Does one size fit all in a globalised society?

Brett Parris

INTERNATIONAL TRADE has received a barrage of criticism over the last year. Some activists are pushing for a return to an imagined "localised" world where countries and regions were essentially self-sufficient. But it is often forgotten that life for most people in Western Europe, apart from the very wealthy, used to be very hard indeed. Life expectancies were short, maternal mortality was high, disease was rife, and food supplies were often unreliable.

In 1900 the total world population was around 1.6 billion people. Today, there are over 6 billion, of whom around 1.2 billion subsist on less than US$1 per day. It is impossible for so many people to be fed, clothed, housed and provided with the necessities of life at affordable prices without the efficient mass-production of goods. Those of us living in developed countries take for granted relatively cheap food, clothing, steel, glass, paper, transport and so on, because we have forgotten how expensive in time and money (adjusted for inflation of course) such products used to be. It is only through economies of scale gained through industrial processes and large production runs that the relative prices of most goods have been reduced to a point where they have become affordable for the majority of people rather than just the rich.

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These declines in prices are one way in which the real incomes, or purchasing power, of the poor can be increased. What matters more than people's absolute incomes in monetary terms is what goods and services they can buy with those incomes. But, aside from reducing demand, relative prices can fall only by increasing supply, through increased production and trade. Of course there are exceptions for particular individuals and communities in particular places, but as a general rule, efficient industrial production and trade are good news for the poor. They enable people to buy what they need more cheaply, thereby increasing their real incomes.

Outward-oriented approach

Trade is also crucial to national development. Those developing countries which have been most successful have generally been those that have pursued an outward-oriented approach to trade and industrialisation. Since export industries produce goods for the world market, their products have to be of consistently high quality. Such industries also tend to be more productive. India, with a massive internal market, virtually stagnated for many years trying to pursue a more or less self-sufficient path.

SANJAY SOJWAL

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Small countries that try to do the same can end up far worse, as North Korea amply illustrates.

However, advocacy of an outward-orientation, and production of goods for export, does not imply an equal advocacy of completely free trade for developing countries. It may be quite appropriate for developing countries to place certain restrictions on key imports, either to prevent balance of payments problems or to protect infant industries. Of course, such protection imposes a cost on domestic consumers, and unless the protection is temporary, it will produce a fragile, bloated drain on the treasury. Nevertheless, the United Kingdom, Germany, France, the United States, and, more recently, Japan, Korea and Taiwan, all used selective protection, subsidies, tax breaks and other measures to nurture their industrial bases. But these industries also relied heavily on exports to ensure that most of their industries could produce to international standards.

In short, autarky and "localisation" offer no solutions for developed or developing countries, but neither is rapid liberalisation necessarily the best alternative.

The 2001 World Bank "World Development Report" will be on

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"institutions for markets", in recognition of the crucial role that institutions play in economic development. In fact, it is increasingly acknowledged that sound, well functioning institutions, such as the rule of law, contract enforcement, transparent and accountable government and so on, must be established *before* substantial economic liberalisation is undertaken. Otherwise you end up with a mess, as we have seen in Russia. So the World Bank is starting to encourage a country-specific approach to institution building that takes into account local customs, culture and history.


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This is a welcome and long-overdue development. As Roumeen Islam, director of the WDR 2001 team, acknowledged recently, it is not an area which the Bank has looked at in detail in the past.

One size fits all

Meanwhile however, the WTO Uruguay Round trade agreements continue to take a "one size fits all" approach to the special needs of developing countries. Countries other than the 48 Least Developed Countries are arbitrarily allotted a mere 5-10 years to adjust to most of the agreements, regardless of their stage of development and the quality of their institutions.

These two approaches are fundamentally divergent. If the Bank's discovery of the importance of institutions is taken seriously, the implications for the WTO's liberalisation agenda are enormous. Solid, well-functioning institutions can take a generation to develop. Will developing countries be given this time, or will they be forced into premature liberalisation?

Greater clarity is desperately needed in the globalisation debates. Trade itself should not be the target, nor should the mass-production of goods and services. Nor even, dare I say it, the existence of TNCs. Rather, NGOs and developing countries should focus their wrath on the "one size fits all" approach of the WTO, the inadequate restraints on corporations that have grown too powerful, the imbalances in the Uruguay Round agreements, and the failure of OECD governments to provide anything like adequate resources in aid and debt relief.

Indeed, the hypocrisy of most OECD governments is breathtaking—they are trying to drag developing countries into yet another trade round before most of them have digested the last one, while whittling away their own aid budgets, stalling on debt relief and continuing to deny developing countries effective market access for their exports of textiles, agricultural commodities and processed goods. Is it any wonder a global backlash against "globalisation" is brewing? ■

Brett Parris is World Vision's policy researcher for global economics.