



ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

Trade and Development

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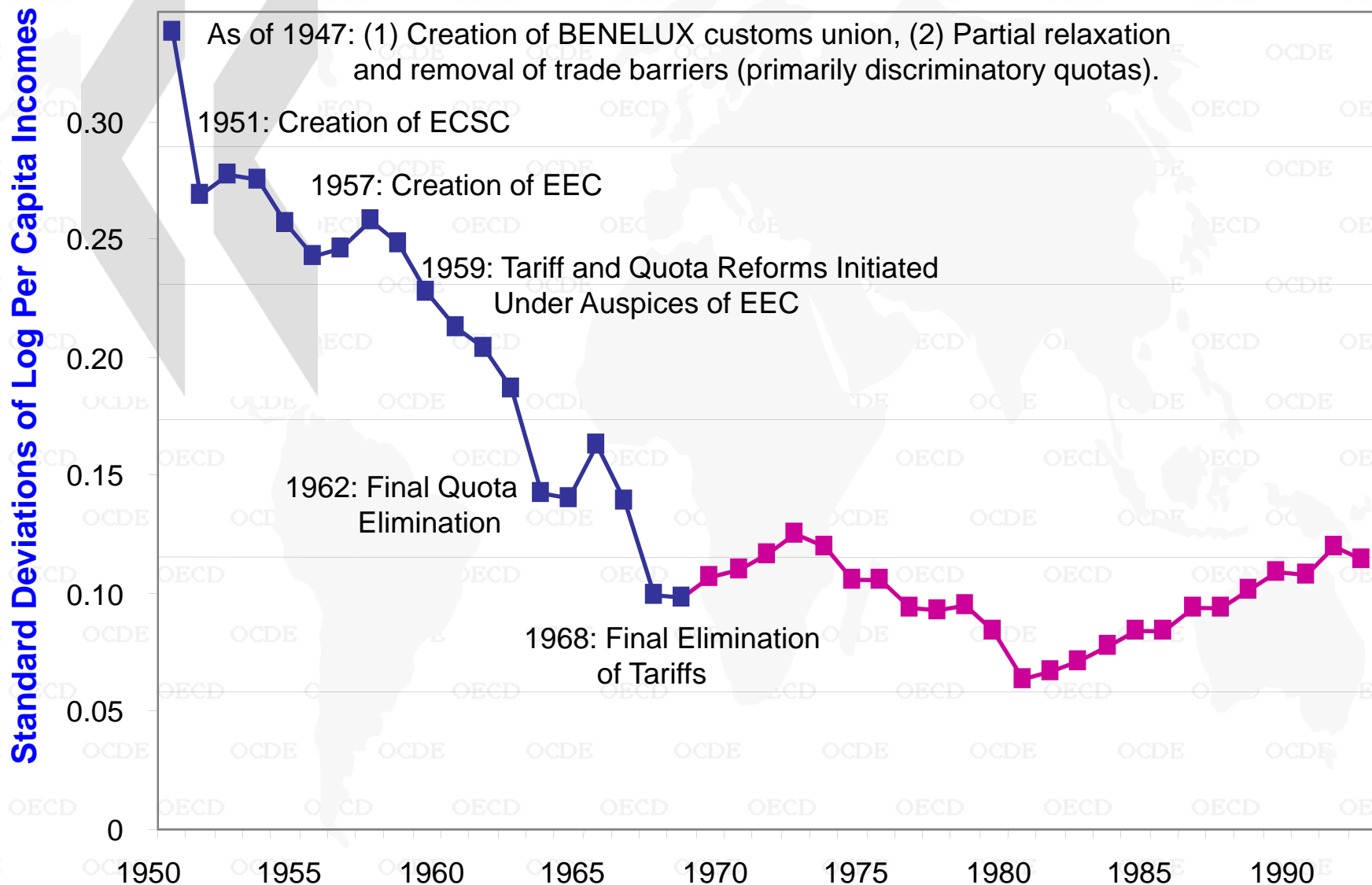


Free trade is like democracy

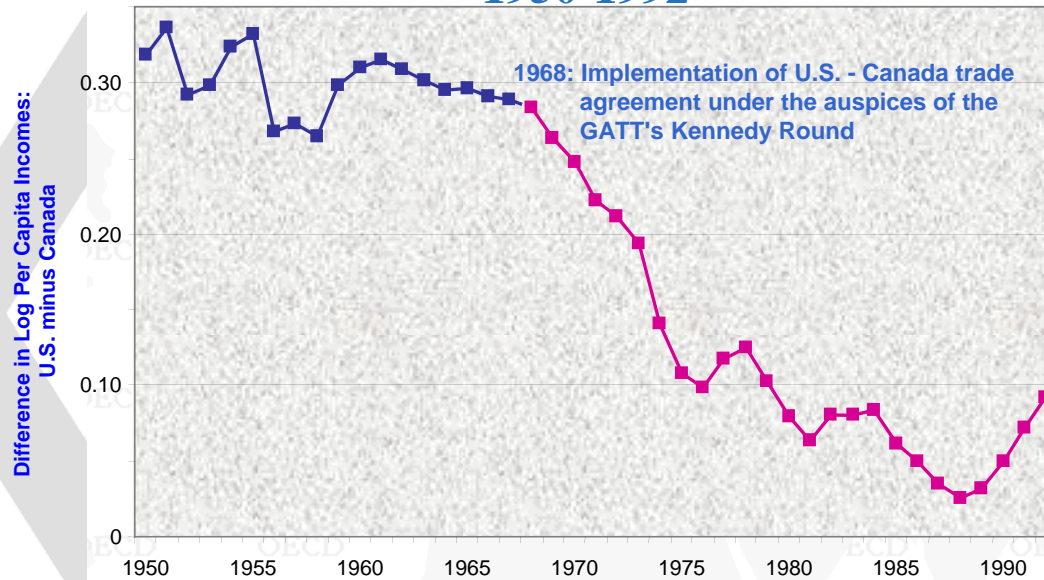
It is the worst way of running the
world economy

except for all the rest

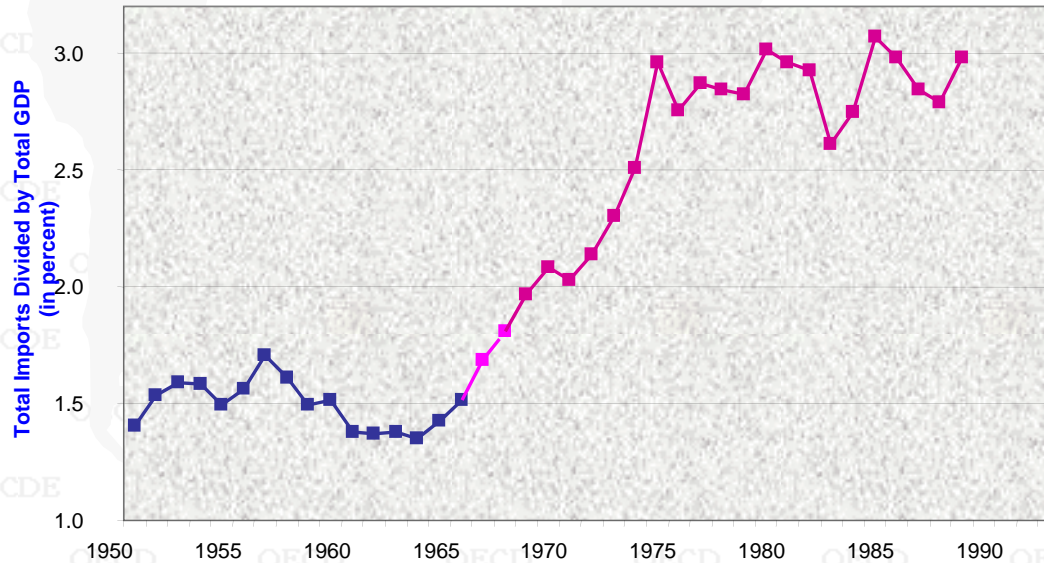
Income Dispersion Among Six Original EEC Countries



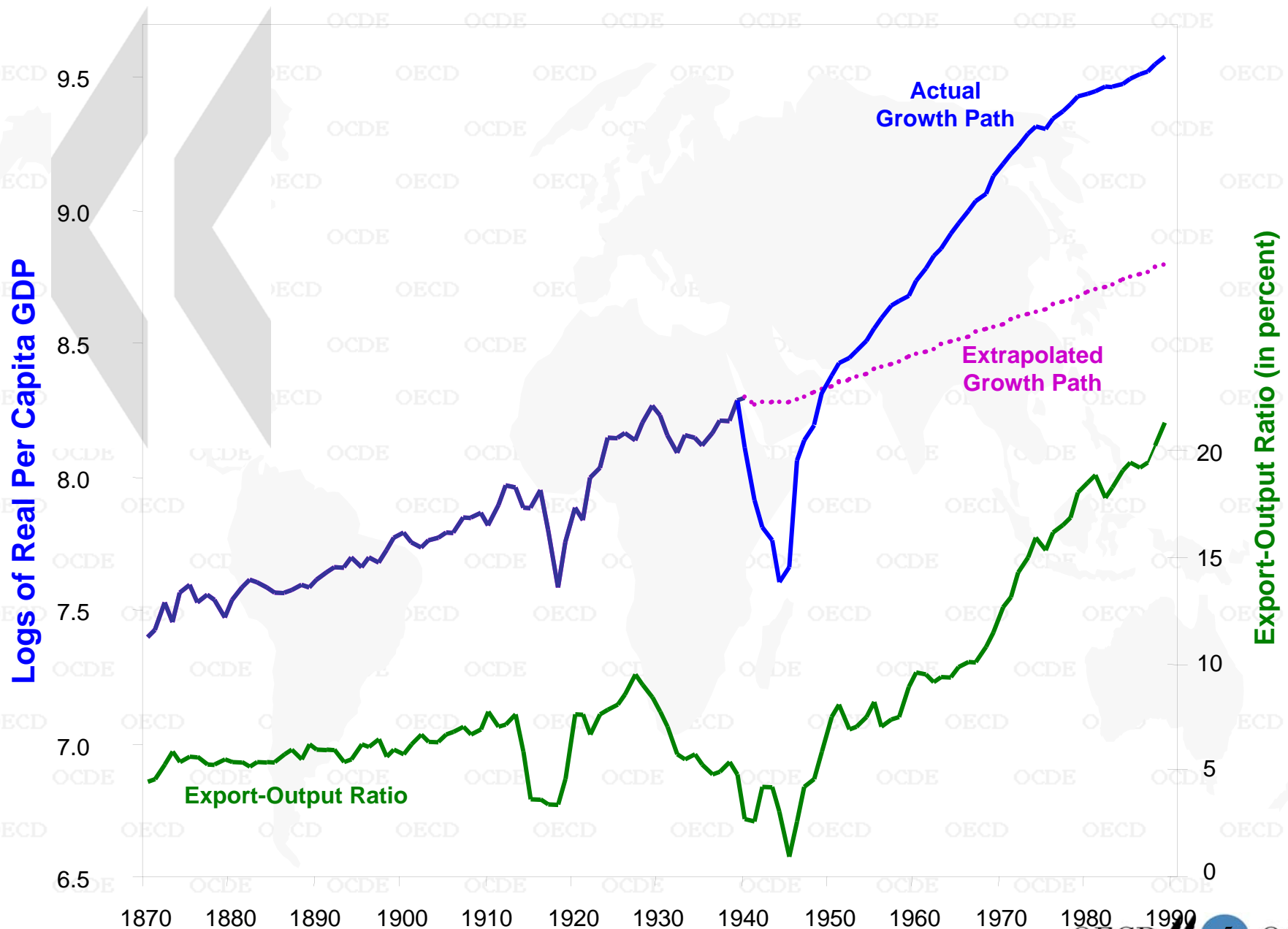
Income Gap Between U.S. & Canada 1950-1992



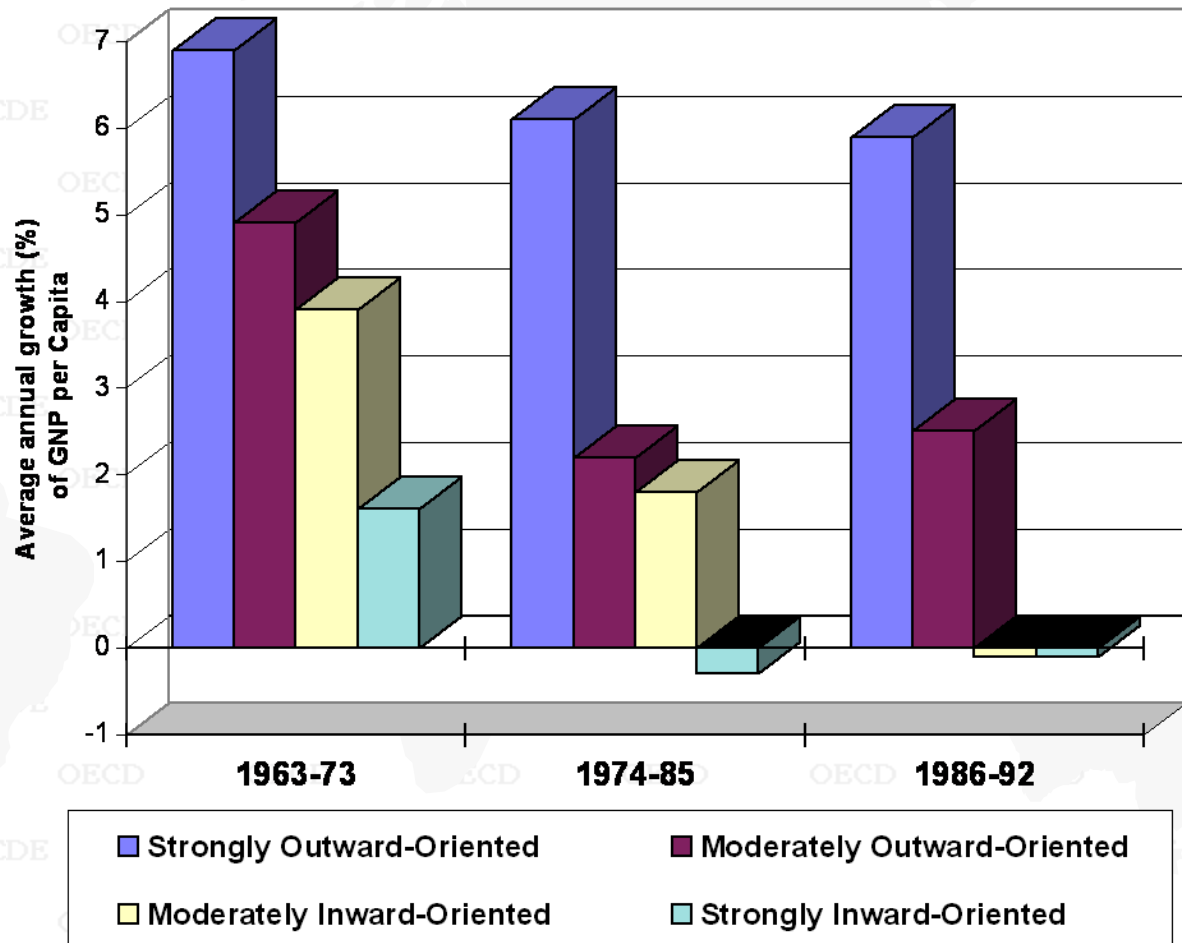
Ratio of U.S. - Canada Bilateral Trade to GDP 1950-1988



France: 1870-1989



Per Capita GNP Performances of 41 Developing Countries Grouped by Trade Orientation



Openness causes poverty?

- growth is the most important single factor for poverty alleviation
- *ON AVERAGE* the poor do as well as others from growth, but there are large variances (Dollar and Kraay)
- growth from trade liberalisation is no different

Poverty Effects Depend on What the Poor...

- Consume
- Produce
- Earn from assets, including their labor,
- Receive in transfers (private and public)
- Can do about variability and adjustment strains

Openness ignores market failures?

- linkages - co-ordination and the ‘big push’
- spill-overs from skills, technology, etc
- missing markets for risk and credit
- the environment
- public goods - infrastructure, public health, education
- taking a longer view

But trade does not cause these; nor is restricting it the best solution

- intervene close to the market failure - e.g.
 - in education and training policy
 - in credit markets
- and let markets look after what they are good at

Trade Liberalisation Destroys Jobs?

- But normally it creates just as many, and better ones
- Long-run employment is a function of labour markets, short-run of macro-policy.
- Trade creates jobs only in very poor ‘labour surplus’ economies
- The ‘churning’ of jobs is costly, but the costs are temporary

Trade Liberalisation Worsens the Balance of Payments?

- Only if the exchange rate and the macro stance are wrong
- Liberalisation requires real depreciation; without it, the liberalisation will fail

Trade Liberalisation reduces Government Revenue?

Sometimes, but far from always

- True for very poor countries in the later stages of liberalisation
- Governments need to develop alternative sources of revenue
- If revenue tariffs are necessary: keep them uniform and universal

Openness constrains government policy?

good!

- It is more difficult for open countries to exploit their people
- openness induces a greater sensitivity to bad policy
 - mobile factors
 - mobile production

Trade Liberalisation causes Disruption?

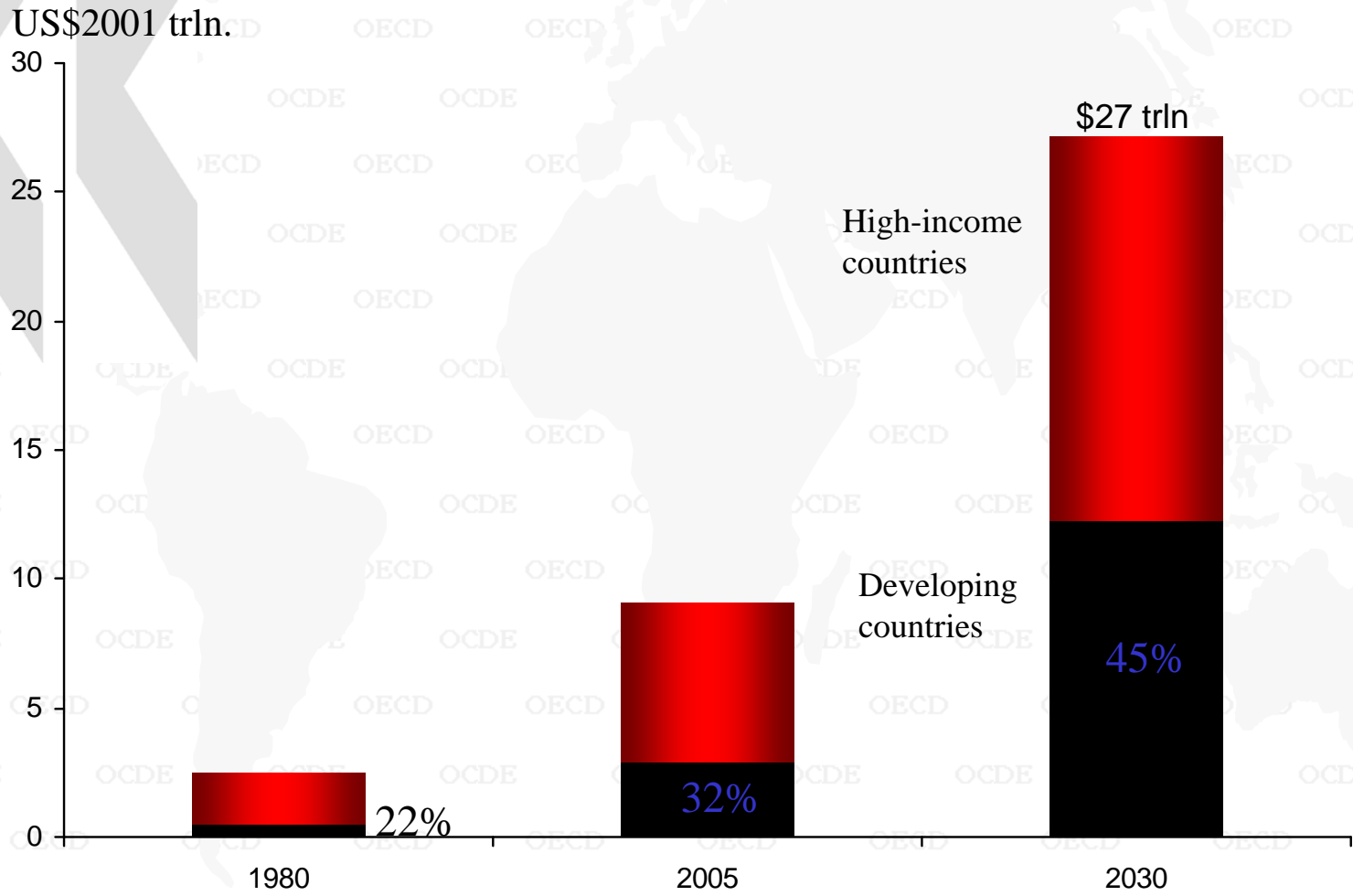
but so does all reform.

It depends partly on how you do it:

- speed
- sequencing
- Complementary & compensatory policies

Developing countries share of world trade

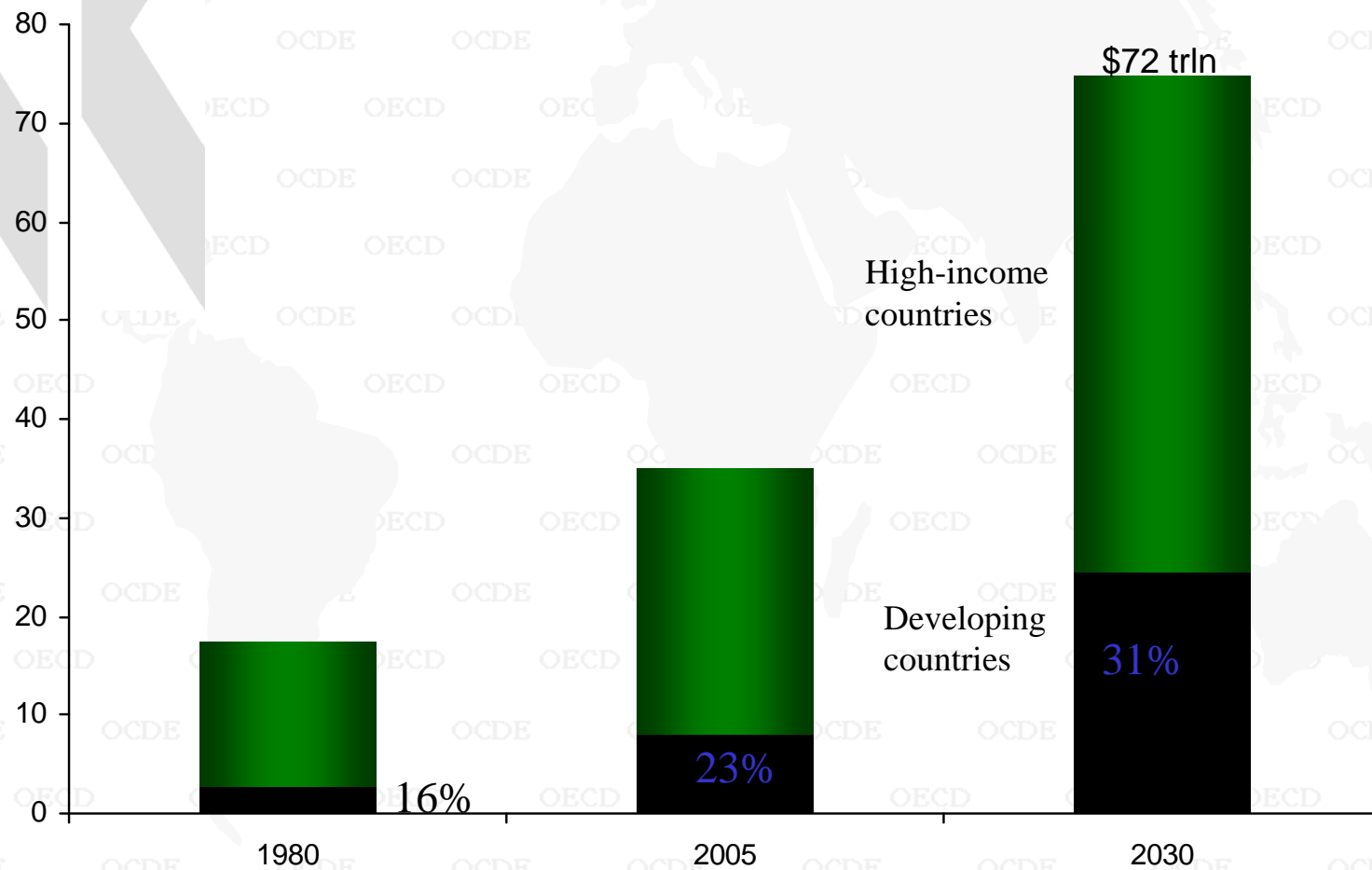
Exports from developing and developed countries, 2005-2030



The share of developing countries in global output

GDP of high-income and developing countries (market exchange rates)

US\$2001 trln





What is the alternative?

‘The problem with free elections is that no-one knows who will win’

Leonid Brezhnev