KICKING AWAY THE LADDER
DEVELOPMENT STRATEGY IN HISTORICAL PERSPECTIVE
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BAD SAMARITANS: THE GUILTY SECRETS OF RICH NATIONS & THE THREAT TO GLOBAL PROSPERITY

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Development History of Rich Countries I

• High degrees of protectionism
  – Before WWII, average industrial tariff 40-50% in Britain and the US (today’s developing countries average 10%)
  – Even countries that had relatively low tariffs, some sectors had high protection
    • Belgium in the mid-19th century: 10% average tariff rate, but 30-60% tariff for textiles, 85% for iron
    – Quantitative restrictions (bans, quotas)

• Subsidies widely used for all purposes
HAMiLTON
AN AMERICAN MUSICAL
Development History of Rich Countries II

- **FDI was heavily regulated**, especially in natural resources and services.
  - Until the mid-20\textsuperscript{th} century, the US didn’t allow foreigners to log in public land or run coastal shipping, while banning foreign shareholders from voting in shareholders meetings for banks
  - In post-WWII period, Japan virtually banned FDI
  - Finland classified all firms with more than 20% foreign ownership as ‘dangerous enterprises’.
Development History of Rich Countries III

• Intellectual property right protection was lax, to put it mildly.
  – Allowed patenting of foreigners’ inventions
  – Most of them did not protect product patents in pharmaceuticals and chemicals
  – Switzerland and the Netherlands didn’t even have a patent law until the early 20th century.
Shrinking Policy Space

• There are **many** industrial policy **measures** that **can still be used legally** under the WTO system.
  – For some measures, international rules do not apply or do so rather leniently to developing and the least developed countries (e.g., export subsidies)
  – Some policy measures are inherently domestic in nature and thus not subject to international agreements.
• As a rule of thumb, with regard to multilateral obligations, **if a policy measure does not affect exports or imports, it does not fall directly under WTO laws and should be allowed.**
  – Also, ambiguities in certain rules or their application can create further scope for pushing certain policies till they are detected or challenged.
The WTO – Tariffs

• WTO member countries are **only required to ‘bind’** (that is, set the upper limit to) at least some of their **tariffs**.
  – Indeed, not all of them have bound all of their tariffs – there are **many members of the WTO (many of them in Africa) that have bound virtually none of their tariffs**.
  – Even many of the countries that have bound their tariffs have bound them at quite high levels.

• As **the current levels of tariffs** in most countries are **well below their bound levels**, they can raise tariffs.

• It is also possible (albeit difficult) to **re-negotiate bound tariffs** for some products.

• Developing countries can also apply **extra tariffs** or even quantitative restrictions **to address balance of payments problems**, although they require elaborate procedures.
The WTO – Subsidies

• Contrary to common misperception, the WTO does not ban any subsidy other than export subsidies (except for the LDCs and other poor countries) and subsidies requiring local contents.

• Of course, all subsidies are ‘actionable’ – that is, they can be challenged in a WTO dispute and, should the challenge be successful, be removed.
  – However, it takes a few years before a subsidy is challenged and ruled illegal.

• There are subsidies that can be more safely used.
  – Subsidies for R&D, upgrading of disadvantaged regions, and developing environmentally friendly technology have hardly ever been challenged, at least partly because they are subsidies preferred by rich countries.
The WTO – FDI Regulation

• TRIMs prohibits domestic content requirements and foreign exchange balancing requirements.

• But it permits many other measures – those related to joint venture, technology transfer, or limitations on foreign equity ownership.
  – Moreover, many countries are still using thinly disguised local content requirements, for example, in relation to the oil and gas sector, so developing countries should more actively explore such possibilities.

• GATS does restrict countries’ ability to restrict FDI in services.

• But developing countries have made few commitments, so their room for manoeuvre is much greater in this area, including in relation to local content requirements.
In Defence of Multilateralism

• Thus, the restrictions on policies that countries need for economic development, imposed by the WTO, are considerable but not overwhelming.

• However, bilateral (or regional) trade and investment agreements between developing countries and developed countries, especially the ones with the US, are ‘WTO-plus’, so they severely restrict policy freedom.

• This is not to say that the current system is good enough.

• The system should be reformed in a more pro-developmental way so that developing countries are provided greater policy space to pursue policies that are more suitable their stages of development.