Trade and Industrial Policy in Developing Countries

David Greenaway and Chris Milner

TRADE AND INDUSTRIAL POLICY IN DEVELOPING COUNTRIES

A Manual of Policy Analysis

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and

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TRADE AND INDUSTRIAL POLICY IN DEVELOPING COUNTRIES

Also by David Greenaway

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Preface

Trade policies and the formulation of trade strategy in developing countries has been a focus of attention for trade and development economists for several decades. The 1980s witnessed intensified interest in the relationship between trade policy and trade performance, and between trade performance and overall economic performance. There are a number of reasons for this. In academic and policy circles there has been a reevaluation of the relative merits of intervention-led and market-led development strategies. This has resulted from both a paradigm shift and the contrast between the experiences of some developing countries which adopted the most dirigiste and inward-oriented development strategies in the 1950s and 1960s and those of a number of NICs which apparently followed more outward-oriented policies. At the operational level there were no doubt some internal pressures on policy makers in developing countries as a result of dissatisfaction with what existing policies had delivered. But external influences have probably played a greater role. There has been a strong demonstration effect; the success of the export-oriented, newly industrialising countries, in particular of the Asian NICs, has received envious attention from politicians and the administrations in many less successful countries. There has also been a considerable amount of external pressure from multilateral agencies to undertake policy reform. The provision of significant amounts of financial resources, both short- and long-term, has become subject to policy conditions. In particular trade policy reform has invariably been a key component of the World Bank's structural adjustment programmes in developing countries.

Technical support in the form of funding for commissioned studies of current and possible future policies and their effects has frequently been a feature of structural adjustment lending (SAL). Indeed both of the present authors have been involved in the fieldwork for and production of reports on trade policy reform in countries involved with World Bank SAL negotiations – in Cote d'Ivoire, Madagascar, Tanzania, Burundi, Barbados and Trinidad for example. The governments of such countries seek independent advice on the costs and benefits of existing and other possible policies, and studies offer some opportunity for some 'technology transfer' about the available tools for analysing trade and industrial policies. But one-off studies prepared during periods of negotiation with an external agency, such as the World Bank, are likely to be of restricted value in providing a permanent basis for the on-going evaluation of policy and the monitoring of the implementation and impact of reforms. Herein lies one of the primary aims of this book, namely to provide a manual that will be of value to policy makers and economists in developing countries when designing and monitoring trade and industrial policy reform. It seeks to explain how concepts and tools of analysis can be used to examine specific policy issues – for instance how the concept of effective protection might be used to comment on anti-export bias, or how computable general equilibrium models might be used to examine the impact of trade policy reform on the distribution of economic activity across sectors. It also aims to investigate the implementation of specific tools of analysis – to explain for example what information from official sources or surveys is required to measure the structure of incentives or protection, to identify the problems of measurement where data quality is likely to be constrained or to show how specific models can be tested for their sensitivity to particular assumptions or parameter values. By understanding the purpose and limitations of trade policy analysis, the aim is to provide the policy analyst with the tools for investigating the effects of both partial or piecemeal reform and general or wholesale reform. The latter issue of the optimal timing and sequencing of large-scale trade and related-policy reform is clearly complex, and something that will be a central focus of policy debate in developing countries for many years to come.

Of course these issues are of considerable interest to any 'student' of trade and development, as well as to policy makers in developing countries. The last decade has seen substantial growth in our knowledge of the nature and effects of trade policies in developing countries – the SAL programmes and the World Bank have been prime movers in raising the quality of applied trade and trade policy analysis in developing countries. Much of this work, however, is either difficult to access or is available only from diverse sources. It is hoped therefore that this book will also provide a useful source of summary information on this recent empirical work.

As explained above, a considerable amount of the background research for this book was conducted 'at the coal face', undertaking trade policy studies in a number of developing countries in Africa, the Indian Ocean and the Caribbean. Operational experience gained while acting as economic advisers to Maxwell Stamp plc (London), the World Bank, UNIDO and UNCTAD provided an excellent opportunity to gain experience in applying the principles of trade policy analysis. We are grateful for this experience. In addition both authors have, jointly and independently, worked on a number of analytical problems in the field of trade policy and development. As well as the analytical work and operational experience, the preparation of this book was enriched by a period at the World Bank headquarters in Washington. That stay was financed by the Wincott Foundation and Maxwell Stamp plc. We are very grateful to both for making the visit possible.

The World Bank has been the leading force in the move to reduce trade policy distortions in developing countries. It has considerable operational experience and knowledge of local conditions in each of its country departments, and has attracted very able economists, including major trade economists from the academic community, to structure and develop its own research programmes. Our study visit to the World Bank during Easter 1988 provided us therefore with an invaluable opportunity to access its documentary resources, to gather case study material and to have discussions with World Bank officials who specialise in trade, and country specialists. In particular, we would like to thank the Research Administrative Department and the Economic Development Institute for the accommodation and facilities they provided; special thanks for their support and friendly interest in our work goes to Dennis de Tray and Richard Snape.

Finally our thanks also go to some other individuals. The typescript was expertly prepared by Su Spencer at Loughborough and Sue Berry and Sharon Tippier at Nottingham. Stephen Rutt at Macmillan displayed considerable support and patience during the project's long gestation. Finally, we would like to thank both of our families for their support and for the admirable way in which they coped while we were away gaining experience 'at the coal face' – not that fieldwork in some interesting 'southern' location is necessarily arduous!

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