

Globalization, Growth and Poverty: Is the World Bank Beginning to Get It?

Dani Rodrik
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At first sight, the World Bank's newest report on globalization contains few surprises. The report repeats the mantra that the countries that have gone farther down the path of globalization are the ones that have had greater success in economic growth and poverty reduction. But buried in the pages of the report is also a startling admission: the countries that integrated into the world economy most rapidly were not necessarily those that adopted the most pro-trade policies.¹

Think about what this means. For the first time, the Bank is acknowledging that trade liberalization may not be an effective instrument, not just for stimulating growth, but even for integration in world markets. It is admitting, in an underhanded manner, that its repeated assertions about the benefits of globalization do not carry direct implications for how trade policy should be conducted in developing countries. In other words, the Bank is beginning to face up to a reality that is obvious to anyone who looks at the empirical record with an open mind: Rapid integration into global markets is a consequence, not of trade liberalization or adherence to WTO strictures per se, but of successful growth strategies with often highly idiosyncratic characteristics.

Consider China and India, the two growth miracles of the last two decades and leading exemplars of the World Bank's "globalizers." In both countries, the main trade reforms took place about a decade after the onset of higher growth. Moreover, these countries' trade restrictions remain among the highest in the world. In China's case, high growth started in the late 1970s with the introduction of the household responsibility system in agriculture and of two-tier pricing. The authorities did not embark on import liberalization in earnest until much later, during the second half of the 1980s and the 1990s. As for India, its trend growth rate increased substantially in the early 1980s by about 3 percentage points. Meanwhile, serious trade reform did not start until 1991-93. Governments in both countries focused their scarce political capital and administrative resources on areas other than trade liberalization.

Since both India and China did increase trade substantially, they are both globalizers by the World Bank criterion. But as their experience reveals—along with the experience of many others, such as South Korea, Taiwan, and Vietnam—deep trade liberalization is hardly ever a factor in fostering higher growth and expanded trade early on. It is good to see the World Bank catching on to this simple reality.

¹ The admission comes when the report describes its sample of "more globalized" countries: "We label the top third 'more globalized' without in any sense implying that they adopted pro-trade policies. The rise in trade may have been due to other policies or even to pure chance." World Bank, Globalization, Growth and Poverty: Building an Inclusive World Economy, December 2001, p. 34.

Unfortunately, there is still a lot of subterfuge in the World Bank's report. You will not notice how much ground the Bank has given up unless you dig deep in the report and look at the way the evidence is presented. And even there, you will find a residue of the intellectually sloppiness the Bank has displayed on this issue in the past.

For example, a chart in the report shows that the Bank's sample of "more globalized" countries had deeper tariff cuts than the "less globalized" countries.² The unstated implication—but the one the reader is expected to draw—is that tariff cuts were an important determinant of global integration and hence growth. Of course, if there was direct evidence that these tariff cuts were correlated with growth (there isn't), you can be sure that the Bank would have presented those results instead.

In fact, just a few lines further down, the report denies that the question is even relevant. "Whether there is a casual connection from opening up trade to faster growth is not the issue" declares the report.³ One wonders why not. Why did the Bank invest so much intellectual capital on establishing the linkage between trade openness and growth if that is not an important issue?

These oddities are perhaps to be expected for an institution that is being forced to backtrack from a position that has become analytically and empirically untenable. We should just be happy that some degree of realism is returning to the World Bank's discussion of globalization.

The bottom line is this. Countries that have managed to grow rapidly and reduce poverty have also tended to become increasingly integrated into the world economy. What's at issue is the policy conclusion to be drawn from this empirical observation. Previously, the World Bank wanted you to think that a significant liberalization of the trade regime is a key element in unleashing all those good things. Now it is no longer so sure. Neither should we be.

² Figure 1.10 on p. 36.

³ P. 36.