This paper argues that the policies promoted by the World Bank and IMF to developing countries in terms of liberalizing their economies have completely failed. The gap between the rich and the poor has never been so wide. A general analysis of these trade policies is conducted to better assess their impact on developing countries. Economists argue that trade liberalization has the potential power to lead developing countries to economic growth; hence poverty reduction. A brief overview of four economic theories is explained in order to understand where the economists are coming from when arguing in favor of trade liberalization. These theories are as follow: The Ricardian model, the Heckscher-Ohlin model, the Economies of scale, and Competitive advantage.

However, the way these trade policies have been implemented failed to take into account the contextual framework of these poor countries. Consequently, these policies caused more harm than good. In order to better assess these policies, this paper addresses two important questions: 1) to what extent has trade liberalization helped developing countries through economic growth and poverty reduction? 2) Why economic indicators seem insufficient in supporting evidence of successful implementation of trade liberalization in developing countries, taking into consideration the optimistic and critical views?

It is important to highlight that these trade policies emerge from a solution package known as structural adjustment programs lending policy that the international institutions put in place to address the Third World debt crisis. The paper does an analysis of the policies related to the adjustment program to uncover to the extent by which they failed to help poor countries move from poverty to economic development.
Effect of Trade Liberalization on Developing Countries

By

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Introduction

Policies are the heart of every major issue regarding developing countries. Since poverty is yet to be eradicated, policy makers and public administrators cannot fully address the needs of poor countries without examining the policies of the World Bank and IMF and how it has undermined the sovereignty of developing countries. This paper conducts a general analysis of these trade policies to better assess their impact on developing countries. These policies were aimed at providing effective and timely assistance to developing countries. However, as these policies were strictly conditional, they ended up causing more harm than good in the developing world. This report explores the literature discussion on the potential benefits of trade liberalization, as argued by economists. However, one must understand that numbers and economic models are just a reflection of reality, which is often dark to millions of poor people. To the best of my knowledge, the paper argues that social effects of these trade policies must be taken into consideration. When policies negatively impact people’s lives, their livelihood is also affected; hence people’s dignity is gone. This paper is shading the light on this issue in hope that the poorest people around the world can be given the opportunity to move away from poverty with dignity. This paper is pertinent to elected officials, policy makers, international and national donors, civil society, as well as grassroots organizations that are fighting to preserve people’s dignity, despite their poverty level.

It is important to highlight that these trade policies emerge from a solution
package—known as structural adjustment programs lending policy—that the international institutions put in place to address the Third World debt crisis. These Structural Adjustment Programs (SAP) lending policies emerged from the Third World debt crisis. These SAPs lending policies allowed the International Financial Institutions (IFIs) to provide effective and timely assistance to countries that were facing potential disastrous situations.

The SAPs lending policies were deemed very controversial but experts argue that they were ultimately both necessary and justified. This report thus explores opposing views of the debate on the benefits of trade liberalization in developing countries. Two fundamental questions are addressed throughout this paper:

(a) To what extent has trade liberalization helped developing countries through economic growth and poverty reduction?

(b) Why are economic indicators not sufficient to support evidence of successful implementation of trade liberalization in developing countries?

By addressing these questions, it also highlights strengths and weaknesses of trade liberalization, and how they refute or justify claims of economic growth and poverty reduction.

**Importance and Background**

Economists always associate trade liberalization with growth in GDP, resulting from increase in both exports and imports. It is a biased view of the issue, as many scholars fail to uncover the real detrimental effects of trade liberalization in developing
countries. Often, their studies are subject to many questions. While the literature on trade liberalization is enormous; few studies have been conducted regarding the detrimental effects of trade liberalization in developing countries.

One may object by saying ‘so what? Why should we care about the impacts of trade liberalization in developing countries? These policies undermine the poor living conditions of people in developing counties. Poverty takes the best a person has: his/her dignity.

Having lived in sub Saharan Africa, I have witnessed the effects of these policies – the social changes, how some economies have been transformed as well as the effects on the gap between the rich and poor. The Sub Saharan Africa has suffered a long period of decline growth and living conditions. The majority of people in developing countries do not know any other life. It is therefore important to explore the effects of these trade policies in order to understand their negative impacts on poor people’s lives.

**Methodology**

A qualitative research approach has been adopted for this paper. The focus is to investigate the negative impacts of trade liberalization policies in developing countries. This paper draws from the literature body of work in trade liberalization to argue for a better approach towards helping developing countries be prosperous and competitive in the trade market. While this paper is not intended to reinvent the wheels; it rather stands on the shoulders of the literature review on trade policies to develop a framework. The truth is that developing countries, especially the poorest people on earth, need the support
of the World Bank, IMF and other powerful institutions. However, this paper argues, through a qualitative approach, that these international institutions must have implemented trade policies within a well-controlled environment, designed and monitored by the government in each developing country. Thus, it ensures that transparency, accountability and the adhesion to these trade policies have positive impacts on poor people’s living conditions.

**Theoretical Framework**

This report analyzes the trade policies implemented by the World Bank and IMF in developing countries. This needs to be done in order to better understand the political, economic and social situation of the developing world. Thus, it could aid in the implementation of more efficient and effective policies. Also, with respect to efforts of the World Bank and IMF to get rid of poverty, this paper draws analysis from the philosophical approach of Thomas Kuhn (1962) to help in the critical assessment of these trade policies. Kuhn’s philosophical approach calls for a non-bias of an issue and the determination to bring real changes in the lives of others. By doing so, this paper hopes to be able to provide a critical approach within the context of policy and good governance in developing countries. Elected officials, policy makers, international and national donors, civil society and grassroots organizations must understand the value of the framework of policy analysis and public administration in order to interpret real impact of these policies on people’s lives.
Sources and Methods

Review of current economic books, journal articles and various websites were consulted for background as well as better understanding of how economists, socialists, policy makers and leaders in the civil society sector debate issues related to the implementation of trade liberalization programs. There had to be a few adjustments on the topic due to lack of information.

Results of the Report

The finding of the report presented below.
The Third World Debt Crisis

The Third World debt crisis started in 1982 when the Mexican government claimed that it could no longer service its debt. If Mexico was allowed to default on its debt payments, it could lead to financial crisis for international banks – some of which had made loans excessively to Mexico over the previous decade. If Mexico were given the green light to default and not pay its debt, several countries could follow by arguing that Mexico cannot be given preferential treatment, while the rest of them are buried in debt. Something had to be done urgently, to avoid a collapse of the financial system.

In Africa, the case of Ivory Coast shows the crisis was at a critical point and a solution was urgently needed. Peter Blackburn, in a 1987 article from The Globe and Mail, reports on the developments of the crisis in Ivory Coast:

When Ivory Coast said recently that it was suspending payments, the shock wave spread far beyond the small French speaking West African country. Ivory Coast has been regarded as one of the rare African success stories ... "If Ivory Coast cannot pay its debts, then what hope is there for the rest of Africa?" bankers asked. Ivory Coast... has been a favorite of bankers and aid donors. Unlike some other African countries, it has not lacked financial support for its economic reforms. ... The country was encouraged to borrow to such an extent that it has become one of the world's most indebted countries in per capita terms... (July 2, 1987: B.13 in the newspaper section)

The Ivorian Government notes that the International Monetary Fund and World Bank austerity measures and economic adjustment programs that it has obediently implemented since 1981 have brought little benefit and much pain.

Furthermore, when Ivory Coast bragged about its inability to pay its debt, Blackburn (1987) reports the thought of some bankers claiming that they could not watch
Ivory Coast defaulting on its debt, as this could have negative effects in other African countries. This is the kind of fear the Third World debt crisis created.

The crisis did not begin with Mexico’s default threat. A key factor leading to the debt crisis started in the early years of the previous decade when the price of oil went up. This led to huge profits for investors of the oil industry and money for the commercial banks. The banks subsequently looked for new markets to push for heavy lending and they found the developing countries. The availability of funds coupled with the limited to no restrictions on loans led many developing countries to incur enormous debt.

I would argue that some developing countries knew they wouldn’t be able to service their debt in long term. However, given that money was available with little to no restrictions, they accepted these loans hoping to spur developments in their countries. In most cases, the funds were not used for their intended purposes. For example, the government of Ivory Coast spent millions of borrowed money to build a Cathedral. In terms of solving Ivory Coast’s list of problems, such as basic infrastructure, poverty, and education to name a few, building the Cathedral did not move the needle. It is perplexing how the $300 million dollar Cathedral made it to the top of the list of problems facing Ivory Coast.

The financial world understood the magnitude of the Mexican situation. The collapse of some banks could definitely lead to the collapse of other banks. There was an urgent need to ensure that Mexico continued to service its debt obligations, and also to restore faith in the global financial system. In the absence of a leading global financial institution to facilitate the work, the United States, the Inter-American Bank, the World
Bank and the IMF came forward to lead the process, which later became known as the structural adjustment programs (SAP).
Structural Adjustment Program (SAP)

The term Washington Consensus is used to refer to structural adjustment programs policies. This term was first used by John William, as Kelsey (1995) explains:

In 1990, a United States academic, John William set out the key elements of the Structural Adjustment Programmes which were referred or known as the “Washington Consensus”… these are fiscal discipline, public expenditure priorities, tax reform, deregulation, foreign direct investment, financial liberalizations, exchange rates, trade liberalization, privatization and property rights (page 18)

It all started when international organizations like World Bank, IMF, and the United States Treasury stepped in to prevent any further damages to the international financial market. After they drafted the plan for the SAP policies, it got the nickname of “Washington Consensus”, since these organizations were all based in Washington, DC. In the plan, these SAP policies were aiming at the following objectives:

1. Fiscal discipline;
2. Expenditure priorities;
3. Tax reform;
4. Liberalize interest rates;
5. Competitive exchange rates;
6. Trade liberalization;
7. Foreign debt investment liberalization;
8. Privatization;
9. Deregulation; and
10. Property rights

Joseph Stiglitz has extensive exposure to these adjustment-lending policies, because of his intellectual influence as a former Chief Economist and senior Vice President of the World Bank. Stiglitz (2004) argues that Washington Consensus policies have all too often been to benefit the few at the expense of the many, the well-off at the
expense of the poor. In many cases, commercial interests and values have superseded concern for the environment, democracy, human rights, and social justice. In other words, these policies did not deliver what was promised.

These policies, drafted in Washington by bureaucrats were expected to have magical effects in developing countries. They failed to account for a country’s unique environmental context.

SAP Lending Policies

According to Stigliz (2002), structural adjustment programs are a set of policies or programs designed to help countries facing financial crisis. These policies were drafted to help developing countries face their debts, thus giving investors a peace of mind knowing that their investment is not lost. These programs place strict conditions on these loans to developing countries. Stiglitz (2002) claims

SAPs are programs that were designed to help countries adjust to and weather crises...Developing countries were always in need of help, so the IMF became a permanent part life in most of the developing world (page 3)

The International Financial Institutions (IFIs) understood that these policies coupled with conditions were necessary to allow the continuity or survival of the global financial system. Therefore, the loan had to be paid in full. While developing countries were going through the plan to adjust their debts, the interest on current loans still had to be serviced, and this was not negotiable. Full debt repayment was an important condition and the IFIs insisted on full debt repayment because the commercial banks would not take any loss on their loans. These loans could have not been approved if developing
countries did not agree to implement the SAP policies. Thus, these loans agreements paved the way for international institutions like the World Bank, IMF, and WTO to have more control over the developing countries, as they moved to liberalize their economies and become more dependent on development aid programs. To better understand these policies and trade liberalization, this paper briefly explores the free market-oriented economy and reasons for which countries engage in trade.
Free Market-Oriented Economy

Economists adopt Adam Smith’s idea of invisible hand as the perfect metaphor to explain good economic governance. In his classic 1776 treatise, Adam Smith argues that free market theories drive a prosperous economy, and that’s the only way markets can have efficient outcomes (Stiglitz, 2002). Stiglitz argues that Adam Smith’s ideas were not popular in his time, and they are not universally accepted today. Stiglitz believes that markets cannot control everything about a country’s economy. Therefore, a strong government must play a crucial role to ensure markets efficiency and limit greed in the financial system. Stiglitz (2003) claims that Structural Adjustment lending policies are based on laissez-faire mentality, an approach widely promoted in the 19th Century.

…in the aftermath of the Great Depression and the recognition of other failings of the market system, from massive inequality to unliveable cities marred by pollution and decay, these free market policies have been widely rejected in the more advanced industrial countries, though within these countries, remains an active debate about the appropriate balance between Government and the markets (page 74)

With the collapse of the Soviet Union in 1989, the idea for a “new world order” based on capitalist ideologies started to emerge. Neo-liberal economic ideas dominated the last two decades of the 20th century, heavily promoted by the World Bank and IMF. The United States emerged as a powerful voice in the promotion of free market theories. President Ronald Reagan and British Prime Minister Margaret Thatcher became the face of the neoliberal theories.

In spite of heavy promotion of market-oriented economy system, the role of government in ensuring efficiency, social equality cannot be ignored. The government
has powerful means to control and manage the economy in ways that no other institutions can do. A strong government must take effective and efficient policies that focus on improving people’s lives when they have access to public good. The idea of promoting public goods as collective action must be the focus of a strong government. From the start, the ideas of free market economy exclude government intervention. Nonetheless, history always show that when things go wrong, and people’s greed and their self-interest ideas are exposed, they turn to government that assist with financial bailouts, investigation to uncover truth and the adoption of tighter policies to ensure nothing in that extend ever occurs anymore. However, why do countries trade?
Why Countries Engage in Trade?

International trade occurs because it allows nations to be better off than they would have been, were they consuming and producing all of their goods and services. Also, when nations promote free trade and allow markets to determine what are being produced, the argument is that nations can become better off. Through trade agreements, nations are legally binding to do business with each other. World Trade Organization (WTO) (2004) states:

[WTO] is an organization for liberalizing trade. It’s a forum for governments to negotiate trade agreement. It’s a place for them to settle trade disputes. It operates a system of trade rules…. At its heart are the WTO agreements, negotiated and signed by the bulk of the world’s trading nations. These documents provide the legal ground-rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits (page 9)

The principles of absolute advantage and comparative advantage help us to understand the benefits of trade liberalization. When a nation can produce a unit of good and service while using less labor force than another nation, we conclude that they have absolute advantage. Since the principle of absolute advantage is based on productivity, economists use it to compare the productivity between two nations. According to Carbaugh (2005), nations export goods and services for which they have an absolute advantage, while they import other goods and services for which these nations are in a disadvantage position.

David Ricardo developed one of the greatest economic models, as a response to absolute advantage (Leamer and Levinshon, 1995). In his theory, he argues that even if countries have an absolute advantage, they should focus on goods and services for which
they can produce most efficiently. Therefore, when two nations trade, even in apparent case of an absolute disadvantage, there exists a mutual benefit for these two nations to engage in trade. The notion of opportunity costs prevails of inputs and nations need to be aware of opportunity costs, prior to engaging in trade. In economics, opportunity cost is whatever a nation is willing to give up in order of receiving something else in return, something of a much dire need.

The principle of comparative advantage is known as the basis for trade between nations. Carbaugh (2005) asserts that when nations specialize in producing goods and services efficiently, their economies improve, and it enhances the chances of everyone. Despite these theoretical approaches, it is still unclear as to what allows a country to have a comparative advantage. There are several economic theories that attempt to address this issue. This essay briefly explores 4 economic theories: The Ricardian model, the Heckscher-Ohlin model, the Economies of scale, and Competitive advantage.
Ricardian Model

The Ricardian model states that comparative advantage is derived from differences in labor productivity, and the differences in technology among countries. As a basic model for international trade, the Ricardian model assumes technology as the source of trade, labor as the only input and effects of trade on real wages. This model focuses on “two countries, two goods”, and labor as single input (Leamer and Levinshon, 1995). Furthermore, the authors highlight the limits of the Ricardian model:

the Ricardian model is an important reminder that technological differences can be a source of comparative advantage [but] the Ricardian one-factor model is a very poor setting in which to study the impacts of technologies on trade flows, because the one-sector model is just too simple (page 1344)

Critics like Leamer and Levinshon argue that labor should not be the only factor considered for a country’s comparative advantage. The model acknowledges the impact of technology on trade, but it fails to show real impact that technology has on trade (Leamer and Levinshon, 1995).
The Heckscher-Ohlin model, also known as the factor-proportions model, is related to the fact that “comparative advantage is explained exclusively by differences in relative national supply conditions” (Carbaugh, 2005). This model looks at the interaction between two countries producing two commodities and using two factors: labor and capital. It implies that a country exports commodity with the least relative abundant supply and imports the commodity for which it has a scarce amount of supply. There are three key assumptions of this model (Carbaugh, 2005)

- Nations have the same tastes and preferences
- Nations use factor inputs that are of uniform quality
- Nations use same technology

Countries that are rich in capital will export goods and services that reflect their capital advantage, whereas countries that offer labor as their advantage will export labor commodities. While this model explores technology differences between nations, it is not easy to understand its application in a more general case. Carbaugh (2005) goes further to say that:

Given identical demand conditions and input productivities, differences in the relative abundance of resources determine relative levels and the pattern of trade. Capital is relatively cheaper in the capital-abundant country, and labor is relatively cheaper in the labor-abundant country (page 64)

In trying to compare both the Ricardian model and the Heckscher-Ohlin model, Feenstra (2004) states:

The Ricardian model introduces us to the idea that technological differences across countries matter. In comparison, the Heckscher-Ohlin model dispenses
with the notion of technological differences and instead shows how factor endowments form the basis for trade. While this may fine in theory, the model performs poorly in practice… the Heckscher-Ohlin model is hopelessly inadequate as an explanation for historical and modern trade patterns unless we allow technological differences across countries. (page 1)

Let us not forget these are models and they do not always provide a full description of the economic world. However, they are widely used as tools to understand the principles of comparative advantage and absolute advantage. These models are important economic tools to understand international trade, and the implications of trade on a country welfare and distribution of income (Krugman and Obstfeld, 2006). The other two economic models, economies of scale and competitive advantage, try to address the limits of the Ricardian and Hecksher models. Despite their deficiencies and inability to explain certain patterns of trade, the Ricardian and the Heckscher-Ohlin models remain very powerful economic models to understand international trade.
Economies of Scale

Economies of scale try to understand patterns in international trade. There must be production at a large scale. Carbaugh (2005) asserts that international trade helps a country’s market to be bigger than before, because domestic companies are doing larger production.

[International trade adds to the size of the domestic market by allowing] longer production runs by domestic firm, which can lead to greater efficiency and reductions in unit cost (Carbaugh, 2005)

Countries would specialize on producing very large amounts of specific goods, which enhance the country’s economies of scale. As a result, there is an incentive for countries to combine specialization and large production, even when resources and technology among countries differ (Krugman and Obstfel, 2006). This leads to production efficiency, as the cost of unit produced is decreased. By doing so, they can trade for goods they don't have in their local market. Krugman and Obstfel (2006) argue on the value added of economies of scale:

Trade need not be the result of comparative advantage. Instead, it can result from increasing returns or economies of scale, that is, from a tendency of unit costs to be lower with larger output. (page 143)

Thus, one can understand that economies of scale provide a country incentive to specialize in a few goods/services and trade, even where there are little differences between countries in technology.
Competitive Advantage

Porter (1990) argues that a new theory on international trade must go beyond the principle of comparative advantage; thus we have competitive advantage. This new theory should explain why a nation has competitive advantage in all forms, not just the limited factors highlighted in comparative analysis. Other things to consider are market segment, product differentiation, technology differences and economies of scale (Porter, 1990). The author further argues that competitive advantage embraces competition as dynamic, while focus on a constant improvement in innovation through the use of better methods and technology. In addition, companies’ behavior must be considered, since they play a very important role allowing competitive advantage to occur.

Furthermore, Porter (1990) argues, based on the limits of comparative advantage that differences in a nation economy regarding its structures, values, cultures, institutions, government policy, infrastructure, and histories contribute to competitive success.
Trade Liberalization

Since the 1980s and throughout the 1990s, the global economy has undergone several changes, and the promotion of trade liberalization being an important one. Trade liberalization is the process of moving towards an open free market oriented economy, which is highly characterized (or dominated) by the reduction or removal of taxes on imports, or tariffs. The debate surrounding trade liberalization focuses on the degree and the extent of which a country can open its market to business with foreign companies. It also looks at trade’s effect on overall income level (Winters, McCulloch, & McKay, 2004).

In the case of trade liberalization, when nations can promote free trade and allow their market to determine production and distribution of goods and services, they can enhance their overall productivity - add jobs, economic growth and poverty reduction. Countries that adhere to trade liberalization remove barriers entry to foreign companies, by allowing foreign products and services to be sold or to be traded within the local economy without tough competition.
Optimistic View of Trade Liberalization

The optimistic view for trade liberalization argues that it has the ability to benefit countries; because it provides their products and services an access to global markets. As a result, it leads to economic growth, and poverty reduction among developing countries (Winters et al., 2004). There is strong empirical evidence between trade openness and economic growth. Dollar (1992) claims, based on empirical evidence, those countries that are open to trade liberalization grow much faster than countries that do not trade. Sachs and Warner (1995) found that nations that are more open to global market grow faster than nations that are not open to global market. Greenaway, D., Morgan, W., & Wright, P. (1997) studied 73 countries by analyzing the link between trade liberalization and economic growth. The authors discovered that trade liberalization significantly impacts economic growth. The empirical evidence shows clearly that trade liberalization and market openness has a positive effect on economic growth.

With economic growth comes poverty reduction. When markets are liberalized, the economy becomes more organized, and that results in growth. Consequently, poverty rate drops significantly. Standard of livings are enhanced; and in other words, life is good. In the long run, these authors show that developing countries’ market-oriented economy may be able to attract more foreign investment, which is essential to job creation and the overall improvement of the poor’s quality of life.

The rationality behind this positive argument for trade liberalization is that trade Openness increases the size of the global economy. With growth come resources that allow wage to increase. With an increase in wages, governments are getting more money
from tax, and that allows governments to do a better job of income redistribution for the poor. However, Gallagher (2005) states, “these studies have since been called into question.”

Also Winters et al. (2004) walk the line very carefully on the linkage of trade, economic growth and poverty reduction. Despite the empirical studies provide enough evidence to suggest that trade liberalization and openness lead to long-term economic growth, things have not been proven to be all true. And yet, there is no evidence to suggest that trade liberalization and market openness is dangerous to economic growth (Winters, et. al., 2004). It is a complex task to establish a positive link between trade liberalization, income and economic growth. Trade openness has so many components that are not easily correlated. For example, tariffs should be collected and tracked; and enforcement of the trade agreements must be measured. In developing countries, these things do not always occur.

In many developing countries, labor force is an important asset. Therefore, if countries are able to attract companies that rely on human labor, jobs will be created. Jobs bring steady income to citizens and that income helps them to provide for their loved ones and for themselves. The cases of East Asian countries and some Latin American countries are often used as evidence that trade liberalization lives up to its expectation, and when implemented well, it can make great positive difference in a country’s economy (Husain, 1999). The overall percentage of people living in poverty has declined under the economic effect of trade liberalization (Krugman, 1996). Ravallion and Datt (2002) and Dollar and Kray (2002) find evidence to support
hypothesis that incomes for the poor people on average increase with an increase in a country’s overall income.
Critical View of Trade Liberalization

On the other hand, the critical view for trade liberalization claims that an increase in trade resulting from policies designed by the World Bank, IMF and WTO leads to social inequality coupled with a high rate of unemployment, hence an continuous increase of the gap between the rich and the poor.

McCann and McCloskey (2003) argue that while developing countries saw their economies being opened to large investment from developed countries, the trade policies were not designed to result in win-win collaboration between the countries. In the case of poor countries that adopt trade liberalization, poverty increases, in lieu of a poverty reduction. Chen and Ravalion (2001) argue that trade liberalization provides opportunity for ongoing production, along the way; the conditions prevent developing countries from making real economic progress. Their chance of experiencing real change shrinks tremendously. The authors also argue further the so-called benefits of trade liberalization are part of marketing strategies to force developing countries into adopting these policies.

Throughout the 1990’s, poverty keeps increasing among the Third World countries. Doyle (2000) reports that in 1992, 1.4 billion of people were living below the “absolute poverty”, as opposed to 1 billion in 1977.

Chen and Ravallion (2001) find no significant decrease in poverty rate in the developing countries. The World Bank (2001) reports that over ’40 developing countries’, a total of 400 million people did not report increases in ‘income per capita growth’ for over 30 years. The report goes further to say that “the absolute number of poor has continued to increase in all regions except East Asia and the Middle East.
Overall, despite impressive growth performance in many large developing countries, absolute poverty worldwide is still increasing.”
Common Ground Between the Arguments

When looking at both arguments, one might wonder how both opponents and supporters of trade liberalization could get together, and work for the poor, despite their ideological differences. Rivoli (2005) proposes that trade openness should be accepted as the reality and that both sides of the argument must work together to tackle global issues greatly linked with trade liberalization, like poverty, social inequality, environmental protection. He eloquently says: “the trade skeptics need the corporations, the corporations need the skeptics, but most of all, the Asian sweatshop worker and the African cotton farmer need them both” (Rivoli, 2005, page xv)

According to the World Bank (2003), trade liberalization helps to accelerate the financial relationship between developed and developing countries. In the last decade of the 21st century, trade between developed and developing nations increased by more than 13 percent, while exports from developing nations to industrialized countries increased by 11 percent (World Bank, 2003). As mentioned in the introduction, the World Bank and IMF have been the ‘leading global financial institutions’ controlling the Structural Adjustment Program. To better facilitate trade liberalization and allow nations to get a platform for trade agreements, the World Trade Organization (WTO) was created in 1995. These three international institutions became the face of trade liberalization as they designed and promoted a legal framework to establish trade agreements between nations.

Beyond facilitating agreements among nations, the WTO’s work has also extended to include liberalization of the agriculture sector in developing countries. Tariffs
on agriculture products from developing countries become guarantee, and quotas or other kind of restrictions on imports also got converted into tariffs (WTO, 2003). By doing so, WTO claims that it wants agricultural sector in developing countries to behave as a factor within a market oriented economy. The report also claims that when governments are open to trade liberalization, they will also be able to support local farmers, through subsidies (WTO, 2003). McCann & McCloskey (2003) asserts that WTO manages to become very influential through its role in facilitating trade agreements among nations.
Trade Liberalization and Employment

Irwin (2002) studies US data from 1950 to 2000, in order to find out the relationship between trade and employment. In some industries, exports do eliminate jobs. Throughout the study, Irwin mentioned jobs loss in the Maine shoe industry, due to competition from imports. However, this type of job loss, just because it is a result from import does not necessarily mean that he US economy is being destroyed. However, Irwin goes further by studying if trade has a net effect on a country’s overall employment. Based on the findings of his research, Irwin (2002) concludes that trade does not have a net effect on employment, because employment doesn’t depend on international trade. In lieu, total employment is a function of the total of people who make up the labor market.

In order to support his argument, Irwin looks at the relationship between labor force and employment through a graph. In this graph, there is a gap between the two curves. However, the gap is not very wide; therefore, Irwin concludes that the trade process that leads to job creation and job loss, overtime is roughly at the same level. Therefore, trade does not affect employment. Also when people hear that trade leads to employment, it can give them the wrong impression. A wrong impression in the sense that, countries might think that trade openness is their ticket to a high level or even a full employment.

Irwin’s argument doesn't sit well with economists who believe free trade leads to employment, economic growth and poverty reduction. If high level of employment is not the goal of trade openness, then what should it be? Irwin addresses this question by
stating that trade policies do not have the purpose to create jobs; rather they facilitate a mutual exchanges between both parties. This is an exchange that generates an increase of aggregate income, which is positively related to a very effective and productive employment.

If job creation is the not the purpose of trade openness, then developing countries have been blindsided for decades. Developing countries are always being encouraged to open their markets and accept trade liberalization. Irwin’s report is biased, because not only it is on the richest, wealthiest nation on earth; but it also raises some insightful questions. One could ask whether trade liberalization is being pushed before developing nations, while knowing that success is very unlikely to occur.

Developed countries use international institutions like World Trade Organization, as a platform to allow big corporations to maximize shareholders’ profits at the expense of poor countries. In addition, while developing countries are asked to open their markets by eliminating tariffs and other restriction on imports, developed countries avoid making their own markets a part of trade agreements. The trade agreements really designed for developed countries to be the winners, with developing countries being always the losers (Gallagher, 2005).

In Irwin’s case study, even though there is not much significance to explain the gap between labor force and employment, workers did lose their jobs in reality. As they become unemployed, the system does something to ensure they receive social assistance. In a country like the United States, the government provides social assistance to those in need, as result of a job loss from trade openness until they get back on their feet. The
Trade Adjustments Assistance (TAA) was adopted to fulfill both economic and political objectives: political resistance, protests against trade agreements will likely be reduced when relocated workers have access to some financial support while they move on with their career goals (Baicker and Rehavi, 2004). The TAA has been doing an effective job; however, it does not make all pressure brought by job loss from trade openness go away. When people that their job is at risk, they retaliate.

In the case of the United States, the government is able to use policies to alleviate the financial burden felt from a job loss through trade openness. This kind of social assistance is non-existent in developing countries. Rodrik (1999) argues that policy makers should focus on the poverty reduction, economic growth, which must be coupled with effective and efficient governance. That being said, trade openness itself is not the key to a country’s successful economic prosperity. Rodrik (1999) further highlights three ‘propositions’, which nicely summarize my discussion around trade openness and economic growth. They are as follow: [1] Openness is not a ‘reliable mechanism’ that leads to a sustainable economic prosperity. [2] Openness often applies unknown ‘pressure’ that cannot prevent social inequality; in order words, the rich get richer, while the poor get poorer within developing countries. [3] Openness leaves countries in fragile state, one that can easily generate ‘domestic conflicts’ and political turbulence in developing countries.
Trade Liberalization and Poverty Reduction

Ravallion and Datt (2002) argues that an increase in a nation’s per capita income by 1 percent can decrease the proportion of people living with less than a $1-per-day poverty line by an average of 2.5 percent. These findings differ across countries, as it all depends on how far or close the poor people are away from the poverty line. Ravallion and Datt (1999) conduct research to determine factors explaining poverty reduction in major states of India from 1960 to 1994. The authors show, based on empirical evidence, how the initial inequalities matter. Their findings point out that, 1 percent increase in ‘non-agricultural state domestic product’ has an effect of about 1.2 percent decrease in poverty rates throughout Kerala and West Bengal. In Bihar, the rate of poverty decline is 0.3 percent.

Because the growth in Bihar was so small, at 0.3 percent, the authors conclude that it intensified poverty issues in the region. Ravallion and Datt also discuss that Kerala’s success is attributed to the States’ high levels of literacy. Therefore, one can understand that before we start the process of eradicating poverty, there must be a transition from low-wage sector to a much higher wage sector. There are factors that are independently working to help a community, especially the farmer affected by agricultural trade, to make a smooth transition. These factors consist of a minimum level of education, and a relatively good health that can help the farmer transitioning into the system.
There are two things to keep in mind from everything I talk about so far in my essay. Most of the studies that I used as references are done on a cross-country basis. Although, it gives us a pretty good understanding of the cases made for and against trade liberalization. These studies cannot truly account for diversity existing among developing countries, with regards to their own experience on trade liberalization. These studies, when referring to poverty, use an accepted notion of $1 per day. The notion of $1 per day, US currency of course, is quite limited to compare poverty across developing countries. Despite such limitation, this notion has been widely used as a poverty measure scale.
Trade Liberalization and Developing Countries – A Challenge

A country’s environment creates serious challenges to the implementation of these SAP policies. These policies face challenges such as a lack of infrastructure and a lack of administrate support needed for their implementation. I could also identify other challenges like corruption, political instability, social disparity, a lack of cooperation between the national and local governments, and insecurity. These challenges, unique to a country have the potential to ruin chance of success of SAP policies.

However, to such argument, the critiques show that IFIs fail to establish a tailored program according to a country’s needs. Of course, country’s needs had never been the real priority. As a result, almost all developing countries were told to do the same thing: liberalize their market, adjust their exchange rate, cut tariffs, reduce government expenditures, manage the country deficits, control the annual budget and keep servicing interests on the debt. Policy analysts would go to developing countries with recommendations ready to be served, before they even start to analyze the situation. As a result of such approach, how could the IFIs not want to accept the blame for failing developing countries? Although, leader of developing countries do stupid things in order to maximize their selfish desire.
Economic Growth and Poverty Reduction

Experts, especially economists argue that trade liberalization leads to economic growth and poverty reduction (Husain, 1996; Krueger, 2002). They seek to establish and confirm positive claims of trade liberalization. When markets are liberalized, it enhances the likelihood for an economy to prosper under trade agreements. With a well management of the economy, poverty should be reduced since people will have employment and have the chance to improve their lives. By doing so, the gap between rich and poor is reduced. Fast economic growth can only occur if developing countries give up policies that keep tariffs at a high level, which discourage foreign investors. The key to take advantage of trade liberalization is to relax tariffs, reduce them to a level very low and allow rapid integration into the global market economy. Furthermore, Dollar and Kray (2002) argues that liberalization of trade, capital accounts, investment, and privatization of national economies; attract investors that are eager to make profit while creating jobs.

However, Winters et al. (2004) are very cautious about linking trade to economic growth and poverty reduction. The authors believe that:

First, once one comes inside the boundary of near autarchy, measuring trade stances is difficult; for example, tariffs need to be aggregated, quantitative restrictions assessed and then aggregated, and the levels of credibility and enforcement measured…Second, causation is difficult to establish actual trade openness, usually measured by imports plus exports relative to GDP is likely to be endogenous, but there is also concern that even policy-based measures, e.g. average tariffs, could do so… The third complication is that, for it to have a long-life or even permanent effect on growth, trade liberalization almost certainly requires a combination of other appropriate policies as well. (page 74).
These three reasons really highlight the fact that it is rather difficult to claim that trade liberalization does have positive impact on economic growth; thus it leads to poverty reduction. Nonetheless, it is good to show this side of this discussion, despite that the clarity of gap between the rich and the poor is not getting any narrow.

In the case of African countries in the Sub-Saharan region, their average growth rates have been very low. From 1980 to 1990, growth rate was 1.6 percent and 2.6 percent for the period of 1990-2001 (World Bank, 2003). African countries, with continuous poverty, are clear examples showing that trade liberalization have not been effective in its application, and that these poor countries are yet to truly benefit from trade openness and tariffs reductions, hence trade liberalization (Rivoli, 2005).
The Gap Between the Rich and the Poor

These SAP policies were promoted as the new savior of the debt crisis and that things will get better for developing countries. In lieu of making a positive difference in the developing countries’ economies, these policies were instead contributing to a large extent an enlargement of the gap between rich and poor. Stiglitz (2004) claims that:

The program over-emphasized the restoration of the balance of payments instead of adopting a more equitable approach to resolving the debt crisis. They undermined the state’s sovereignty and limited its role for socio-economic intervention through a fixation on deregulation, privatization and dismantling of the state in the name of “free markets” (page 60)

In a sense, the SAP policies caused more harm than good to developing countries. These countries had to adhere to some drastic economic measures, which were often impossible to meet without losing their soul or dignity. Pressures were constantly put on the poor countries to liberalize their markets and open up to global investment by relaxing their trade policy, like a huge decrease on tariffs.

For example, after Ghana liberalized its market in 1989; the country reduced its tariff rates to as low as 10%. By doing so, Ghana’s economy became much liberalized as many products were imported with little to no restrictions. For products concerning the country’s basic necessities; the consumers were able to buy them at a lower cost. However, the farmers were tremendously affected. There is a huge part of the population that lives in the rural regions in Ghana. These people rely heavily on agriculture to survive and provide for their family. Their sense of manhood and pride is closely tied up to their ability to sustain any government policies allowing an invasion of foreign agricultural products. Farmers could no longer earn a living from agricultural work,
because trade liberalization takes the best from these farmers. Beyond theses farmers, there are other people that these policies affect. People lack basic necessities; deflation and inflation affect the price of commodities. The purchasing power of these people becomes very insignificant. And among African countries, Tsikata (2004) claims:

> Women’s groups, trade unions, urban waged workers from all walks of life and non-governmental organizations critique the programs and challenge the basis and the assumption that a uniform set of principles can yield successful policies for all countries irrespective of their differences. It is also too narrow and relies mainly on fiscal and monetary instruments that has little relevance to long term development goals (page 20)

Governments in development countries always fail to provide subsidies to people who lose their jobs to trade policies; thus no alternative employment is offered to them. Furthermore, McCann and McCloskey (2003) eloquently expose the untold truth about the Structural Adjustment Programs:

> SAP measures are often imposed by non-democratically elected bank officials who undermine democracies and democratic process and often conflict with the public will. The programs lack transparency, accountability and public participation in its design and implementation (page 233)

According to McCann and McCloskey’s argument, it is clear to say that SAP policies caused the enlargement of the gap between developed countries and developing countries. In addition, even within poor countries, a large portion of the country’s wealth is controlled by a small number of people. Thus income inequality is at its all-time high and poverty is not close to be reduced. The poor people are excluded from decision making process.
High pressure on developing countries like Uganda, the Philippines, Bangladesh and Mexico often leads to extreme inequality among social classes of developing nations (Structural Adjustment Participatory Review International Network, 2004). Developing countries cannot refuse the conditions on these loans; given that the policies were tied to their ability to receive more financial aid. Developing countries are always in need of money; therefore, they could not retaliate on not following the rules.

The SAP programs function just like a game. There are players, and rules to follow. The players, according to their status are trying to maximize their utility through a set of strategies representing their best responses given the type of information available during the game. However, big players like the United States and the IFIs pushed for these loans. They are taking on strategies that provide them with a bigger piece of the pie. Their wealth or utility is maximized at the expense of other players, whose status in the game could be given less of a concern; because they are too poor. Thus, poor countries get to a point where they are constantly depending on these global organizations, which become an integral part of their lives (Stiglitz, 2002). What could have happened if some poor countries don’t follow the rules? Such decision could have significant impact on the financial system only if the players’ status really matters. However, in the case of this game, developing countries are too poor to influence the SAP policies.

Someone could argue that SAP policies were never intended to bring social stability in developing countries. Policies are simply applied models attempting to provide answers to the financial crisis. The investors want a guarantee that their money is at little to no risk; therefore any measure that can lead to such piece of mind should be
taken. Thus, these policies are being critiqued too harshly, as if they are the sole factor of the world inequality. What about corruption, and insecurity within these countries?

My response would be that, at any given time, people will always have arguments for and against SAP policies. For example, Dollar (1992) shows optimism when arguing that these policies promoted growth and enhanced the development process of poor countries in terms of inequality and poverty. Weisbrot, Baker, Naiman, and Neta (2000) are pessimists when it comes to real reasons behind IFIs’ pressures for the implementation of these policies. Anyone with the same interest like David would say that structural adjustment programs had widened the gap between rich and poor. For example, some developing countries in Asia have benefited greatly from SAP policies. The poverty line in India has significantly decreased, and less than 20% of population of East Asia lived on $1 a day. As a result, it would be unfair to say that SAP policies resulted in nothing good.

East Asian countries and India have succeeded from these SAP policies because they have been operated under international protection. When the US wants a country to succeed, it will succeed because protection will be provided. Also, East Asian development model was different from Washington consensus plan; thus, it represented an effective approach to development. India is not without its own social and inequality issues. The Indian government taxes its citizens, and uses the money collected to attract, motivate and retain big corporations, in the name of market liberalization. The World Bank (2001) claims that “growth in the developing world has been disappointing, with the typical country registering negligible growth”. Is this fair? Stiglitz (2004) declares,
The programs over-emphasized the restoration of the balance of payments instead of adopting a more equitable approach to resolving the debt crisis. They undermined the state’s sovereignty and limited its role for social-economic intervention through a fixation on deregulation, privatization and dismantling of the state in the name of “free markets.” (page 233)

In other words, not only did these policies not meet their objectives, but also they contributed, to a large extent, more social disparities around the world.
Millennium Development Goals and Poverty Reduction Strategic Programs

We have seen how trade liberalization and the entire Structural Adjustment Programs lending policies have been real disappointment in every sense of the word. Inequalities and poverty among people within developing countries have gotten so vulnerable that powerful institutions like the World Bank, and the IMF felt the need to address the issue differently. As a result, a new initiative has been launched to address poverty and the miserable conditions for people who have yet to see their quality of lives improved.

Stiglitz (2002) argues that trade liberalization and these lending policies failed to address the right questions. Furthermore, the author stresses that there is no theory of evidence supporting the view that opening markets to short term, speculative capital flows increases economic growth. But there is considerable evidence and theory that it increases economic instability and that economic instability contributes to insecurity and poverty (page 50)

In response to the ever-growing criticism, these institutions came up with a number of goals under the name of the Millennium Development Goals (MDGs). These MDGs are supposed to address poverty issues and they reflect commitment to key elements of the previous lending programs policies.

In supporting the United Nations’ Millennium Development Goals, the World Bank and the IMF have adopted a new set of policies known as the Poverty Reduction Strategic Programs (PRSP). The PRSPs were introduced in 2001 and the goal was poverty reduction, quite interesting, given that poverty reduction has been the objectives behind the lending policies in the 1990s that brought trade liberalization in these
developing countries. The World Bank and the IMF argue that the Poverty Reduction Strategic Programs will promote economic growth, and thus reduce poverty. They will also promote the external financial needs of these developing countries, in terms of their macroeconomic need, their social policies. In order words, the United Nations, the World Bank and the IMF recognized the need to take into account a country’s own environment. Thus, poverty reduction should be aligned with a country’s development policy regarding improving the lives of the people.
Thomas Kuhn: Critical Approach in Policy Analysis

I believe that the work of Thomas Kuhn, with its critical approach towards policy analysis could be helpful to government officials in developing countries, policy makers and the civil society sector of these countries that are working very hard in giving poor people a chance to live a decent life. One potentially interesting issue might concern the fact that Kuhn (1962) stresses science as practice and when facts or data are unexplainable within a given scientific framework, practitioners will tend to question the data or facts rather than the framework. One might wonder about the nature of the framework that poor countries use to address poverty issues.

Thomas Kuhn (1962) argues for normal science, which can be determined through paradigm. In Kuhn’s view, normal science goes through phases, which are part of scientific revolutions. With revolution comes changes and science experiences the same thing as well. When paradigms tested and found to be inadequate to sustain science, it paves the way for new paradigms to emerge and be accepted by the scientific world.

Kuhn’s philosophical approach on science can be quite useful to policy making process. Science as practice is closely linked to the society. As Kuhn (1962) argues, paradigms go through anomalies and they are opportunities to assess ways that things have been done in search for improvement. These anomalies can only go away when new paradigms are adopted. In the case of trade policies in developing countries, their government must critically assess each foreign policy to ensure their effective application, according to a country’s environment. Thus, such practice enhances the likelihood of adopting policies that can positively impact the lives of the people.
Lord, Ross, and Lepper (1979) argue about biased assimilation and that, given the emphasis on the role of context in our ability to 'assimilate' truths, there may be something interesting to think about concerning assimilation or confirmation bias and other such phenomena in the policy world. Are we unable to see solutions to policy problems, or even unable to recognize correctly the genuine problems, because of the limitations of the normative and conceptual frameworks we're working with?

This seems an appropriate explanatory framework to characterize the contemporary policy world and process. It may also help explain polarization in policy debates, especially concerning poverty reduction. Therefore, this may reinforce the suggestion that caution should accompany conviction in policy decision-making.
Conclusion

This paper argues that trade policies promoted by the World Bank and IMF to developing countries in terms of liberalizing their economies has completely failed. Fitting into the field of public administration, this paper conducts a general analysis of these trade policies to better assess their impact on developing countries. Trade liberalization in the developing world was an objective set by the World Bank and IMF through the Structural Adjustment Programs in response to the Third World debt crisis. This report highlights several studies that show relationship between trade policies, economic growth and poverty reduction. These trade policies undermine the autonomy of developing countries and they don’t give poor people the opportunity to voice their opinion. According to Stiglitz (2002):

The message of the studies is clear: open your economy, liberalize, and you will grow, and as you grow, poverty will be reduced…Growth sometimes helps poor people and sometimes it does not. Poverty increased in Latin America in the 1990s and in many other growing countries (pages 73 and 82)

The literature review on trade liberalization shows both positive and negative sides of these policies. The structural adjustment lending policy came to dominate the World Bank and IMF development assistance in response to the Third World debt crisis of the early 1980s after Mexico’s threatened default had finally forced international borrowers and lenders to face the fact that the lending boom of the 1970s had left many developing countries with chronic balance of payments – and hence, debt servicing – problems that could not be managed without special emergency measures.
The transition to a liberal market economy has led to disruption in the developing countries. However, one could argue that SAP policies have the potential power to work on a long-term basis, as long as the government stays on track. Yes, these policies were able to help developing countries reduce inflation rate, to open to free market, and to open to free trade so more public goods are available to citizens. On the other hand, this is where a country’s own context must be taken into account when analyzing the situation. Khan (1993) argues that, the claim that, on average, official adjustment programs under the auspices of the World Bank and the IMF have performed well, not only by the conventional standards of promoting adjustment and preserving growth but also in terms of protecting the poor, is very hard to substantiate convincingly.

SAP policies have proved to be both good and harmful to developing countries. They have brought prosperity to some countries. However, countless times, they favor the investors, the wealthy over the poor. To a large extent, these policies worsened the problems that were already there in developing countries. In the case of several developing countries, instead of offering this as help, these SAP policies become a part of the problem. According to Stiglitz (2002):

[T]here is considerable evidence and theory that it increases economic instability and that economic instability contributes to insecurity and poverty (page 50)

The International Financial Institutions, the World Bank, International Monetary Fund (IMF), and the World Trade Organization (WTO) have become so powerful over the years that it becomes almost impossible for developing countries to sustain any economic development without their support.
I hope this report serves as a critical piece in helping elected officials, policy makers, international donors, and grassroots organizations as well as public administrators engage in critical discussions, which aim at improving the lives of the poor. These trade policies failed to address the real issues facing developing countries. One cannot argue on the potential power of these trade policies to help in poverty reduction. However, the overall implementation was catastrophic. I hope that the World Bank and IMF have learned the lessons, and that they are willing to implement policies according to a country’s specific environment. This paper is a contribution towards helping these powerful institutions making the transition; despite that poverty is still an enormous challenge. The government in developing countries must create an independent agency, which will focus on educating public administrators on the pros and cons of policies coming from the Western world.
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