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Access or Space? Reassessing the Interplay between Trade, Employment and Development in Present Policy-Making

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Abstract

Trade, employment and development are continuously linked in policy-debates and –making, with the argument that there is a positive link between the first and the two subsequent elements. Though it is increasingly acknowledged that there may be short-term costs and adverse effects inherent in this link, it is held to be benign in the long-term. Hence, the fundamental value trade liberalisation is not questioned – even in spite of the numerous real world manifestations of the contrary. That such manifestations again and again are ignored, it is argued in this paper, is because of flaws in the theories underpinning trade and the interests at stake in liberalising this. Qualitative characteristics of trade are far more critical to development and employment prospects than the quantity at which it takes place. Thus, policy space – to both determine such characteristics and possibly limit its quantity – is significantly more important for developing countries than market access.

Introduction

For the last two to three decades, trade liberalisation has been the orthodox policy response to the development concerns of developing countries. Hence, in a world plagued by development-deficits in the majority of its countries, the most dominant international governmental organisations and development policy makers have continued to promote trade as the main way for low- and middle income countries to enhance employment, strengthen development and to eradicate poverty. Yet, trade liberalisation has far from proven to be the panacea

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its proponents often hail it to be. Rather the contrary. A majority of developing countries that have undertaken wholesale trade liberalisation, as prescribed by the orthodox, international policy community, have been stalled in their development while the majority of countries that have ignored such advise, and instead followed autonomous trade policies, have been able to successfully climb the development latter (Chang 2002; Malhorta et al. 2003; Rodrik 2000, 2001).

In spite of this obvious contradiction, trade liberalisation is pitched as the development tool *par excellence*. The prominence of trade in policies and of the trust in the wonders of trade has been captured by statements by the heads of the world's most influential policy prescribers. Former WTO Director-General, Mike Moore, has stated that "the surest way to do more to help the poor is to continue to open markets" (Agosin and Tussie 1993, p. 9) while the organisation's current one, Pascal Lamy, has pointed out that "trade and trade policy have today become fundamentally important tools in the fight against poverty and achievement of the Millennium Development Goals" (Lamy 2005). Talking about the importance of development aid and debt relief, World Bank President, Paul Wolfowitz, has emphasised that "…the opportunities that can be generated by trade are far more significant. Trade is the missing link to jobs and opportunity" (Wolfowitz 2005). And finally, as a comment on the urgency of finalising the current round of WTO negotiations, which has turned out primarily to be about market access around the globe, the Secretary-General of the OECD, Angel Gurria, has stated that "enlightened leaders should see the broader picture and realize that what is at stake is mankind's capacity to deliver a better world" (Gurria 2006). Indeed, whenever finalisation of the so-called Doha Development Agenda has been in jeopardy, the dominant comment by policy makers and experts across geographical and political divides has been that this will be a lost opportunity for the developing countries of the world.

In light of the present trade discourse as well as the inconsistencies between the orthodox policy advice and the historical experiences, this paper intends to reassess the relationship between trade, employment and development. In doing so, it will first look at the current debate on these issues, arguing that while it is increasingly acknowledged that trade comes with certain adjustment costs and adverse effects, the overall logic of trade liberalisation is not questioned. As part of this argument, it will revisit some empirical findings of the impact of trade on employment and development. Secondly, it will seek to explain the discrepancy between the conventional wisdom on the relationship and the dynamics of the real world, arguing that this can be traced to both theoretical flaws and the mere interests of power. In this part it will also look at how the anatomy of trade shapes development and hence why the qualitative characteristics of trade are more important to development than the quantity at which it takes place. Thirdly, and as the last part, it will look at what the policy implications of these findings are if the intention of trade is to improve employment aspects and enhance development. Here the main argument will be that what is currently on the negotiation table in realm of the WTO is very far from what is needed to do exactly this.

Trade, employment and development – the state of play

Though, as shown above, trade liberalisation is still more or less promoted as a one-size-fits-all solution to boost economic growth, job creation and poverty eradication, it is increasingly acknowledged that it comes with certain adverse effects and adjustment costs. This is the rationale for the increased focus on 'aid for trade', not least within WTO negotiations, where a concept for such measurements was agreed upon during the 6th Ministerial Conference in Hong Kong in 2005 (though much of the emphasis in this agreement, nevertheless, is on ensuring that countries have the supply-side capacities and infrastructure necessary to benefit from trade).

In what is so far the most institutionalised effort of addressing the relationship between trade and employment, and which by itself is a very extensive literature review, a joint study by the ILO and the WTO (2007) finds that there is agreement among economists that trade liberalisation brings positive gains but also entails short-term adjustment costs. In many places there will be transitional problems, it is asserted, yet in the long term the benefits will be there in the form of both more and better jobs. It is pointed out that trade liberalisation comes with an increase in the elasticity of demand for labour, and that this has several effects that weaken the position, particularly in relation to wage bargaining, of workers. Furthermore, and against standard theory, which predicts that wage inequality will primarily take place in already industrialised countries, it was found that skill premiums, that is increases in the wage differential between high- and low-skilled labour, has occurred in both developed and developing countries. And, again against the textbook forecasts, it was found that employment reshuffling not only takes place within sectors but also across these, implying that jobs are at risk in more or less every sector (ILO-WTO 2007). All in all, the conclusions of the study suggest that gradual trade liberalisation combined with well targeted adjustment programmes are likely to lower the adjustment costs and increase benefits, and that investment in education in general is central for taking advantage of the opportunities to trade. Moreover, it is pointed out that social protection schemes in developing countries are necessary and should be expanded in order to ensure distribution of the alleged gains as well as to help those adversely affected.

First, considering the adverse effects and adjustment costs, and hence accepting the logic of the analysis, it could be asked if it would not be more favourable if the sequence was inverted? If the investments in education, infrastructure, adjustment programmes and social protection schemes were made well in advance of the removal of import tariffs rather than at the same time? As it is well known, the effects of such investment are most often much slower in showing than the consequence of cheap, imported goods are. Indeed, the latter can appear almost overnight. Secondly, and to a larger extent challenging the reasoning of the study, it is worth asking if trade liberalisation is destined to always be beneficial by bringing long term gains? The answer would seem to be no. Yet, the study does not address this fundamental issue of whether trade liberalisation and trade per se in some cases cause a reduction in output and growth, not just sectorally but on an aggregate basis at the national level, hence jeopardising any positive employment outcome. Neither does it address what kind of trade policies that are most geared to achieving the optimal development outcome.

This seems to be characteristic of the new school of trade theory and analysis, which the ILO-WTO study to a large extent bases its findings on. This strand recognises that the relationship between trade, employment and development might not be as simple as previously thought, and hence suggests that liberalisation should be accompanied by so-called flanking policies. But the approach, as mentioned, does not fundamentally address whether liberalising trade is always a preferred policy, and hence should be the ultimate aim of trade policies. Yet, the merits of wholesale trade liberalisation are more or less none existent. So far there are virtually no success stories of countries that have followed such policies and the ones that are often hailed as having benefited from doing so – the so-called East Asian tigers for example – basically did not do so, and are hence testimony of the success of the opposite sets of policies and strategies.

In the second part of this paper, it will be addressed why wholesale liberalisations is continuously advocated if the practical experience, and its evidence, runs contrary to such policies. Before that though, it is worth noting some stylised facts about trade, employment and development.

First of all, trade liberalisation often has an immediate negative impact on employment prospects. This is felt everyday when falling trade barriers create unemployment because imports at once crowd out domestically produced goods. This has particularly been the case in Latin America, where increased trade orientation in the 1990s produced disappointing employment results in the Mercosur countries, and only had a fairly positive impact on Mexico's maquiladora industry, which however did not develop links to the rest of the economy and which has faced problems in recent years (Ernst 2005). Brazil might be a case in point as a steep rise in unemployment and deteriorating employment relationships followed extensive trade reforms. The country liberalised heavily from 1994 on and saw open unemployment increase from 4.6 % in 1995 to 8.4 % in 1999 – that is by more than 80% - before starting to fall in 2000 (Vernengo 2002). The process of liberalisation in Brazil also led to an increase in the degree of informality of labour relations. From 1994 to 2000, the amount of people working in the so-called informal economy doubled while the amount of people in formal employment fell slightly. This development is argued to be linked to the downsizing strategies pursued in the industrial sector after liberalisation (Amadeo and Pero 2000).

In the long term though, the link between trade and employment, or for that sake development, is less obvious. Both employment and development depend on overall rates of growth and the characteristics of this growth, which at the end of the day depends on investments, capital accumulation, the characteristics of production and a range of other variables. Hence, it is worth looking at the link between trade, economic growth, investment and industrialisation, which brings this paper to the next sets of stylised facts.

Secondly, trade does not necessarily mean higher economic growth. This can be noted both at the aggregate, international level and at the national level. Indeed, globally the era of the most intense and extensive trade liberalisation has brought slower economic growth than the decades before it, with per capita income growth in the developed countries slowing from 3.2% between 1960 and 1980 to 2.2% between 1980 and 2000, and being halved from 3% in the first period to 1.5% in the second in the developing countries (Chang 2002). In fact, there is no convincing evidence that trade liberalisation is always associated with economic growth. The only systematic relationship is that countries dismantle trade barriers as they get richer. Countries that achieve economic success therefore also become successful traders (Rodrik and Rodriquez 2001). It is not the other way around. Most generally, trade is therefore an artefact of development rather than a cause of it.

Third, trade liberalisation does even always lead to more trade. Hence, as global growth steadily decelerated between 1960 and 2000, the rising share of exports in GDP did not mean accelerating or even stable growth of world trade. Rather, it is argued (Ghose 2000) that world trade has been decelerating in the same way as world growth. Moreover, since the beginning of the 1980s many low-income countries have experienced a decline in their trade orientation in the wake of trade liberalisation (Ghose 2001). Outward orientation in the Mercosur countries, for example, did not lead to an export specialisation with strong export growth (Ernst 2005).

Fourth, trade liberalisation may have a negative effect on overall levels of investment. Liberalisation of trade has often gone hand in hand with investment liberalisation and has, by itself, made investing internationally more attractive. Hence, flows of foreign direct investment (FDI) have accelerated both in absolute terms and as a percentage of GDP, with the total world FDI stock surging from US $ 600 billion in 1982 to US $ 10,700 billion in 2005 – an 18-fold increase (UNCTAD 2006). As a percentage of world GDP, the world FDI stock increased from 0.67 percent to almost 2 percent in the same period (Akyüz 2006). Yet while FDI has risen in the period of the most extensive trade liberalisation, total investment has actually declined – from 23.8 percent of world GDP in the 1980s to 21 percent in the first four years of the new millennium (Akyüz 2006). It seems that FDI in many instances crowds out domestic investment and that the current form of trade liberalisation might dampen overall investment and thus have a negative influence on countries' production stock and capital accumulation.

Fifth, forced and rushed trough trade liberalisation often leads to a process of de-industrialisation in the countries where it takes place. Shaeffadin (2005) analysed a sample of 46 developing countries that, from the early 1980s on, had undertaken trade liberalisation and structural reforms with the objective of expansion of exports and diversification in favour of the manufacturing sector, and found that a majority of these countries (most of them low income countries in Africa and Latin America) have faced de-industrialisation. Even where manufactured exports grew fast at one point, manufacturing value-added did not accelerate and upgrading of the industrial base did not take place. Vulnerability on the other hand increased. The development in these countries and the industrial re-orientation that has occurred in them has been in accordance with 'static comparative advantage', which generally locks-in a country in a particular developmental stage. At the meso level such a process of de-industrialisation was also very apparent in Sao Paulo, the industrial capital of Brazil, when the country went through the most intense phase of trade liberalisation. In 1990, 48.7 per cent of all those employed in the private sector were so in the industrial sector, while 32.9 percent worked in services. In 1999, this relationship had been reversed. Industry now accounted for 32 percent of the total number of employed while the service sector provided jobs to 48.8 percent of these (Vernengo 2002).

Sixth, and related to the fifth point, trade liberalization has not enabled a significant number of developing countries to industrialise through increased trade. Rather, they have continued as producers of primary products, in which international trade has not been growing. This has marginalised them in the global economy. Contrary to traditional economic thinking, countries with a relatively high number of working poor, and thus an abundance of cheap labour, have not specialised in high labour intensive manufacturing, export dynamism has not been triggered and integration into the world economy has had a disappointing impact on employment (Ernst 2005). As world demand for primary products has not increased, a majority of developing countries have actually gradually been excluded from global trade as they have liberalised. This is why Africa's share in world trade has been reduced by half since the 1980s and Latin America's has decreased by one third in the same period. As it has failed to increase earnings from the exports of primary commodities but exposed their nascent industries to international competition, trade liberalisation has, by and large, therefore had a constraining rather than stimulating effect on economic growth in these parts of the world (Ghose 2001).

Indeed, when looking at how developing countries fare in international trade, how it impacts their employment situation and how it influences their development prospects, it is worth simply looking at what trade liberalisation so far has done for developing countries in terms of their participation in trade. This will show that the successful developing country exporters are actually very few in numbers and that most of them have more common characteristics with countries in Western Europe and North America than with countries in for example Sub-Sahara Africa. Hence, 13 so-called developing countries make up the bulk of all exports from developing countries (74 percent in 1995). These are Argentina, Brazil, China, Hong Kong, India, Indonesia, South Korea, Malaysia, Mexico, the Philippines, Singapore, Taiwan and Thailand (Ghose 2000). Yet among them, Mexico and South Korea are members of the OECD while Hong Kong has a nominal GDP per capita at the level of New Zealand, Singapore one at the level of Spain, and Taiwan one just below the level of Portugal. And what is furthermore a joint characteristic of these successful exporters, is that a majority of them only liberalised when they had already built strong, internationally competitive industries and that they did so gradually.

The bottom line, which some of the more anecdotal evidence above has tried to show, is that trade liberalisation often has immediate, negative impacts on employment and that it alone, and in the more long-term perspective, is no driver of the kind of more dynamic, diversified and pro-poor pattern of growth, which is needed to ensure development and positive employment prospects. On the contrary, it is locking low- and middle-income countries into greater dependence on a few agricultural products and raw materials. In consequence, many of them suffer from deteriorating terms of trade – which is when a country's purchasing power declines because of a decrease in the price of what it exports vis-à-vis what it imports – and some even of 'immeserising' growth. The latter is when an increase in economic activity is associated with a fall in real living standards. This in practice happens when increased export production is not absorbed in the world market such as it has been the case with many primary commodities in recent decades. In the long run, moreover, exports of such primary products or other low value-added goods fail to raise skill levels and productivity and seldom stimulate technological change (Malhorta et al. 2003). The capacity of many developing countries – with advantages in such production and sticking to this type of exports – to benefit from trade is therefore limited. Hence, there is no development perspective in compelling them to concentrate on, indeed build export strategies around, the production on those low-value added goods which they at present might be able to sell in world markets.

Ha-Joon Chang has made this point by comparing countries' industrial development to the educational and professional steps taken by human beings:

> "…if I drove my five-year-old son into the labour market on the ground that he is able to earn his living (…), he may become a savvy shoeshine boy or even a competent unskilled worker, but there is virtually no chance that he will become a nuclear physicist or a chartered accountant, as those jobs would require at least another dozen years of parental protection and investment in education and training. Likewise, if a developing country commits itself to free trade before it develops its technological capabilities, it may become the best producer of coffee or cheap garments in the world, but the chance of it becoming a world-class producer of cars or electronics will be extremely low." (Chang 2005, p 11)

Determining trade policies – the interplay of knowledge and power

The sections above are neither a critique of trade per se nor a presentation of an argument that developing countries have nothing to gain from trade liberalisation. Rather, they are a critique of the way that trade liberalisation has been recommended for the last two to three decades, and of how it is still designed in the current round of WTO negotiations. And it is a critique of the present prevalence of trade and trade liberalisation in development policies advocated from academics to bilateral donors and international organisations. Yet, if the current model of trade liberalisation – wholesale, across the board and to be implemented as fast as possible – is most likely to stall developing countries in their development, it is worth asking why this model looks as it does? If this form of trade liberalisation indeed leads to the destruction of existing industries, particularly those that are at an early stage of infancy, in a majority of countries without necessarily leading to the emergence of new ones, then why is it recommended? If countries are only able to take advantage of static, rather than dynamic, advantages, and if these countries are locked into production and exports of primary commodities, simple processing and at best other labour intensive production with little prospect for upgrading, why is this the standard model of liberalising?

The answer, it is the conviction of this paper, is to be found in both flaws in the theories guiding trade policy and in the interests behind these policies. Hence, on one hand it is because trade policies basically are designed and determined by economists with certain orthodox beliefs that are derived from standard models rather than on how the real world works that these policies look as they do. Indeed, whenever they are confronted with such 'real world deviations' they look for the flaws in this world – corruption, opportunism, lack of institutions, they suggest – rather than in their models. On the other hand, the standard trade policies are very obviously in the interest of the countries that most often determine them: those that have already industrialised, build strong trade capacities and are well established in international trade.

The intellectual foundation of present day trade policies, not least those preached to developing countries and at the heart of the WTO, is the classical theories of comparative advantage. Dating back to David Ricardo, they basically state that a country will always be better off if it trades than if it does not – even if it is without any absolute advantages – because trade allows it to consume more than it produces. This is based on the premise that each country can specialise in the production of some kind of goods that it can produce with a relatively lower amount of inputs than its potential trading partners, the goods where it has a comparative advantage. For two centuries, therefore, economic theory has insisted that international trade benefits a country whether it is 'fair' or not, upholding free trade as a sacred tenet in economics.

However, the classic theories of comparative advantage also take for granted that factors of production are mobile within countries but immobile across countries, that perfect competition is prevailing, and that perfect competition will always lead to full employment (Malhorta et al. 2003). The theories also hold that the market will ensure that exports will be exchanged for a corresponding amount of imports, which means that trade will be balanced. This, it is believed, is because the terms of trade of a country will fall when it runs a trade deficit, and hence automatically move to remove that deficit (Shaikh 2003). These premises are not only problematic from a theoretical perspective. They are also, and most importantly, contradicted in reality. Countries do have persistent trade imbalances, unemployment prevails even where competition is as perfect as it comes, competition – even in the 'freest' of economies – is only seldom perfect, and production factors today are mobile to some degree between countries but never totally mobile anywhere.

As suggested by Anwar Shaikh (2003), the theory of *competitive* advantage may explain more of the real world patterns of trade than its *comparative* counterpart. Here the argument is that relative prices of international goods, which in practice are a nation's terms of trade, are regulated in the same way as relative national prices. Real wages and production costs determine international relative prices and hence set international terms of trade. High cost producers, therefore, lose out to low cost ones, and high cost nations tend to suffer trade deficits, which are then covered by capital inflows. Contrary to theories of comparative advantage, there are no magic mechanisms that automatically make all nations alike. Hence, free trade does not make all nations equally competitive. On the contrary, it exposes the weak to the strong (Shaik 1996). It would therefore predict that reciprocal trade liberalisation favours the developed over the developing countries, the rich over the poor – just as it has been the experience of the last decades.

Empirical work (Hausmann et al. 2005) also shows that countries that rely on the teachings of comparative advantage very well may end up as less successful traders, achieve lower growth and develop more slowly than those who challenge these teachings. Hence, this work not only discredits the theories of comparative advantage but ads to the argument that countries should follow independent, industrial policies – focused on upgrading their production capacities – to increase both trade and growth. In their recent work, Ricardo Hausmann, Jason Hwang and Dani Rodrik (2005) found that both economic growth and the gains from trade depend on the quality of a country's export basket, that is, the pattern of specialisation which a country undertakes. Countries that export goods associated with higher productivity levels simply experience higher economic growth than those exporting products associated with lower productivity. A developing country is simply better off producing goods that richer countries export. This is because there is most often elastic demand for these products in world markets. This means that a country can export them in large quantities without significant adverse terms of trade effects and consequently possible immesirising growth.

Comparing countries export characteristics and performance, Hausman et al. found that the productivity level of the exports of high-growth countries such as China and India were much higher than what would have been expected based on their levels of GDP per capita. The quality of China's export basket, for example, exceeds those of countries with per capita incomes that are many times higher, such as several Latin American countries. And the productivity level of India's exports is also higher than that of Chile, Brazil and Argentina, the latter country being four times richer than India. Historically, East Asian economies such as South Korea and Hong Kong based their export success and economic development on high-quality exports. On the other hand, the productivity level of natural resource-exporting economies was generally low, just as economic growth has been in many of these countries.

As specialising in some products will bring higher growth than specialising in others, it makes sense for government and policy makers to push specialisation up the product scale. This, however, goes against the standard model of comparative advantage, which would argue that this would be bad for an economy's health because it distorts production and creates efficiency losses. The work of Hausmann et al. nevertheless suggests something different. Namely, that a country's fundamentals – its physical and human capital, its natural resources and the quality of its institutions – generally allow it to produce more sophisticated goods than it currently does. And, just as importantly, that unless it does something actively to ensure this ascending of the production latter it can easily get stuck with lower-income goods, locked in one developmental stage.

Turning to the question of interests and power, it seems obvious to ask if the world's most powerful countries – those with the critical bargaining power in the WTO, those that can design bilateral deals as they please, and which also set the policy directions of the IMF and the WTO – really have an interest in locking in countries in inferior developmental stages, in marginalising them and in denying them higher economic growth? Not always but sometimes, would be the answer. At different times in history, many North American and Western European governments would certainly have wanted to stall Japan, South Korea, China and India in their attainment of industrial capacities if possible. But more significantly, they do have an interest in market access. With less than a sixth of the world's possible consumers living in countries traditionally viewed as industrial, there are strong corporate interests in opening up markets in both agriculture, manufacturing and services where the other five sixths live. And if trade primarily benefits the already strong, as it has been argued, it is perfectly understandable that it will be championed by them but often resisted by the weak. As trade rules are determined by negotiations and bargaining, often in the most mercantilist way, it is no surprise that they increasingly are to the advantage of those with most leverage in the bargaining and negotiations. And there is therefore no inconsistency in the fact that the rich countries avoided free trade when they were developing, yet are insisting on it now that they have climbed the ladder.

From market access to policy space – what multilateral trade rules should really be about

The preceding parts of this paper have sought to show that the orthodox trade policies and their theoretical foundations are flawed on their own account and that they do not lead to the most favourable results for neither development nor employment. This is to some extend recognised by what can be seen as the new strand in trade theory (e,g, ILO-WTO 2007). In order to address these issues trade liberalisation must therefore be complemented by institution building and investment in human capital and infrastructure, it is suggested. But this position still holds that trade, and hence determined trade liberalisation, enhances economic growth. Yet, this paper has also sought to show that trade does not always promote growth, that when it is rushed through it may very well halt growth, and, alternatively, when trade specialisation is linked to industrialisation policies, it is likely to increase growth. But because the so-called new position in the trade debate does not question the possible negative impact on growth of trade, it misses the main point that it should be addressing: whether there are better trade policies than those currently pursued in the multilateral system and in bilateral trade deals?

The suggestion of this paper is obviously that trade policies could be better. Indeed, this paper would argue that countries, their policy makers and their trade negotiators – plus not least concerned citizens, civil society organisations and trade unions keeping an eye on them – should keep three simple lessons in mind: 1) gradual rather than rapid liberalisation is more likely to create favourable outcomes, 2) governments can play a positive role in increasing the gains from trade, 3) trade has its limits and should not be expected to be a successful development path for every country.

On the first point, the history seems pretty clear: more or less all of today's industrialised and industrialising countries went through liberalisation step by step. On the other hand, some of the countries with the most marked experiences of wholesale liberalisation, like Chile (1974-70), Mexico(1985-88) and Argentina (around 1990-91), saw that that not only wiped out weak sectors but also potentially strong ones, often at great social cost over a long period of time. Chile's economy grew at less than 1% per capita from 1973-1989. Mexico suffered similar setbacks and slowdowns, and Argentina, which was claimed to be one of the best globalisers by the International Financial Institutions, faced a serious economic crisis around the start of the new millennium that it still has not recovered fully from (Shaik 2003). Indeed, in the analysis of a sample of developing countries that undertook trade liberalisation in the early 1980s, Shaeffadin (2005) found that the difference between the successful countries and those that were not successful, is that the former undertook liberalisation gradually and selectively, as part of a long-term industrial policy and after having reached a certain level of industrialisation and development while the latter embarked on a process of rapid structural reform processes including uniform and across-the-board liberalisation.

On the second point, the main lesson of the work of Hausmann et al (2005) referenced above is that government policy has a potentially important positive role to play in shaping production structures that can take advantage of trade. Promoting activities and investment in new activities, together with designing trade policies that allow for this, is critical to economic convergence. From South Korea's industrial rise three decades ago and China's ditto within the last ten years to a country like Denmark's competitive position within renewable energy and pharmaceuticals, there is also plenty of anecdotal evidence to this.

On the third point, the main thing is to emphasise that while many countries can push up production and exports to a higher qualitative level than they may be aware of, not every country can expect to find a place in the free-trade sun. That every country can indeed find such a spot is what the theories of comparative advantage tell us, maintaining as they do that every trader will find its niche. However, and as already dealt with, this only holds in a world of certain premises that are very far from the characteristics of the real world. For some countries it may therefore be better to promote domestic commerce and domestic market engagement, which also has a tendency to create more development linkages than export-led growth, often promoting enclave forms of development as the latter does. Moreover, the majority of employment opportunities are not linked to trade, which again means that it is the domestic level of development and the domestic economy that largely determines job and income prospects.

The three points above suggest that what developing countries need much more than market access is policy space to determine their own trade trajectory. This will enable them to use the policy tools that they may find necessary, to protect infant industries, and to prepare themselves for international engagement through the strategic use of tariffs and industrial development policies, in practice to target liberalisation to areas where this might be helpful – capital goods for example – but avoid it where it would create unnecessary competition and mean the loss of government revenues, such as is the with many consumer products.

However, this does not mean that this paper suggests a standard, alternative model that all developing countries can and should be using. So far successful non-wholesale liberalisers have used different strategies to achieve industrialisation, development and prosperity. In spite of the way that it has since been discredited, import-substitution actually worked very well for at least 42 countries that experienced strong economic growth until the oil-shock in 1973. As a second example, first Japan and then several of the so-called East Asian 'tigers' embarked on their outward oriented industrialisation behind high tariffs, focusing on increasing investment, and with their governments actively shaping the allocation of resources. And finally, as an example of a third path, countries as diverse as China and Mauritius are known to have used two track strategies, combining elements of direct export market engagement with more controlled domestic market operations (Malhorta et al. 2003).

In the future, other developing countries will also have to define their own strategies according to the present national and international contexts. One thing is sure though, to do so they will need an amount of tariffs and other trade barriers to play with. They will need a portion of policy space. Unfortunately though, neither the current round of WTO negotiations nor most of the bilateral trade deals presently on the table, focus on this issue. Rather, they are about increasing market access. As they do so irreversible ways, they limit policy space. And by limiting this, they also limit the potential for employment and development.

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