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RETHINKING THE SOUTH'S OPENNESS

Progress towards openness and trade has not led to a general move to converging living standards. If some developing countries have indeed caught up with the rich countries, others remain far behind. The former are not systematically those countries which are the most open and the relationship between trade liberalisation and growth appear to be more complex than is often claimed by the advocates of openness. This is not without consequences for the WTO, given that most developing countries are now full members of the organisation, having signed the Marrakech Agreements. The next trade round which opens in Doha will have to rebuild trust in a trading system, with multilateral rules designed to replace power politics. The application of special and differential treatment which really guarantees access to Northern markets for developing countries and which recognises that trade liberalisation should not be favoured ahead of development would be determinant from this point of view.

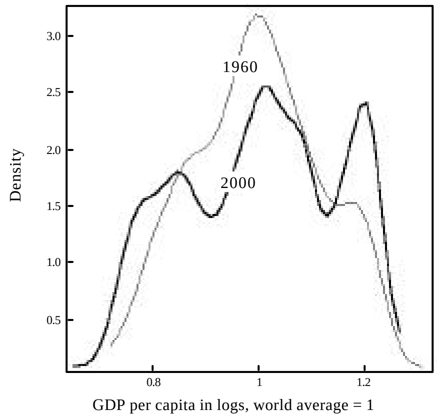
Following the failure at Seattle, the fourth conference by the World Trade Organisation, which will take place in Doha in early November, should fix an agenda for the next cycle of multilateral trade negotiations. The issue of development in Southern countries stood out clearly during the preparations for the Seattle conference, as it did for the protests against globalisation which took place at the time. This issue should be all the more salient at the Doha conference, given that the 11th September attacks have highlighted questions concerning the situation of those countries which have not benefited from the progress that trade openness is normally expected to yield. In any case, the round should lead to a rethinking of the South's openness and the role of the WTO in this area.

Globalisation without convergence

Has the progress in the openness and trade led to a general trend towards the convergence of economies? The answer to this question must be negative: on average over the last 20, 30 or 40 years, growth in GDP per capita has not been faster the poorer a country is[1]. The distribution of incomes per capita in 1960 and in 2000 reveals that economies which were relatively similar have followed diverging growth paths (Graph 1). Forty years ago, a large number of countries were concentrated around the world's average level of income per capita. Today, however, three distinct poles are to be observed: the group of intermediate countries has shrunk, as some countries have caught up with the rich countries whereas others have joined the group of poor countries.

The gap between the two groups of countries situated at the extremities of the income scale, the Least Developed Countries (LDCs) on the one hand and the richest on the other hand has grown. Whereas in 1970, per capita income in the LDCs (measured at purchasing power parity) were 10% of income in the rich countries, it stood at only 6% in 2000. Over this period, annual growth per capita in the rich countries ran at 2.1%, and only 0.2% in the LDCs.

Graph 1 - The distribution of GDP per capita at PPP, 1960 and 2000

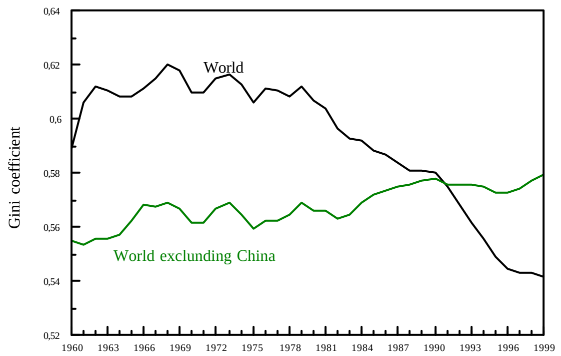


Source: CHELEM-CEPII, calculation by A. Desdoigts.

1. Based on a large sample of countries, the estimation of an equation of absolute convergence, for which per capita growth is regressed on GDP per capita, rejects the convergence hypothesis.

Diagnosing the evolution of inequality using an indicator which relates the world income distribution to the population distribution (the Gini coefficient), provides a more optimistic outlook: a significant reduction may be observed, as of 1980 (Graph 2). But if China, which accounts for 1/5th of the world's population and which has experienced remarkably rapid economic catch-up, is excluded from the calculation, then inequalities have indeed shown a tendency of worsening since the early 1980s[2].

Graph 2 - Trends in inequalities since 1960



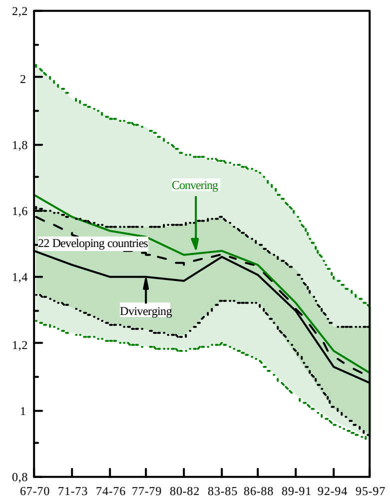
Source: CHELEM-CEPII, authors' calculations.

Is this divergence in growth paths in turn linked to the varying degrees of economic openness of developing countries? The answer to this question is obviously important to economic policy. The extent to which the international institutions stress the need for trade liberalisation policies is well known. The World Bank has sought to provide evidence for the strength of the relationship between growth and openness in several reports[3]. However, the issue does not appear to be so clear-cut.

Those countries which have converged over the last 30 years have not systematically been the most open. Neither levels of openness nor progress towards it clearly distinguish economies whose living standards have converged on those of the rich countries from those that have not: openness differs less between both these groups, than within the groups (Graph 3).

In contrast, it may be asked whether countries which are differentiated according to their levels of openness record different rates of growth. An indicator of openness which is available for 76 developing countries allows this question to be answered, over the last ten years. For this period, growth of GDP per capita appears to be higher for the group of "open countries" than for the two other groups ("closed countries" and countries opening during

Graph 3 - Converging and diverging countries: comparable openness*



* Indicator of trade discrimination: a fall indicates greater openness. The dotted lines are the standard deviations for the converging (green) and diverging (black) countries[4].

Source: CHELEM-CEPII, authors' calculations.

the period): but once again, the results within the groups are very heterogeneous (see Table). Furthermore, if countries are selected according to their per capita incomes within the two more open groups, then it may be noted that growth has clearly been slower in the poorer countries: indeed, growth is often slower for these poorer, open countries than it is for "closed" countries (even though per capita income levels are comparable).

All these observations suggest that openness is not a determining criteria for growth, and that the gains from openness may only be realised above a certain level of development.

From a more systematic point of view, a careful examination of the empirical studies which establish a relationship between trade openness and growth[5] leads to this relationship being challenged. Once the shortcomings of these studies have been corrected for (inappropriate measures of openness, biased estimation

Table - Openess and growth

	GDP per capita in 1990	Growth of GDP per capita 1990-2000: Average	Growth of GDP per capita 1990-2000: Median	Number of countries
"Closed" countries (1)	2138	0.6 (4.2)	0.8	20
Countries opening during the period* (2)	3214	1.1 (1.6)	1	24
"Open" countries (3)	4062	1.4 (1.8)	1.4	32
Sum of (2) + (3) countries	3699			
of wich: low income	1830	0.7 (1.7)	0.3	28
average income	5567	1.9 (1.7)	1.8	28

The standard deviations are given in brackets.
The classification of countries according to their degree of openness was established using an indicator of trade discrimination and the classification of the Fraser Institute (Economic Freedom, Area VI).
* Countries considered as closed in 1990, and open in 2000.
Source: CHELEM-CEPII, authors' calculations.

2. The measure of distribution used here allocates the same income to all individuals living within a country, and hence ignores domestic inequalities. China's take-off, for example, has been accompanied by a rise in inequalities (its Gini coefficient has risen by about 20% since the beginning of the 1990, source: Deininger & Squire Data Set).
3. See the most recent example: ***Global Economic Prospects and the Developing Countries 2002***
4. For a definition of the indicator see, Gaulier G. (2001), "Discrimination commerciale : une mesure à partir des flux bilatéraux", *CEPII Working Paper*, No 2001-04. The indicator is calculated here for 22 developing countries (all the developing countries available on the CHELEM database, excluding oil exporters).
5. Rodriguez F. & Rodrik D. (1999), "Trade Policy and Economic Growth: A Skeptic's Guide to Cross-National Evidence", ***NBER Working Paper***, 7081. Similarly, the link established by Ben-David D. (1996), "Trade and Convergence Among Countries", Journal of International Economics, vol. 40, is criticised by Gaulier G. (2001), "Le commerce international comme facteur de convergence: une remise en cause", ***CEPII Working Parper***, forthcoming.

methods), it is no longer possible to show any such link. If openness is favourable to economic development, it is far from being a sufficient condition. Several authors have tried to show why[6].

Trade liberalisation is doomed to failure if market mechanisms do not work in a satisfactory manner. The capacity of governments to implement macro- and microeconomic reforms accompaning openness (tax reforms, improved access for companies to finance, legal reforms etc.) is just as essential as the openness itself. In addition, as openness leads to a greater exposure to shocks, it requires macroeconomic reforms which may be blocked by the weakness of institutions charged with managing conflicts[7].

Furthermore, international trade theory stresses that the long term effects of openness on growth depend upon the sectoral specialisation of economies[8]. Thus, with openness a country may be led to abandoning a leading growth sector to specialise in those sectors which are less dynamic, but more fitting to its comparative advantage. In this case, it could lose out with openness. An empirical test for this type of effect has shown that the nature of specialisation is not neutral: certain specialisations are more favourable for growth than others[9]. Moreover, intensive specialisation, which in principle should allow for economies of scale to be realised, may prove itself to be unfavourable if it leads to dependency on markets that are too unstable or manifest poor growth trends. This is especially the case for developing countries whose specialisation is mainly in primary products[10].

The relationships between openness and growth are thus more complex than the advocates of openness claim. What does this imply for an organisation dedicated to trade liberalisation with two-thirds of its members made up by developing countries?

The WTO and Development

In the mid-1950s, the notion that developing economies could legitimately benefit from being treated differently to developed countries and resort to selective trade policies led to various measures in the multilateral trade regime. The principle of differential and more favourable treatment for developing countries included notably:

- prefential access to markets in developed countries, within the framework of the Generalised System of preferences;
- the principle of non-reciprocity, in other words the right of a developing country to benefit from multilateral trade agreements (notably reductions in customs tariffs, according to the principle of the Most-Favoured Nation) without having to offer concessions in exchange;
- flexibility in the application of commitments undertaken to protect infant industries or to avoid balance of payments disequilibria. This Special and Differential Treatment (SDT) allowed the developing countries not to participate in a number of agreements negotiated during the Tokyo Round[11].

But at the beginning of the 1980s, the idea that international openness of economies was a better way to favour development became dominant, while structural adjustment programmes in indebted countries led to a generalisation of trade liberalisation. It is in this context that the Uruguay Round was launched. The principle of SDT was then changed. Although the principle of non-reciprocity was not formally abandoned, developing countries participated more actively in the exchange of concessions. This led them to consolidating their overall customs tariffs in agriculture and nearly 60% of their tariffs in industry[12]. Above all, given the principle of single undertaking, the developing countries[13] had to adhere to the negotiated agreements ***en bloc***. Agreements to which only a few developing countries had previously been party apply henceforth to all, as do the new agreements on services, intellectual property rights (TRIPS) and the measure relating to investments (TRIMS).

The SDT has become a set of ***ad hoc*** measures attached to the agreements, without a clear conceptual framework, and, on occasion, without any real content. Hence, so-called "best effort" clauses to facilitate the integration of the South appear to be purely formal, while tariff peaks, non-tariff barriers, anti-dumping measures etc. provide real restrictions on exports from the South. As for the developing countries, the SDT measures are often limited to delays in the application of WTO policies, concessions

6. For a review of the literature on this matter see Fontagné L. & Guérin K.L. (1997), "L'ouverture, catalyseur de la croissance", ***Economie Internationale***, No 71, 3rd quarter.
7. Rodrik D. (1999), "Where Did All the Growth Go? External Shocks, Social Conflict, and Growth Collapses", ***Journal of Economic Growth***, 4 (4).
8. Young A. (1991), "Learning by Doing and the Dynamic Effects of International Trade", ***Quarterly Journal of Economics***, vol. 106; Redding (1999), "Dynamic Comparative Advantage and the Welfare Effects of Trade", ***Oxford Economic Papers***, vol. 51.
9. Bensidoun I., Gaulier G. & Unal-Kesenci D. (2001) "The Nature of Specialisation Matters for Growth: an Empirical Investigation", ***CEPII Working Paper*** No 01-13, 2001. See also, Busson F. & Villa P. (1997), "Growth and Specialisation", ***Revue Economique***, vol. 48, No 6.
10. Between 1960 and 2000, the non-oil exporting developing countries saw their terms of trade fall by about 25%: among these the LDCs recorded losses of 50% (Sources: UNCTAD and IMF).
11. For further information on the SDT and its evolution see: Michalopoulos C. (2000), "Trade and Development in the GATT and WTO: The Role of Special and Differential Treatment for Developing Countries", (www.wto.org/english/tratop_e/devel_e/sem01_e/sdt_e.htm), "Special and Differential Treatment in the Millenium Round", World Economy, 22 (8), nov., and Assemblée Nationale, ***Rapport d'information sur la place des pays en développement dans le système commercial multilatéral***, presented by J.C. Lefort, no 2750, 23 november 2000.
12. By consolidating its tariffs, a country commits itself not to exceeding certain tariff levels. For the developed countries, tariffs were consolidated at their existing levels. For the developing countries, the level of consolidation is unrestricted. In practice, the consolidated levels are thus generally higher than the applied level, which provides these countries with the possibility of raising their tariffs.
13. Accords on Subsidies and Countervailing Measures (SCMs), Technical Barriers to Trade (TBTs), customs valuation, sanitary and phytosanitary measures (SPs).

which are granted to countries without their actual situation being taken into account and without the necessary economic means required for the application being evaluated.

The Uruguay Round thus marks a real change in taking into account the situation of developing countries. The linkages between openness and growth appeared to be sufficiently convincing for attention henceforth to be focussed on the implementation of a single schema of liberalisation with a common set of rules. This raises three problems:

- The openness of countries which are now developed or emerging has been progressive and the debate over protecting infant industries is actually far from being closed. Many emerging countries, especially in Asia, which have experienced remarkable catch-up, only opened up their domestic markets once their manufacturing exports had progressed strongly and their institutions had been reinforced;
- The implementation of norms and rules which stem from the WTO Agreements often require economic and institutional capabilities that developing countries do not have. Given these countries' limited resources, such a policy is not necessarily priority objective, and would not be the most relevant to promoting sustainable development. From this point of view, education and health must come before any improvement in customs procedures or the application of international rules relating to intellectual property;
- Lastly, in defining common rules, the economic interests of the North may conflict with those of the South. Thus, the protection of intellectual property[14], which is need to guarantee innovation, has been pushed to the point of compromising the possibilities of the poorest countries from benefiting from the spread of technology (which is known to be a factor of convergence) and denying them access to essential goods (medicines). From this point of view, it is desirable to question the single undertaking principle for developing countries.

These difficulties explain why, on the eve of the Doha conference, the developing countries are asking that the priority be accorded to applying the Uruguay Round and to correcting the disequilibria which have shown up, before enlarging the negotiating agenda. In a declaration by the Group of 77 and China[15], they deplore the absence of progress in accessing markets, despite the agreements concluded on agriculture and textiles-clothing, and demand that a framework agreement on SDT be formulated, which includes specific commitments to the developing countries, notably relating to technical assistance. Some countries have competitive supply capacity and could benefit from a cut in barriers to trade. However, the least developed countries, even if they benefit sometimes for preferential access to markets, need help in creating such capacity above all else[16].

During the Uruguay Round, the developing countries became full members of the trade organisation. The entry of China constitutes a major new event. But the impact of these changes has not yet been fully gauged. The modes of negotiation which were based on reciprocal concessions between industrialised countries with similar negotiating capacities are no longer appropriate. The objective of the negotiations is affected by North-South disequilibria and by the very large diversity of economies in the South. To restore trust in a trade system that was designed to replace power politics with multilateral rules, the next round must put development issues at the heart of its concerns. Development is not the aim of the WTO, but the trade issues which it handles affect the development conditions of Southern countries profoundly. Coordination with those institutions that are more directly responsible for development should be reinforced. This is all the more necessary given that for a certain number of countries progress towards market access or their own trade liberalisation cannot be seen as sufficient conditions for development.

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14. On the issue of intellectual property see Fontagné L. & Guérin J.-L. (1997), "Innovation, imitation and catch-up in the presence of labour market rigidities", ***Revue économique***, vol. 48, No 5.
15. "Declaration by the Group of 77 and China on the Fourth WTO Ministerial Conference in Doha, Qatar" (www.g77.org/Docs/Doha.htm).
16. The Anything But Arms initiative, for which the European Union has the LDCs free access to its markets, constitutes significant advance, but must be supported by aid programmes.

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