Journal of
Social and Administrative Sciences
www.kspjournals.org
Volume 4 December 2017 Issue 4

Economics of WTO plus: No to conflict and Yes to regionalism

By Dawood MAMOON [†]

Abstract. The paper makes a case for effective regionalism in South Asia by developing such conflict mitigation strategies between India and Pakistan that exploit their proximity to global trade. The welfare enhancing measures for nation states become more startling when they not only invest in institutional development but also become an active part of the global village with regionalism as a viable means to achieve this objective.
Keywords. Trade, Institutions, Education, Regionalism, Conflict mitigation.
JEL. F10, F15, F16.

1. Introduction: Economic development vs economic progress

For any country a growth strategy is clearly different from a development policy and if not there need not be an emphasis on pro poor economic growth. Though poverty reduction strategies seem to accept that economic development is only achieved when dividends of growth trickle down to alleviate poverty as pro growth strategies are supplemented by a development policy, they generally associate poverty with incidence of income impoverishment where a widely explained definition of poverty line is taken as a standard which defines a threshold level of income for individuals at 2 dollar a day to achieve a bare minimum of a life style where life is only expected to sustain itself. Near the end of last century, incidence of poverty saw unprecedented rise as millions could barely earn enough to feed them selves, while millions in continents like Africa suffered from famine and impoverishment. Even though many were resource rich countries, they suffered from Dutch disease as resources became a curse while foreign intervention through aid and financial assistance (conditional aid by International Financial Institutions) failed to improve the situation. Foreign intervention by means of intellectual and capital assistance was brought to developing countries with the tag of structural adjustment programs (SAP) and thus became the new world order for the developing countries till late twentieth century. In most SAP failed miserably, as we know now, the emphasis, and an undue one, was on market forces and fiscal discipline, without any consideration to prevalent institutions or social circumstances under which these developing countries functioned. Under, SAP many developing countries opened up to international finance and trade but could neither witnessed economic growth nor social development. Rather things turn from bad to worse for many. It is not that policy advice under SAP was wrong, rather it was mistimed as well as half baked to only cater to fast macro economic dividends while ignoring institutional side of development discourse.

The experience of last century has all meant to even show how elusive the concept of pro poor growth can be. It evidently seems that emphasis on pro poor growth may not lead to a comprehensive development strategy as poverty itself gets to be a concept relative to many definitions as poverty may capture economic

[a†] School of Business & Economics, University of Islamabad, Islamabad, Pakistan.
☎. +0092 51 5730280 ext 258
✉. dawoodmamoon96@gmail.com

as well as social deprivations in the society. Basic societies, which are abundant to find in developing peripheries, where livelihoods depend on basic modes of production, may earn less than 2 dollar a day as a household income, but the social capital they experience may have a higher value. Nevertheless, considering scientific innovation and technology as a significant measure of development, social as well as economic, through means of learning by doing, the global culture is increasingly changing in favor of technology where even isolated societies may be direct beneficiaries of it and thus can associate with global integration.

For all such societies with a significant portion of underdeveloped or rural peripheries largely working with basic modes of production but also with easy access to technology even though in most cases they lack the capabilities to utilize it, more important than globally accepted measures of poverty itself are those determinants of welfare which may be entirely relative to the local or regional surroundings of developing nations and their underdeveloped peripheries.

The developing countries need to prepare for globalization while local efficiency is harnessed and brought to global standards through a slow and steady progression from local to regional economic and institutional exposure and finally to global one. For most this is the best way to development, while for many others, especially countries like India and China, their economies from within are transforming into two distinct categories where one is well aligned to global modes of production and the other is still lagging behind for being traditional as one may put former as thriving urban localities and later as their rural peripheries. Such countries and in many similar cases, the problem of inequality is a serious developmental issue. Thus why inequality is rising and how to minimize dispersion in income become serious notes in development discourse.

Research on economic development concentrates on concepts of universal wellbeing like education or institutions, but it also analyzes these welfare enhancing measures against each other for relative importance while checking their influence on the two important channels through which impoverishment may be more visibly affected. As literature suggests poverty is influenced through a country's per capita growth or income dispersion, we analyze how different determinants of economic development fare with these endogenous concepts of welfare and may point out to specific welfare improvement strategy in a developing country which may supplement the more detailed ones published and promoted by IFIs.

Rodrik *et al.,* (2004) has already undertaken a study on these lines whereby they show that institutions have a yet most robust growth enhancing effect on income, while market forces in the long run may not matter. Countries which follow rule of law eventually achieve sustainable growth rates. Among developing countries, we have a good example of India, where rule of law is comparatively better than other developing countries, while India is also a well practicing democracy and these institutional factors may be more closely related with Indian growth phenomenon which was triggered in the last decade and still sustaining it self. On the front of social development, India has yet to witness improvements though significant portion of the population is educated, whereas the country only recently had been following a protectionary policy especially for its industrial sector. India opened up to global markets in early 1990s and within a decade or so has become one of the most important stakeholders in global prosperity. Here we may suggest that strong institutions helped India in the first place to provide the basis for an economic miracle while growing incomes have also benefited the people at the bottom of the pyramid and significant decrease in poverty levels have been witnessed. But there is another lesson and that is the trade dimension to Indian success story. Had it not been for increased efforts of integration to the global economy by India in the 1990s, the country may have presented a different picture today as India also had a long history of growth failures with the same institutions working well. Here one may suggest that India embraced globalization and timed it right when a significant portion of the population was educated whereas at least some of the institutions were well developed while others were showing visible improvements. Before 1990s, India was much of a socialist democracy which was initiated by Nehru's first government in 1947 to protect local industry while at that time the population was also largely uneducated.

So in addition to institutions, trade has been an important determinant of Indian growth and subsequent poverty alleviation. In the comity of nations, nevertheless, India is just an isolated example. For example, its neighbor Pakistan has been a more open country traditionally, and overall for last 60 years or so Pakistan's growth performance has been better than India's on average. However, growth happened in Pakistan in spurts, while it was highly correlated with national and international political economy circumstances where the country received a special attention by international stakeholders, while conditional Aid worth billions fed the macro economy well and growth figures showed a visible rise for all such peculiar periods. Incidence of poverty in Pakistan is less severe to Indian case. Overall, social sector is underdeveloped, where Pakistan scores low in human development indicators in South Asia as well as at global level. Not only there is lack of democratic precedence in the country, rule of law is poor and corruption is higher when compared to its neighbor India. All this is coincided with a history of unsustainable economic growth in the country while poverty measures also showing volatility and income inequalities are also on a constant rise. It seems markets may fail without the presence of robust institutions as well as developed social sector in developing countries.

2. Moving beyond economic growth to capture global wellbeing

Generally strong institutions are a key factor behind rising incomes. Not only that rise in income would be more equitable in the presence of good quality institutions which then ensures pro poor effects of economic growth. Mamoon (2008) does a comparative analysis of different type of institutions which is a useful exercise as it provides a detailed policy guideline to the policy makers on relative importance of institutions. Incomes are highly correlated with country's regulatory quality. Growth in per capita income levels are more sensitive to market friendly regulation where privatization is promoted under prudential regulation measures. There are many developing countries which have grown well all due to the promotion of pro market pro growth policies, where property rights were secured and competition was encouraged. China until recently has also introduced measures to secure private property rights for investors to feel protected and invest further in the country. So it seems and unlike Rodrik *et al.,* (2004) and in line with Glaeser *et al.,* (2004) that regulatory quality is rather more important determinant of incomes then rule of law. Nevertheless, analysis on the distribution of income shows that rule of law and control for corruption are more important institutional factors while regulatory quality is less relevant. Further more, political stability which capture civil unrest in a country is weekly related with incomes of people in a country but it strongly influence distribution of income and has been found to be no less important determinant of inequality than rule of law or control for corruption.

Rising levels of inequality is not good for economic growth, as a country may find itself less politically stable as a consequence while lack of control on corrupt regimes or poor rule of law further feeds into the instability and inequality. While a country may very well show spurts of economic growth, it is visibly not sustainable under poorly performing institutions. An undue focus on economic growth becomes a trap for the country. This has recently happened in Pakistan, where the regime of General Pervez Musharraf became highly unpopular despite Pakistan witnessed a growth rates at par with China and India. Though the country was growing under good regulation policies, inequality witnessed a steep rise, while law and order situation worsened as well as country became more politically unstable. Much of the similar happened to India in 2004, when India Shining rhetoric was not bought by the public and they ousted government of Prime Minister Vajpayee in favor of Congress as growth was just not good enough for majority of the electorate especially when rural urban divide was on a steep rise.

Unlike Rodrik *et al.,* (2004), Mamoon (2008) do find that integration is good for economic development of a country only when certain negative externalities of integration are addressed in addition to ensuring a precedence of sound institutions. Though sound institutions are closely linked with economic development, for policy making which is done in short run, there is a clear handicap. Institutional concepts like rule of law, control for corruption, voice and accountability can only develop in longer periods of times; some times it may take few decades. How ever, seeds for good institutional set up may be sowed by focusing on social development, especially by empowering people through formal and informal means of education. Market information is better streamlined if population is well educated. Investment in human capital, may also improve the growth potential of the country when it moves to high technology oriented production and consumption patterns supplemented by an efficient utilization of economic opportunities of integration with global markets.

Countries, which are better educated to start with makes the best out of trade with equitable modes of income generation. However, countries including many of high growth ones like India and China, have heavily invested in higher education while still a significant portion of the populations in both countries have remained illiterate, especially the ones who belong to rural areas. This has resulted in a rise in education inequalities much in line with many Latin American countries. While India and China have greatly benefited from international trade, especially recently, the growth dividends of trade are unequally distributed. Many studies also reviewed in the thesis suggest that trade oriented growth in many developing countries is seen to benefit the rich and the educated more while largely excluding the ones living in rural peripheries. Though in literature the effect of trade on income inequalities is found to be insignificant, there are significant rise in the inequality in returns to labor in the manufacturing sector which usually is high growth oriented sector of the economy. Empirical studies show that skilled biased international trade is significantly related with inequalities in manufacturing sector pay based on relative skills or lack of them.

3. Conflict vs regionalism

Developing countries work under different technological regimes within a region. For example China is at a higher stage of technological ladder than say Taiwan. Same analogy is true for India and Pakistan. Similarly there are regional categories where countries in one particular region are underdeveloped compared to other regions while international trade happens in the form of clusters. For example, developed countries trade among themselves more than they trade with developing countries and the trend is becoming more salient. Then why not developing countries look for regional trading partners to yet enable themselves for a smooth landing on trading platforms provided by global markets?

Negative distributional effects of skill biased trade with developed countries can be offset by increasing regional trade where more exchange can happen in low skill goods and thus trade can directly target the incomes of the socially and economically excluded segments of the population. In the meantime, developing countries should focus on social development as well as larger institutional development in the country.

Regional trade has seen a special attention much recently but it has yet to become efficient for most developing countries because within regions there are conflicts of interests which prevent regional arrangements to become effective. Every region and every country in a particular region for the developing peripheries of the world have national as well international challenges to initiate or benefit from regionalism. In many African countries neighbors are accused of funding civil unrest. Many countries have historic grievances, especially land disputes. But most still trade.

Similarly in South Asia, an economic case for effective regionalism and trade can be made as means to greater economic efficiency through conflict mitigation between rival parties so that resources are channeled into social development while country improves its growth potential with greater welfare impact. Currently, Pakistan and India despite dividends of regionalism have largely failed to benefit from regional economic arrangements. Rather the rivalry between both nations have at least made one regional arrangement namely SAARC (South Asian Association of Regional Cooperation) ineffective and redundant.

India and Pakistan have history of conflict going back to their independence from the British whereas 60 years down the time line, the possible explanations for the conflict have increased in number. Mamoon (2008) finds some common grounds for both countries to positively move towards peace and supplement each other in meeting challenges in social sector. The study makes a strong case for integration with global markets as well as increased bilateral trade as a significant means of conflict mitigation which may help both countries to focus on shared economic wellbeing.

References

Glaeser, E.L., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2004). Do institutions cause growth, *Journal of Economic Growth*, 9(3), 271-303. doi. 10.1023/B:JOEG.0000038933.16398.ed

Mamoon, D. (2008). Trade, Poverty, Inequality and Security, Shaker Publishing, The Netherlands.

Rodrik, D., Subramanian, A., & Trebbi, F. (2004). Institutions rule: The primacy of institutions over geography and integration in economic development, *Journal of Economic Growth*, 9(2), 131-65. doi. 10.1023/B:JOEG.0000031425.72248.85