in the area of new technologies between Africa and East Asia, particularly relating to the means of adopting new technologies and of making them a dynamic component in growth strategies. We can distinguish two major strategic directions for the import and mastering of new technologies. In Africa, various countries initially chose strategies based on turnkey technology transfers in order to reduce technical risks, although these strategies eventually led to greater technical dependency for those countries, particularly through technical-maintenance contracts. East Asian countries, on the other hand, developed strategies based on local mastery of new technologies. Whereas the industrialization of the first capitalist countries in the 18<sup>th</sup> century was based on invention, and that of the industrialized powers of the 19<sup>th</sup> century on innovation, East Asian countries sought, as did those in Africa, to gain access to new technologies by means of imports. This import strategy was strengthened by a considerable local effort towards learning, adaptation and imitation of the imported technologies (Amsden, 1990).

This comparative analysis highlights the different paths taken by East Asian and African countries. While East Asian countries succeeded in structuring strong and competitive growth dynamics, African countries are still experiencing fragile

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<sup>5</sup> UNCTAD, *Trade and development report 1996*, Geneva 1996.

growth and marginalization in the world economy, despite the reforms undertaken in the 1980s and 1990s.

### **A. EAST ASIAN SUCCESSES: KEY LESSONS FOR AFRICA**

Several explanations have been advanced for the success of East Asian countries. Such analyses go back to the 1970s and are based on the assumption that State intervention to promote import-substitution activities was the key. It had previously been assumed that the root of East Asia's success resulted from 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, equality in the price range of domestic manufactured goods and their world market prices, and the gap between the domestic prices of exportable goods and their world market prices (Kruger, 1983). Such State neutrality in development dynamics, if not actually a slight bias in favour of export activities, was largely accepted to be behind the success and performance of the East Asian economies (Kruger, 1980).

This assumption was later challenged by fresh research, which demonstrated that States had played an important role in developing export activities in East Asia 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. These studies stressed the fact that consideration of the East 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 East Asian economic success was significantly enriched by the publication of a World Bank study (World Bank, 2003) which focused on the development experience of Japan, Hong Kong, Taiwan, Singapore, South Korea, Indonesia, Malaysia and Thailand. It indicated that development strategies in these countries had begun with the pursuit of import-substitution strategies. Subsequently, at different times in their economic history, East 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 countries. The study highlighted the structural patterns of these experiences, in particular the high rates of investment in human resources and new technologies which brought about 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 World Bank study challenged the assumption that liberalization and free-trade policies were the reason for East Asia's success. It charted a new market-friendly approach, stressing the degree to which the State and the market cooperated. Under this 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 East Asian countries, shedding more light on the place and role of institutions in regulating East Asian economies.

Stiglitz and Uy (1996a) were among the first to stress the capacity of East Asian economies to build effective institutions that were able to manage and infuse the needed dynamism into the development process. He maintained that the State played an important role in organizing competition and building institutions to support export activity in East Asia. Stiglitz also considered the role of financial institutions in East Asian development strategies, stressing the degree to which States had intervened in the operation of their financial systems. The public authorities accordingly helped to create new banks and specialized financial institutions and strictly regulated their operations by channelling loans and substantially subsidizing some sectors at the expense of others.

Other authors like Stiglitz and Uy (1996b) also put forward the view that State control of the markets has been pivotal to the development experiences in East Asia. Amsden (2003) considered State intervention to be one of the characteristics of late development in the Third World. Such intervention occurred 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.

The East Asian successes cannot result solely from the shifting of development strategies towards exports and from opening up more to the outside world. To the contrary, the strong growth dynamics, resulting in East Asia's improved global position can also be explained by how densely the countries built their economic and social fabric 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.

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 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 on how such policies fit into global development strategies and how their dynamics are differentiated within time and by sector.

### ***B. TRADE POLICY AS A COMPONENT OF DEVELOPMENT STRATEGY***

The analysis of the East Asian success is important since it shows the complexity of economic development and the number of actors, institutions and networks involved. Building a dense and multi-layered network of institutions makes it possible for growth dynamics to be stabilized and deepened. Sectoral policies then help to strengthen and consolidate the factors leading to growth. Industrial, agricultural or macroeconomic policies help in long-term institution-building that can lead to 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 of accelerating growth and improving the national position in the global economy. For this reason, trade policies cannot be analyzed 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, trade policies help to reinforce the institutional fabric necessary for countries to develop (Rodrik and Rodriguez, 2002).

The major difference between African and East Asian countries does not lie in the extent to which they have opened 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. Indeed, from the mid-1960s when the East 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 East Asia enabled State authorities to make the necessary choices in terms of investment, financing, subsidies and the provision of institutional support to specific sectors. Accordingly, trade policies were integrated into overall development strategies, but while the dynamism of these strategies in East Asia drove their trade policies, those policies remained passive in Africa. 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 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. We therefore can gain a more accurate perception of what trade policies mean to development dynamics. They cannot be analysed in isolation, but rather 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. Historical development experiences should be drawn upon in this regard. Rather than engaging in an endless debate over the merits of openness and control, this paper seeks, using a comparative analysis of East Asian and African experiences, to determine the main characteristics of dynamic trade policies.

### ***C. DYNAMIC TRADE POLICIES CHANGE OVER TIME***

At this juncture, three essential features of dynamic trade policies must be highlighted. The first is how trade policy develops over time - it cannot be a simple, static choice between openness and control. The South 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 is the timing of the opening or control of national borders; the studies conducted on these experiences provide some helpful indicators. It would seem, in this regard, that the development of new industries following the infant-industry argument, since they were helped by restrictive trade policies that enabled them to build their competitive edge. At the same time, the country was open to the importation of capital, and intermediate- and high-technology goods

needed for the development of new industrial activity. South Korea also liberalized trade for those products or industries that reached maturity, which it found necessary for introducing the needed competition for improving business competitiveness and helped 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.

#### ***D. DYNAMIC TRADE POLICIES CHANGE BETWEEN SECTORS***

The second feature of trade policies has to do with their diversity between sectors. 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 stages of development, 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. In this regard, East Asian economies pursued trade policies which were distinct from those of Africa throughout the 1970s and which were applied wholesale to all economic sectors without distinction. The experiences of Japan and South Korea show that the sectors which were protected in the 1960s and 1970s were not the same as those in the 1980s. For example, the final consumption sectors in South Korea enjoyed substantial protection in the 1960s (Amsden, 1989 and Wade, 1999). Protection of these sectors was relaxed in the 1970s and shifted to other sectors. At the same time, the capital and intermediate goods sectors benefited from restrictive trade policies.

#### ***E. DYNAMIC TRADE POLICIES CHANGE WITHIN SECTORS***

The last feature of trade policies is their differentiation, not only between sectors, but also within a given sector. The development of the electronics sector in South Korea demonstrates quite significantly how differentiated trade policy tools can be used within the same sector. South Korea's electronics industry began 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, South Korea changed its strategy 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 to imports of components, capital and other intermediate goods, and also eased restrictions on their re-export.

In the mid-1970s, however, South 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 accompanied by a shift in the trade policy applied to the 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 (Amsden, 2001). 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 the WTO framework. In other words, has trade policy died once and for all, and have its instruments been buried under trade liberalization?

## **V. THE WTO AND A POSSIBLE TRADE POLICY FOR DEVELOPMENT**

The use of trade policy, and particularly of the policy instruments referred to above 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 (Chang, 2002). In Britain, restrictive trade policies were implemented as early as the 15<sup>th</sup> century in order to support the wool industry. At that time, raw wool was exported to Holland, where it was processed in Dutch factories. The United States also made use of trade policies and protected its infant industries in the 19<sup>th</sup> and early 20<sup>th</sup> centuries in order to build up its competitiveness. Other countries, such as France and Germany, used various instruments of trade policy such as customs duties and export subsidies to promote industrial development and close the gap between themselves and Britain. Japan also followed the example of the other developed countries in the years following the 1868 Meiji restoration, using restrictive trade policies in support of its efforts to modernize its economic structures.

Recent development experiences in East Asia have shown that the countries of the subregion are no exception. In addition to the protection afforded to local industry, they have granted considerable direct and indirect subsidies to their exports. 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 experience of most African countries, trade policy has played a dynamic role in the development process and in improving the competitiveness of developing economies. The issue today is whether 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 leave developing countries little room for manoeuvre by restricting the use of trade-policy instruments.

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. Indeed, some have wondered whether the birth of the WTO has finally signalled the end of national trade policies. The Uruguay Round negotiations did 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 brought about the reduction of these transformed tariffs. The Uruguay Round also required States to undertake to reduce all forms of export subsidy apart from those on agricultural products.

These reforms do not, however, mean the end of national trade policies. Some authors believe that the new WTO rules still allow for flexibility which the developing countries could use to strengthen their development strategies and improve their competitiveness. First, the new rules give specific, differentiated treatment to developing countries, especially least developed countries, exempting them from the application of certain rules or giving them longer transitional periods. In particular, the new provisions allow developing countries to defend themselves when imports pose major problems for their balance of payments or to their local industries. In such cases, 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 in the textile and clothing sectors from 20 per cent to 35 per cent in 1995, in order to cope with a rapid increase in imports.

The new WTO rules, despite their restrictive nature, also give developing countries some room for manoeuvre in supporting export industries. The Agreement 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 (UNDP, 2003). 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 WTO rules do however reduce the latitude available to developing countries for using trade policies in constructing their development dynamics and improving their competitiveness; but some flexibility remains, which developing countries can take advantage of. Some studies have focused on the difficulty that developing countries face in 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 therefore assist efforts to modernize developing economies and integrate them into global trade.

## **CONCLUSION**

In this article, we have highlighted the role of trade policies in development strategies. In order to contribute effectively to development efforts, trade policies must be dynamic and 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 developing countries with less room for manoeuvre, they also offer them a degree of flexibility in order to use trade policies in their development efforts. It is this flexibility which developing countries are seeking to strengthen in the context of international negotiations and the Doha Round.

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