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ONE

Poverty, Economic Development, and International Trade

1.1 The Question of Poverty[1]

In today's world of unprecedented technological and economic advances, the majority of the world population has not been able to share in this prosperity.[2] Persistent poverty still remains in many parts of the world, and this human tragedy is one of the most pressing problems in our

[1] Most of us understand what poverty means and no elaborate definition would seem necessary. The World Bank describes the nature of poverty as the following: "Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not being able to go to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom." <http://www.worldbank.org//poverty>. The World Bank also uses the reference lines set at one dollar and two dollars per day in 1993 Purchasing Power Parity (PPP) terms as "poverty lines." *Id.*

Although poverty does exist among the population of developed countries, this book focuses on the need to improve the general economic conditions of developing countries where a larger portion of population suffers from poverty.

[2] In 2000, the United Nations estimated that more than half the world's 6 billion people live under substantial deprivation, surviving on incomes equivalent to two dollars or less per day. Only 20 percent of the world population living in the highest-income countries accounts for 86 percent of the world's GDP. <http://www.un.org/events/poverty2000/backpp.htm>.

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time. Nevertheless, despite some efforts by international organizations,[3] poverty does not seem to receive priority consideration from leading nations that could provide key political and economic support toward resolving this problem.[4] Consider this issue from another perspective: not only is the relief of persistent poverty our moral obligation[5] but it is also consistent with our long-term security interest because societies with adequate economic resources are less likely to foster violence and terrorism that has torn our world apart throughout history.[6]

How can this problem of poverty be resolved? Poor countries cannot indefinitely depend on donations from outside, even if such donations

[3] In 2000, the United Nations set the Millennium Development Goals with several development objectives. <http://www.un.org//millenniumgoals>. The 2004 report on the implementation of the U.N. Millennium Declaration emphasized the responsibility of developed countries, as well as that of developing countries, to meet the development goals, stating that developed countries must fulfill their responsibilities "by increasing and improving development assistance, concluding a new development-oriented trade round, embracing wider and deeper debt relief and fostering technology transfer." U.N. doc. A/59/282 (Aug. 27, 2004), para. 43.

[4] Although the assistance of developed countries alone may never resolve poverty issues in developing countries without developing countries' significant effort to achieve economic development themselves, developed countries can nevertheless provide essential support by, among other things, helping to create a development-friendly international environment, such as a trading system that facilitates the economic development of developing countries.

[5] For a discussion of the moral grounds to help the poor, see Peter Singer, "Famine, Affluence, and Morality," (1972) 1 *Philosophy & Public Affairs* 229–243.

[6] Although considerable resources have been put forth to "fight" terrorism, relatively little effort and attention has been given to addressing its economic and social causes. Some may argue that the primary causes of worldwide terrorism are religious conflicts and political struggles, rather than economic problems. Nonetheless, economic difficulties and instabilities remain an important cause of this problem: poverty is commonplace in countries viewed as bases for terrorist activities. For instance, Afghanistan, which was accused of providing home for Al Qaeda, and Palestine, which has been the base for terrorist attacks against Israelis, are also characterized by poverty. History has shown that economic problems often lead to violence and war. In the 1930s, serious economic problems in Germany were a primary cause of the fall of the democratic regime and the subsequent rise of Adolf Hitler's Nazi party and the beginning of the Second World War. For the economic causes of the Second World War, see Andrew J. Crozier, *The Causes of the Second World War* (Blackwell Publishers, Oxford, 1997).

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could be provided; the only lasting solution would be to create an economy in these countries through economic development[7] that would provide inhabitants with adequate resources and sustain their living standard beyond subsistence. How can poor nations build such an economy? It has been suggested that poverty is not simply a result of bad economic policy; various political, social, and even cultural problems have also been cited as causes of poverty.[8] Because these causes are rather various and complex, many believe that no simple solution to poverty is universally applicable.[9] In each individual case, political, social, economic, and cultural practices and institutions that hamper economic development should first be identified; then specific remedies for each of these problems would have to be applied.[10] In many cases, these problems are simply too difficult and complex to solve, therefore poverty remains.

Certain developing[11] economies have combated these problems successfully and have achieved impressive economic development in the past

[7] Economic development or, simply, development, is the process of a structural transformation of an economy from one based primarily on the production of primary products (i.e., a product consumed in its primary [unprocessed] state) generating low levels of income to another based on modern industries that provides higher levels of income. Many also believe that development is an international human right, as recognized by, *inter alia*, the U.N. Declaration on the Right to Development by the General Assembly in 1986.

[8] See A. F. Petrone (ed.), *Causes and Alleviation of Poverty* (Nova Science Publishers, Inc., 2002). For the effect of culture on development, see Amartya Sen, "Culture and Development," World Bank Paper (December 13, 2000), available at <http://www.worldbank.org/poverty/culture/book/CADNew.pdf>.

[9] Professor Thomas J. Shoenbaum suggests that on a governmental level there are three categories of actions that may be taken: (1) foreign aid and technical assistance; (2) debt forgiveness; and (3) amelioration of conditions for trade and investment. See Shoenbaum, "The WTO and Developing Countries" (paper prepared for the University of Tokyo International Law Study Group, Sep. 24, 2004).

[10] *Id.*

[11] This book concerns the economic development of "developing" countries. Although the term *developing* is generally used as opposed to *developed,* which represents the status of an industrialized economy generating high levels of income, there is no clear definition of "developing" status that is universally applicable. In the World Trade Organization (WTO), a developing status is self-declared, and there is no clear cutoff

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decades.[12] For these economies, international trade has been an important vehicle for successful economic development. The legal framework for international trade controls which development policies can be implemented in conjunction with international trade and the way in which they are implemented. Therefore, trade disciplines are quite relevant to poverty and development. The specific regulatory requirements of trade disciplines affect the ability of developing countries to adopt effective development policies. I discuss throughout this book why this is the case and what changes should be made in the current trade disciplines to better facilitate development.

Yet I do not presume that neither a development-friendly international trading system nor any other international support alone will facilitate development and relieve poverty. Economic development efforts by developing countries should proceed, and the following factors would also be essentially important for development: a stable and efficient government, a working institutional arrangement between the public and private sectors,[13] a consistent economic policy, social peace, an educated

standard. The World Bank uses gross national income (GNI) per capita to classify countries into different groups. As of November 2004, the World Bank made this classification according to its 2003 statistics: low-income group ($765 or less per capita), lower-middle-income group (between $766 and $3,035 per capita), upper-middle-income group (between $3,036 and $9,385), and high-income group ($9,386 or above). Information available online at <www.worldbank.org>. Industrialized countries in the high-income group are often considered developed countries, while the others, which in fact include a wide range of economies in terms of development status, are considered developing.

[12] These countries/economies in the East Asian region include South Korea, Taiwan, Singapore, and Hong Kong. The process of economic development in these countries/economies is introduced later in this chapter.

[13] A recent work by Dani Rodrik illustrates an ideal institutional arrangement between the public and private sectors to be in place in order to facilitate development. Rodrik (2004), *infra* note 189. On a different note, another commentator considers that the development of "democratic" institutions is not a prerequisite to development, but such development is rather a result of economic development (as seen in the cases of South Korea and Taiwan). Chang, *infra* note 41, Chapter 3. Thus, the working institutional arrangement is not necessarily determined by the existence of democracy but

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population, access to capital, entrepreneurship, and a cultural environment that fosters working ethics and can accommodate changes associated with development. It is true that these conditions are not present in many developing nations.[14] Despite various proposals for development strategies, policies, and international initiatives for decades,[15] the majority of countries that were underdeveloped fifty years ago still remain poor. For many underdeveloped nations, the situation has worsened over the past ten years.[16]

Although a development-friendly trading system alone may not be sufficient to facilitate economic development, it is nevertheless essential. The success story of the East Asian economies, including South Korea, Taiwan, Singapore, and Hong Kong, introduced in the next section, shows why. One argument is that a change of the current trading system would not bring about the economic development of developing countries because most of them do not even meet other necessary conditions for development.[17] In particular, there is a prevalent sentiment that governments of developing countries cannot be trusted with the implementation of state-led development policies for lack of efficient administrative capacity and corruption. It is maintained, therefore, that changing the international

by one of effective cooperation and communications between the public and private sectors, as described by Rodrik. Nonetheless, some measure of transparency and accountability should be imposed to prevent the moral hazard associated with government support. Rodrik (2004), *infra* note 189, pp. 20–21.

[14] For instance, government corruption, lack of internal security and peace, inadequate education, cultural bias, and the reluctance to accept changes associated with industrialization or opposition to industrialization itself are still apparent in many developing countries.

[15] After the Second World War, the World Bank was organized to assist with economic development projects, and other international organizations, such as the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Industrial Development Organisation (UNIDO), aim to improve the economic status of developing countries.

[16] *Supra* note 2. According to the U.N. Human Development Report (2003), fifty-four countries have become poorer than in 1990, as measured by per capita GDP.

[17] *Supra* note 14.

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trading system will not result in economic development for these developing countries, will cause inefficiency in the system, and therefore, is not necessary.

This is a logical fallacy, even if claims about the problems with developing countries were to be true. Certainly, it is not difficult to find cases of prevalent corruption and lack of competence on the part of the governments of developing countries. Nonetheless, if we believe that the relief of poverty through economic development is a priority, the trading system should facilitate, rather than hamper, the economic development of those developing countries that are ready to implement development policies, just as the East Asian countries have done in the past decades. Their successful economic development would not have been possible had some of the current requirements of the international trading system been in place because these requirements would not have allowed them to adopt key development policies, particularly those based on trade-related subsidies.[18]

1.2 International Trade and Development

While many developing countries failed to improve their economic conditions in any significant way,[19] some East Asian economies, such as South Korea, Taiwan, Hong Kong, and Singapore, have achieved remarkable economic success during the past four decades.[20] What distinguishes

[18] Dani Rodrik commented in his recent work that the current trade rules have made "a significant dent in the abilities of developing countries to employ intelligently-designed industrial policies." Rodrik (2004), *infra* note 189, pp. 34–35. Chapter 3 provides more discussion on this point.

[19] The World Bank underscores the lagging progress in its 1999 poverty estimates: "These (poverty) figures are lower than earlier estimates, indicating that some progress has taken place, but they still remain too high in terms of human suffering, and much more remains to be done."

[20] Those four economies have undergone rapid industrialization since the 1960s and acquired the title of "newly industrializing countries" ("NICs"). All of them have passed the threshold for the high-income country status as classified by the World Bank (GNI

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these countries from other developing countries that have failed to achieve economic development? Can development strategies that have a degree of general applicability be drawn from this Asian experience? To answer these queries, the development process of these East Asian countries needs to be examined. I introduce the development case of South Korea to show the success of "outward development strategy."[21] The other East Asian newly industrializing countries (NICs) also implemented this strategy, although the details of each country's policy were different.[22]

South Korea was one of the poorest nations in the world four decades ago, lacking both natural and technological resources.[23] To overcome poverty and develop its economy, South Korea adopted a set of aggressive export strategies. The resources acquired through international trade, as well as the capital influx from abroad, which was encouraged by its success in exports, have enabled South Korea to modernize its industries and

per capita of 9,076 USD or more) as of 2003. Four decades ago, those countries were considered poor, with economies dependent on the production of cheap primary products. Between 1961 and 1996, South Korea increased its GDP by an average of 9.80 percent per annum, Hong Kong by 9.58 percent, Taiwan by 10.21 percent and Singapore by 9.95 percent. Alan Heston, Robert Summers, and Bettina Aten, Penn World Table Version 6.1, Center for International Comparisons at the University of Pennsylvania (CICUP), October 2002. <http://pwt.econ.upenn.edu/php_site/pwt_index.php>.

21 The development strategies of NICs were often characterized to be "export-oriented" as opposed to the import-substitution policies employed by many other developing countries, including India and Brazil. There is a tendency to believe that this outward development policy was successful because it promoted trade, whereas import-substitution policies restricted trade. *Infra* note 559. However, it was not always the case. For instance, South Korea and Taiwan employed extensive tariff protection while promoting export industries.

22 For an evolution of industrial policies of the NICs, see Mari Pangestu, "Industrial Policy and Developing Countries," *in* Bernard Hoekman, Aaditya Mattoo, and Philip English (eds.), *Development, Trade, and the WTO: A Handbook*, *infra* note 225, p. 153, Table 17.1.

23 The per capita GNP of South Korea was a mere USD 239 in 1963 in 1975 constant prices, and the South Korean economy depended heavily on primary products. Kwang-suk Kim and Joon-kyung Park, *Sources of Economic Growth in Korea: 1963–1981* (Korea Development Institute, 1985, pp. 6–7.

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achieve rapid economic growth.[24] This economic development, fueled by the continued success in exports, established South Korea as one of the leading industrial nations with higher living standards.[25] This economic success is also attributed to factors other than the success in export and export industries.[26] Nevertheless, few would dispute that the successful exports have been an engine for Korea's economic achievement.[27] In fact, this export-driven development has become a well-known model and has been studied widely.[28]

[24] Since the early 1960s, when Korea adopted export-oriented development policies, the real value of exports, discounted for the rise of export prices, increased at an average annual rate of 27 percent for the first two decades. Kim and Park (1985), *supra* note 23, pp. 6–7. This export growth was led primarily by the growth of export in manufactured products (its total share in export rose from 27.0 percent in 1962 to 93.7 percent in 1982). *Id.*, Table 2-1, Major Indicators of Korean Economic Growth, 1954–1982, pp. 9. Accordingly, the share of GNP by manufacturing sectors rose from 9.1 percent in 1962 to 34.2 percent in 1982, and that by primary sectors fell from 45.3 percent in 1962 to 19.2 percent in 1982, indicating rapid industrialization of South Korea during this period. *Id.*, Table 2-1, Major Indicators of Korean Economic Growth, 1954–1982, p. 8. The total GNP increased from USD 6.3 billion in 1962 to USD 32 billion in 1982 in 1975 constant prices. GNP per capita also tripled during the same period. *Id.* By any standard, South Korea escaped from poverty within two decades after the initiation of the export-oriented economic development policies in the early 1960s.

[25] Korea's export industries continued to grow rapidly in the 1980s and 1990s. The total value of Korea's exports grew from USD 24.4 billion in 1983 to USD 193.8 billion in 2003, and during the same periods, its GDP grew from USD 85.1 billion to USD 605.3 billion, becoming the eleventh largest economy in 2003. World Bank, *Korea, Rep. at a Glance* (Sep. 16, 2004) and World Bank, World Development Indicator Database (Sep. 2004). <www.worldbank.org>.

[26] Kim and Park (1985), *supra* note 23, p. 6. Factors such as political and social stabilities, effective technocratic bureaucracies, strong political leadership, high level of education, strict work ethics, and higher ratio of savings have been noted as important factors for the successful economic development of South Korea and the other NICs.

[27] Kim and Park (1985), *supra* note 23, p. 6.

[28] See A. O. Krueger, "Trade Policies in Developing Countries" *in* R. W. Jones and P. B. Kenen (eds.), *Handbook of International Economics*, Vol. 1 (North-Holland, N.Y., 1984), pp. 519–569; R. Findlay, "Growth and Development in Trade Models," *id.*, pp. 185–236; T. N. Srinivasan, "Trade, Development, and Growth," *Princeton Essays in International Economics No. 225* (December 2001); G. K. Helleiner (ed.), *Trade Policy, Industrialization, and Development* (Oxford University Press, Oxford, 1992); World Bank, *The East Asian Miracle* (Oxford University Press, New York, 1993).

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If international trade can help poor nations to develop their economies and bring them out of poverty, as it did for South Korea and for the other East Asian countries, what are the necessary conditions for export-driven economic development? In this outward development model, export becomes the engine for development by creating demands for domestically produced products otherwise not consumed in their small domestic markets. Export revenues can be reinvested to expand export industries further, and therefore, the output of the economy improves over time with the expansion of the share of manufacturing sectors in the economy.[29] This is the common element observed in the development process of the NICs. In those East Asian countries, a series of economic factors preferable for industrial expansion, such as lower labor costs and a high rate of savings, helped export industries, but governments also played an important role by promoting those industries with various subsidies and tariff protection.[30]

1.3 Kicking Away the Ladder?

I have initially posed two questions about the successful development of the East Asian countries, that is, (i) what distinguishes them from other developing countries that have failed in economic development? and (ii) what effective development strategy can be drawn from their experience? They all have achieved rapid economic growth through expansion of their exports, and this outward development strategy is an effective

[29] *Supra* note 24.

[30] Subsidies included the provision of direct financial grants, low-interest loans, social infrastructures, tax rebates and exemptions, technological supports, and implicit bailout guarantees for producers engaging in new, risky ventures. Extensive tariff protections were also offered to protect and facilitate domestic productions. For a discussion of the government role in economic development of the East Asian countries, see Larry E. Westphal, "Industrial Policy in an Export Propelled Economy: Lessons from South Korea's Experience" (in Symposia: The State and Economic Development) (1990) 4(3) *Journal of Economic Perspectives* 41–59; John Brohman, "Postwar Development in the Asian NICs: Does the Neoliberal Model Fit Reality?" (1996) 72(2) *Economic Geography*, 107–130.

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development model that can be adopted by other developing countries, assuming that the necessary political, social, and economic conditions are present.[31] The success of this development strategy would depend largely on the government's ability to promote exports.[32] Yet governments of developing countries would not be able to adopt some of the trade-related development policies of the NICs because the current regulatory framework for international trade, represented by the World Trade Organization (WTO), does not allow them to do so.[33]

In his recent book, *Kicking Away the Ladder*, Cambridge economist Ha-Joon Chang notes that almost every developed country today, including those strongly advocating liberal market economies and open trade, employed state-led industrial promotion policies during their own development process, which often included trade protection. Yet after achieving economic development, they have been "kicking away the ladder" and preventing developing countries from adopting effective development policies by imposing regulations of international trade and policy recommendations against these development policies. If correct, his argument raises moral questions and concerns for all of us genuinely interested in relieving poverty through successful economic development.

My premise is that the economic development of developing countries should be considered one of the important priorities of our time. It is possible that some who are not persuaded that this is our moral quest may question why the economic development of developing countries should be a priority. It is worth repeating that supporting the economic

[31] Those conditions include a stable and efficient government, working institutional arrangement between the public and private sectors, consistent economic policy, social peace, educated population, access to capital, entrepreneurship, and a cultural environment that fosters working ethics and can accommodate changes associated with development.

[32] *Id.*

[33] Most notably, restrictions on trade-related subsidies. *Supra* note 18. See Chapter 3 *infra*. Many neoclassical economists tend to discount the importance of the government role in economic development. See Chapter 3.1 *infra* for a discussion of the government role in development.

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