

## LEADERS & LETTERS

# Pro-trade arguments in answer to the contrarians

*From Prof Jeffrey Frankel.*

Sir, Your article "African economies are pushing at an open trade door" (July 6) makes many excellent points. It also reflects some of the broader attacks that one hears made against the conventional wisdom that if rich countries would just open their markets to the products in which Africa and other poor countries have a comparative advantage, it could make a big contribution to their development. I would like to offer pro-trade responses to three contrarian arguments commonly heard against rich-country liberalisation.

Argument 1: If rich countries stopped subsidising, for example, wheat, it would hurt the income of poor wheat-importing countries rather than helping.

Response: Yes, top priority should be put on liberalising those sectors where the poor countries have a comparative advantage: sugar, cotton, peanuts/groundnuts, textiles and clothing, and so on.

Argument 2: Economic history shows that countries do not develop economically by being "hewers of wood and drawers of water" – ie, producers of agricultural and mineral

commodities – even when this is where their initial comparative advantage lies. Rather, industrialisation happens when comparative advantage in manufacturing is developed endogenously.

Response: Perhaps. (There are exceptions to the natural resource curse, like such as Gulf States in oil and Botswana in diamonds.) But most countries get started on textiles and clothing. The lesson is that trade is not sufficient for success, but it is probably necessary, and in any case it helps.

Argument 3: Ultimately the key to development lies in the hands of the countries themselves, particularly in their ability to develop good institutions.

Response: True. However the point I wish to make concerns the determinants, in a political economy sense, of whether poor countries undertake good reforms and develop good institutions. The most important determinant of political support for reform in poor countries is perhaps the observation of economic performance in successful countries around the world and emulation of the economic models that the leaders

seem to represent. The obvious failure of the Soviet model and the success of the Asian newly industrialised countries were the prime motivations in the 1990s for most poor countries to turn away from central planning, toward relatively more market-oriented systems. To take a more recent example, China's success is India's most important goad to reform.

When US and European Union leaders exhibit obvious hypocrisy by blocking imports of sugar, cotton, textiles, clothing, steel and so on, it sets a terrible example for the rest of the world. It sends a mercantilist message, a message of intervention to protect politically connected special interests. It undermines western claims of a superior model and pulls the rug out from under would-be reformers in poor countries. This political economy effect may be an even more important reason for the Group of Seven to liberalise in these areas than the direct economic effects.

**Jeffrey Frankel,  
Harpel Professor of Capital  
Formation and Growth,  
Harvard University,  
Cambridge, MA 02138, US**