

*Institut du développement durable
et des relations internationales
Concerted Action on Trade & Environment*

The World Bank on Trade & Development

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Introduction

- « **Washington consensus** »: **trade reform a key element** (1990s)
- **The WB has been increasingly critical of the international trade framework**
(see GEP 2000-2005, esp. TRIPS, etc.)
- **Lack of consistency in WB positions**
 - Dollar and Kraay
 - PRSPs
 - WDR 2006

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Trade & development

1. The World Bank's stance on trade & development
2. WB poverty reduction strategies overlook the impact of trade
3. The WDR 2006 on Equity & development

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1. The World Bank's stance on trade & development

Theoretical background: ambiguous answers

- **Trade & development:**
 - static effects (Ricardo, new trade theory)
 - dynamic effects (endogenous growth)
- **Trade & inequalities & poverty**
 - positive effect on the abundant factor (Stolper Samuelson)
 - not the case if specific factors (Jones; Samuelson)

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Empirical results

- **3 main stylized facts:**
 - Increasing integration of developing countries within world economy & trade
 - Divergence of developing countries/developed countries
Pritchett (1997): « Divergence big time »
 - Montée des inégalités et de la pauvreté dans de nombreux PED
- **Some empirical studies**
 - Trade and growth
Sachs & Warner, 1995; Frankel & Romer, 1999; Rodriguez & Rodrik, 2000
 - Trade and inequalities (most studies on developed countries)
Milanovic, 2005; Andersen, 2005
- **Dollar & Kraay (2004) = official WB position**
« Trade is good for growth and growth is good for the poor »

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Dollar et Kraay (2004) the post-1980 globalizers

- Link trade-growth-poverty
- Breakdown of developing countries 2 ratios:
 - Δ trade/GDP
 - Δ custom duties
- They estimate the impact of the variation of trade openness (and not of the level) in order to avoid endogeneity (geography's impact on trade)

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Globalisers vs Non-globalisers
(Non weighed/Weighted by population)

	Critère 1 : accroissement du taux d'ouverture			Critère 2 : réductions de droits de douane		
	Années 1970	Années 1980	Années 1990	Années 1970	Années 1980	Années 1990
Taux d'ouverture						
Globalisateurs	37,9 (16,0)	47,7 (24,7)	72,4 (32,6)	52,2 (20,9)	46,9 (27,1)	51,7 (31,4)
Non-globalisateurs	71,7 (59,9)	68,2 (51,8)	63,9 (49,1)	70,5 (40,4)	74,5 (50,9)	76,7 (63,6)
Droits de douane						
Globalisateurs	nc nc	32,7 (57,4)	19,5 (34,5)	nc nc	44,3 (57,6)	23,4 (34,7)
Non-globalisateurs	nc nc	30,1 (30,6)	20,6 (20,3)	nc nc	21,0 (21,0)	16,5 (17,3)
Taux croissance PIB						
Globalisateurs	3,1 (2,9)	0,5 (3,5)	2,0 (5,0)	1,8 (2,8)	1,0 (3,6)	2,1 (4,9)
Non-globalisateurs	2,4 (3,3)	0,1 (0,8)	0,6 (1,4)	3,1 (4,2)	-0,4 (-0,6)	0,9 (1,1)


- Numerous critiques of this breakdown**
Rodrik (2000), Nye, Reddy & Watkins (2002)
Wade (2004)
- The « globalisers » have reduced their trade bareers but retain more protection than the others!
 - The « globalisers » have increased their openness but their trade ratio is still lower than the non-globalisers!
 - According to the selected ratio (trade or custom duties), the time periods are not comparable
 - The trade increase is not necessarily due to trade bareers (see China)
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- Trade impact on inequality:**
- No impact: Ravallion (2004)
 - Trade increases inequalities: Milanovic (2004)
- Possible explanations:**
- Dev. Countries comparative advantage: not unskilled work?
 - Unskilled workers in developing countries correspond to skilled workers in developed countries
 - Trade liberalisation speeds up technical progress
 - Other models: specific factors
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- 2. WB poverty reduction strategies overlook the impact of trade**
- World Development Report 2000/01=first critique of the « Washington Consensus »
- The initial push for trade liberalisation as an instrument for poverty reduction was influenced by a narrow reading of predictions from trade theory*
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- But the PRSPs do not follow this line**
- The PRSPs generally overlook the impact of trade reform on poverty
 - Cambodia joined the WTO in 2003 but its PRSP does not discuss the impact of lowering trade bareers (rice).
 - The PRSPs' evaluation recognizes this neglect:
While all full PRSPs have supported the desirability of trade openness in broad terms, the majority has dealt with the underlying issues in a fairly limited way. Only in Honduras and Mozambique was there an attempt to clarify the link between these reforms, and growth and poverty reduction.
(IDA and IMF, 2002)
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- The WB recommends not to discuss these aspects**
- The PRSP Sourcebook :
- It might appear tempting to design a pro-poor trade reform by identifying sectors that are important to the poor-either on the consumption side or the income side-and singling out these sectors for differentiated cuts in protection (...) A better approach is to focus on developing two different sets of instruments - one, trade policy, focused on providing the incentives appropriate for efficient production and use of goods and services, and another, distributional policy, focused on alleviating poverty.*
(Hoekman et al. 2001)
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The impact of trade reform should be discussed by PRSPs

The approach to PRSPs reflects a broader problem in IMF-World Bank thinking about trade reform. It is rooted in the received wisdom that trade is inherently good for growth and good for the poor. Until that is challenged, the new poverty rhetoric of the Bretton Woods agencies will remain at variance with the reality of their policies.
(Oxfam 2002)


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3. The WDR 2006
Equity & development

- Equity defined as comprising 2 principles:
 - equal opportunities
 - avoidance of absolute deprivation
- Equity has been studied for a long time by philosophers, sociologists and economists
- The WDR replaces equity in an international perspective


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Equity and international trade

- What does international equity means?
- The WDR does not take into account the full implications of the concept (eg SDT)
- It does not promote reform of the WTO (but better representation of poor countries)

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Conclusion

- The WB has moved a lot on trade issues
- Still contradictory positions and policies
- Trade not aid → Aid for trade
- Still a lot to be done !
(general problem: how to deal with redistribution)

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THANK YOU

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