

The Protection Racket

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In recent years, it has been encouraging to watch the developmental non-governmental organizations (NGOs) become more sophisticated in their thinking on the benefits of trade liberalization. NGOs such as Public Citizen that are against all forms of liberalization are now rare. Most NGOs including, for example, Oxfam, Christian Aid and Action Aid today agree that poor countries would benefit from reduced trade barriers in the rich countries. What is puzzling, however, is that these same NGOs remain skeptical of the benefits the poor countries can reap from their own liberalization and remain actively opposed to it.

These groups are slow to appreciate that liberalization by poor countries—even if rich countries don't respond in kind—increases exports and thereby strengthen developing-country economies. For instance, when Bangladesh lowers its trade barriers, it makes selling in the domestic market less profitable relative to the world market and encourages resources to shift toward the production of exportable goods. Seen differently, such liberalization encourages imports, which require foreign currency and hence increased exports. Opening to the world markets also opens the door to the state of the art technology that is often embodied in the imported machines and brings the best out of the country's entrepreneurs by confronting them with the world's most efficient suppliers of the highest quality products in their fields.

South Korea and India's road to development are good examples of the choice many poor countries face today. Until 1960, the two countries tried to grow by protecting fragile national industries. Then, South Korea switched to an export-oriented strategy and proceeded to dismantle trade restrictions across the board. The results weren't long in coming. Seoul produced impressive annual growth rates of 23.7 percent in exports, 18 percent in imports, and 6.3 percent in per capita income between 1961 and 1980. The country's exports as a proportion of the GDP jumped from 5.3 to 33.1 percent during the same period.

India, on the other hand, toyed with liberalization in the 1960s but never got serious about encouraging its exporters or doing away with restrictions on imports. The government tried to keep an array of domestic industries alive, without regard to their inefficiency or comparative advantage. India's trade regime was so repressive that (excluding cereal and oil imports) its imports as a percentage of GDP fell from 7 percent in 1958 to just 3 percent in 1976. Despite stable politics and a highly capable bureaucracy, India saw its per capita GDP grow at a slothful 1.1 percent between 1961 and 1980.

It's tough to find an example of a developing country that has grown rapidly while maintaining high trade barriers. Some have argued that India and China's recent growth spurts buck the trend. True, protectionist policies were in place when the two countries began to grow rapidly, but the boom was sustained only through massive trade liberalization. And because the liberalization occurred over 20 years, the two countries managed to escape some of the most painful social side effects.

Unable to muster empirical support for their arguments, today's apologists for protectionism contend that agriculture—now the critical trade issue—is somehow different. Successive Indian commerce ministers, for example, have argued that they cannot risk the lives of 650 million Indians who depend on agriculture for their livelihood. The aid organization Oxfam has made similar arguments about countries such as Vietnam and Ghana. While it is true that economic liberalization must be carried out gradually so as to minimize the pain of adjustment and with the proper safety nets for dislocated farmers, this hardly supports the protectionist position. There is no reason to believe that benefits from specialization according to comparative advantage and competition against the world's most competitive suppliers do not exist in agriculture. True, rich countries massively subsidize their agriculture but two wrongs do not make a right: poor countries lose from their own protection with or without the rich country subsidies and vice versa.

Chile, for example, witnessed its agricultural exports grow from \$1.2 to \$4.9 billion between 1991 and 2001 as it liberalized. Even India, which has only halfheartedly liberalized its agricultural sector by removing export restrictions and eliminating exchange rate overvaluation, saw its agricultural exports rise from \$3.4 billion in 1990 to 7.4 billion in 2004. This expansion has happened without major reduction in agricultural trade barriers in the developed country markets. Therefore, prospects for export growth will only get brighter when developed countries dismantle their own agricultural subsidies and protection.

But it's an illusion to believe that rich countries will simply lift their trade barriers without demanding reciprocity from their developing country trading partners. No matter

how vociferously NGOs, international organizations, economists, and developing-country politicians denounce rich country agricultural subsidies, they will not get them eliminated unilaterally. As far back as 1965, developed countries committed to eliminate trade barriers that were particularly harmful to poor economies. Yet, with the developing countries opting out of active negotiations that would have required them to make liberalizing commitments of their own, barriers to imports of agricultural products, textiles, clothing and footwear rose rather than declined. It was only when the developing countries joined the negotiations in the Uruguay Round that developed countries abolished import quotas on textiles and clothing and agreed to give their agricultural subsidies a second look.

Like South Korea and India before them, today's poorest countries face a choice. They can either wait futilely for rich countries to unilaterally drop their trade barriers, take the time to negotiate mutual concessions, or liberalize their own markets—regardless of what the rich countries do. While getting developed countries to simultaneously liberalize will allow developing countries to multiply the benefits of their own liberalization, the best should not be the enemy of the good: the last option offers them benefits even if developed countries balk at reciprocal liberalization. Unilateralism may be harmful when it comes to matters of peace and war, but when it comes to trade and development, going it alone can be all to the good.

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