Foreword

The evidence of liberalization of trade in goods, services and investment is quite clear. Since the late 1940s, countries have moved mostly in the direction of greater openness, particularly in the non-agricultural sectors, as well as services and investment. In most developing countries liberalization began in the decade of the 1980s.

The economics is straightforward: under most scenarios trade liberalization is of benefit to the economy undertaking it. It is therefore not surprising that most of the liberalization, particularly in developing countries, has been unilateral and not a product of negotiations, whether bilateral or multilateral. Ultimately, liberalization through negotiations, bilateral or multilateral, is achieved because the parties see benefits and not because it is an imposition; any such arrangements are based on mutual consent.

However, the process of liberalization becomes more difficult as it gets closer to free trade, and as behind-the-border barriers are tackled. In most cases, this is due to the resistance of individuals who don’t want to lose their protection rents and who perceive that it is cost-effective to spend time and money to oppose liberalization. ‘Strategic industries’, ‘multifunctionality’, ‘policy space’, ‘level playing field’, ‘fair trade’, ‘infant industry’, are some labels used by protectionists to mask their interests. While it is true that some of these concepts have some sound foundations in the economic literature, it is more often the case that their use is reflective of special interests who seek to appropriate them for uses far removed from the underlying economic rationale. A sector that has been sheltered from competition for 40 years under the infant industry argument should raise some questions to say the least. In the absence of forces that promote liberalization in a politically effective manner, it is often the case that beyond a certain point, it is more feasible to overcome resistance through multilateral, plurilateral or bilateral agreements. The fact that these are reciprocal and that they are packages, with both ‘offensive’ and ‘defensive’ interests, undoubtedly is part of the explanation.

But, in addition, such arrangements, besides making a reversal of policies unlikely, contain legal obligations with rules and disciplines that make the administration of trade policy more transparent, accountable and predictable, as well as protecting parties against breaches through dispute
settlement mechanisms. Trade agreements indeed protect governments from falling captive to their own special interests.

Trade liberalization is but one of several economic policies. Probably the perfect trade policy by itself will not be successful if, for example, there is macroeconomic instability, the exchange rate is grossly misaligned, labour markets are too rigid, safety nets for the poor are non-existent, corruption is rampant, tax evasion is pervasive, infrastructure is very poor, and so on. Thus there is need to ensure coherence and consistency among the several policies. In turn this also requires strong and stable institutions, with skilled human resources.

There is abundant literature and research on these and other aspects concerning trade liberalization. The reality of liberalization is of course very rich with mixed results. The relevant question is to examine different cases to attempt to determine why some countries have been more successful than others.

This book is about the political economy of trade and investment policy reform in emerging markets. It adopts a case study approach, analysing seven different countries spanning four continents (Australia, Brazil, Chile, India, Malaysia, New Zealand, South Africa), eventually pulling out the strands common across all countries in a concluding chapter.

The book introduces the subject with Razeen Sally’s sweeping review of these reforms in developing countries since the 1980s. In this chapter Sally sets out the most common political economy drivers of reform processes; then discusses the three principal ways in which trade policy reform is brought about (unilaterally; through trade negotiations of any form; or through donor requirements); then sets out the agenda for the remaining reforms most developing countries and some developed countries need to tackle. These concern the so-called behind-the-border regulatory reforms, in services, procurement, labour markets, investment rules, and so on. They are technically and politically more difficult than ‘at the border’ reforms, take longer to formulate and implement, and are more difficult to ‘see’. Of course the traditional trade agenda remains relevant since many countries continue to retain high border barriers to trade, in the form of tariffs, QRs, and so on, as well as trade-distorting measures such as subsidies.

Sally’s central arguments/lessons are mostly uncontroversial. First, he reviews the evidence suggesting that those countries that opened decisively and comprehensively to international trade and investment have grown faster than those that did not, and have reduced poverty more quickly. Second, all meaningful reform episodes have been unilateral in nature. All seven countries studied in this book bear witness to this, despite widely varying historical circumstances.

Third, most trade reform during the 1980s and 1990s formed part of
a broader stabilization and liberalization package. That is, the global ‘climate of ideas’ strongly favoured and encouraged trade liberalization as an important part of strategies to achieve macroeconomic stabilization and higher economic growth. In some countries these ideas still enjoy widespread political support, but in other cases they have given way to resurgent belief in the ability of governments to direct economic activity through industrial policy interventions, which has in turn encouraged governments to be more sceptical and wary of economic liberalization.

Fourth, the pressure for liberalization in the form of negotiations (multilateral and regional/bilateral) has risen in importance. However, the multilateral agenda (Doha Development Round), while maintaining high levels of ambition, has not been able to conclude as it tries to overcome the resistance to improve market access, particularly on agriculture and to eliminate agriculture export subsidies and restrict trade-distorting domestic support. Bilateral/regional arrangements, on the other hand, cannot respond to the challenges of agricultural support, fisheries subsidies or antidumping rules, to name some issues that can only be dealt with in the WTO. In addition, many such arrangements are far from optimal from the point of view of the coverage of goods, services or investments possibly generating distortions in terms of the allocation of resources.

Having set the scene, the book then examines the seven aforementioned cases of trade reform and their associated wider economic reforms. The emphasis is always on the trade policy reforms themselves, and the political economy of the reform processes. In addressing the political economy issues historical context becomes very important, and all seven papers present plenty of relevant detail. Three cases – Australia, Chile and New Zealand – are more ‘clear-cut’ than others, and are presented first. Despite this important similarity, however, all three are very different. In Chile and New Zealand crisis was an important driver, whereas in Australia only the spectre of a looming crisis was enough. Chile implemented reforms under a military dictatorship while New Zealand and Australia did so in democratic circumstances. But even then, in New Zealand the nature of the reform process led to important electoral reforms, to ensure that in future greater checks and balances would be in place.

The second set, comprising the reform experiences of Malaysia, Brazil, India and South Africa, present a mixed picture. The circumstances in each differ widely, but the nature of the reforms undertaken was largely similar. However, success, measured in increased productivity, output, income growth, lower poverty and inequality, and so on, also differs widely. Malaysia has advanced the most and in a steady manner. Brazil, India and South Africa all have done much to achieve sustained and widespread poverty elimination and substantially improved living standards for the
majority of their populations, but much remains to be done. This should be seen against the fact that their reform efforts are young (all beginning in the 1990s) and are works-in-progress undertaken in democratic regimes.

In the conclusion Razeen Sally and Philip Alves review what these seven countries have achieved and what they have left to do. They restate the argument that actually doing the remaining hard work is very important. The stakes are vastly improved living standards for millions of people. All these countries are, to varying degrees, ‘first division reformers’, having done much of the at-the-border reform work already. Some, notably Australia, Chile, Malaysia and New Zealand, have also made significant inroads into the much harder second generation reforms (regulatory and relating to trade in services). The authors conclude that Brazil, India and South Africa have before them a substantial agenda both in terms of border and behind-the-border reform. They also discuss the different ways in which these reforms could be brought about, arguing again that the unilateral route offers by far the greatest advantages.

Overall, this book provides an in-depth analysis of different experiences in trade reform and identifies the pending agenda in each case. Though there is no recipe or one-size-fits-all model, each country study provides valuable insights that should be taken into consideration by policy makers and analysts worldwide. The book is an important contribution at a time of huge challenges like food security and prices, inflation, financial instability and climate change. It also underscores the need to conclude the Doha Development Round quickly, which should provide the basis for further reform and liberalization.

Alejandro Jara
Deputy Director General, World Trade Organization.

NOTE

1. The opinions in this foreword are personal and they do not represent those of the WTO Secretariat.