



New Views of Trade and Sustainable Development: Using Sen's Conception of Development to Re-examine the Debates

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I. Introduction

This paper is a thought piece that accepts the thinking of Amartya Sen on the subject of development and asks what that new conception of development means for the subject of trade and sustainable development. If we conceive of development as Sen does, how can the trade regime and trade policy best serve development?

The paper begins by briefly outlining the current conceptions of the trade and sustainable development relationship, deriving from it an implicit definition of development. It then explores the definition of development offered by Sen. In the concluding section, it asks what implications this definition has for our conception of the trade and sustainable development relationship, and what types of policies might best orient trade and trade liberalization to support the reconstituted objective of sustainable development.

II. Trade and sustainable development: current conceptions

II.A Two basic models of trade and environment

There are two basic models of thinking about the trade-environment relationship on which most of the current, more nuanced, understandings are based, or from which they have evolved. The first, espoused mostly by environmental NGOs, paints trade liberalization as the great destroyer of environment. The second, promoted mostly by the community of economists and lawyers associated with the trade regime, imagines trade liberalization as the saviour of environment. As a background to the subsequent discussions, it is worth spending a little time fleshing out these admittedly stereotypical positions.

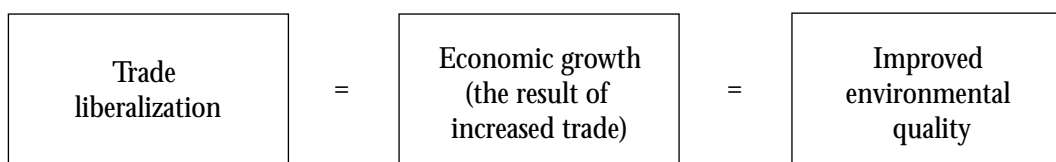
The Great Destroyer: According to this line of thinking, liberalized trade has a number of different sorts of environmental effects, all negative. There are two main types of linkage.

First, by achieving allocative efficiencies, trade liberalization increases the scale of economic activity (on this, both pro- and anti-trade schools of thought agree with few exceptions). Increased economic activity entails increased use of scarce natural resources, and more wastes and pollution associated with increased production, consumption and disposal of goods and services.

Second, trade liberalization involves increases in certain types of environmental problems directly associated with increased trade. The two main types of damage usually cited are increased pollution and resource use from transporting goods, and increased environmental (and economic) damage from imported invasive species.

Third, trade liberalization, by way of its constraints on the actions of governments, may reduce the policy space within which national governments attempt environmental management. This may occur directly, by way of prohibitions on certain types of regulations, or indirectly, by way of pressure from industries faced with foreign competition that enjoys a more lax regulatory environment.

The Saviour: According to this line of thinking, liberalized trade has a beneficial influence on environmental quality. The dynamics of the relationship can be sketched out as follows:



Trade liberalization leads to increased trade. Increased trade results in increased economic activity. Increased economic activity means higher incomes. People with higher incomes will be better able to afford, and more disposed to demand, higher environmental standards.

The income-environmental quality part of this relationship has been put forward as an empirical result—a relationship that has come to be known as the Environmental Kuznets' Curve (EKC). The original Kuznets' curve—an inverted-U shape—described tax revenues that rose and then fell in response to increasing rates of taxation. The environmental version of the curve shows environmental damage rising as income increases from a low level, then slowing its rate of increase, and finally falling again as income increases beyond a certain threshold level.¹

There have been a number of criticisms of both models of the trade-environment relationship. The "Great Destroyer" model fails to account for the significant effects of increases in income argued by the pro-trade community. This is a particularly serious fault in the context of developing countries, where the argument can be compellingly made that growth is needed as a support for improved environmental management (as well as for other material ends).

The "Saviour" model, on the other hand, ignores the fact that some sorts of environmental damage are irreversible, and that many types of environmental damage are far cheaper to prevent than to clean up. Both of these facts argue against a "pollute today, clean up tomorrow" strategy. There has also been a wide discrediting of the EKC. While it may be valid for those few pollutants that have local and immediate impacts, such as sulphur/acid rain, it does not hold true where the pollutants in question are deposited far from the source, or where the effects will mainly be felt at some point in the future. Pollutants such as greenhouse gases, for example, are positively correlated with income at *all* observed levels of income.

II.B Evolved understanding: trade and sustainable development

In response to the criticisms catalogued above, the simplistic basic models of trade and environment have evolved considerably in recent years (though this paper will argue that they have not yet evolved enough). As argued by the International Institute for Sustainable Development (IISD) and others, the trade-environment relationship is better conceived as a trade and *sustainable development* relationship.² Before advancing the justifications for and implications of this line of argument, we should pause to briefly define what is meant by sustainable development.

¹ Grossman and Kruger (1994) found the threshold level of income to be around US\$5,000.

² The earliest statement to this effect is Cosby and Runnalls (1992). Also see IISD (2000).

A good working definition of sustainable development is given by the landmark 1987 report of the UN Commission on Environment and Development (the Brundtland Report): “development that meets the needs of the present, without compromising the ability of future generations to meet their own needs.”³ Brundtland argued, in particular, the overwhelming need for growth in developing countries, but at the same time noted that such growth needed to be of a different quality than that experienced by the countries of the OECD.

Widening the focus of the debates from trade and environment to trade and sustainable development is useful in at least three ways:

1. Politically, it is useful in that by combining the objectives of economic growth and environmental integrity, it allows a dialogue among the communities that was impossible within the framework of trade and environment.
2. The wider focus is also morally compelling, since it recognizes the legitimate aspirations of developing countries for growth and poverty reduction.
3. Finally, the trade and sustainable development focus is instrumental in that neither trade nor environment objectives are best served in the long run by the partial approaches argued above. Trade without environmental protection not only damages the environment, but can in the end undermine trade itself, as when fish stocks are depleted by export-oriented fisheries. And focusing on environment without concern for the need for growth in developing countries may undermine environmental objectives by condemning the poor to remain poor, from which position they are less able to engage in domestic or global environmental protection.

II.C Trade and sustainable development research to date

In spite of the fact that many current researchers recognize the limitations of the strict trade and environment approach, it is often adopted because of its simplicity. Often the desire is to see specifically what impacts trade has on the environment, or what might be the impacts on trade flows of environmental regulations. As pieces of a wider approach that then proceeds to consider the development aspects of the trade-environment relationship, there is nothing wrong with this approach. But too often this last step is simply left out of the analysis.

The more worrying problem, however, is the approach taken by those researchers and institutions who sincerely try to use the trade and sustainable development framework. This paper will argue that practically all such analysts have an incomplete working definition of the relationship between trade and sustainable development.

To recap that definition: trade liberalization leads to economic growth. Economic growth, if of an environmentally-sensitive character, or if bound by a sufficiently robust regime of environmental management, leads to sustainable development. This is the standard understanding used by the WTO, and also by such NGOs as the IISD, IIED, Oxfam and others. It is the basis of the calls by all these organizations for the lowering of barriers to exports from developing countries in the pursuit of sustainable development.

³ WCED (1987): 42. The full definition, seldom quoted, continues: “It contains within it two key concepts: the concept of “needs,” in particular the essential needs of the world’s poor, to which overriding priority should be given; and the idea of limitations imposed by the state of technology and social organization on the environment’s ability to meet present and future needs.”

It is, however, problematic to assume that economic growth leads to development (and, if civilized by the strictures of environmental management, to sustainable development). Reducing this to its basic assumptions, it is an equation of economic growth to development.

This equation is never explicitly stated, for good reason. It would be difficult to find supporters of the proposition that GDP growth is equivalent to development. Development is generally understood to also encompass such things as an acceptable *distribution* of income, literacy, nutrition, education, and a number of other non-income elements. Granted, increased income levels can be instrumental in achieving some of these other things (other than income distribution, of course), but it is not equivalent to them; they are development goals in their own right. This truth is the foundation of such alternative measures of human welfare as the UNDP's Human Development Index—a composite of many diverse indicators of which only one is per capita GDP.

And yet analysis after analysis relies on this implicit assumption: growth equals development. It is implicit in the arguments of the WTO and the wider trade community that trade can be instrumental in the achievement of sustainable development. It is similarly embedded in the assertions of environmental NGOs that argue for trade's potential contribution to sustainable development, asking only that it respect environmental realities.

In the section that follows, this paper offers a more nuanced definition of development, as a prerequisite to asking how such a definition might change our understanding of how trade and trade liberalization might contribute to sustainable development.

III. A new conception of development: Sen's framework

III.A Sen's concept of development as freedom

In the previous section, we adopted the Brundtland definition of sustainable development: "Development that meets the needs of the present without compromising the ability of future generations to meet their needs."

As a guide to defining development itself this is not helpful. In fact, this passage makes no attempt to do so; it merely qualifies how development can be made to be sustainable. Of course, the themes covered in the Brundtland Report give us some indication of how the Commission conceived of development. But as it is central to our present analysis, it may be better to adopt an explicit and well-argued definition than to rely on such inferences.

Such a definition is found in the thinking of Amartya Sen—thinking that was in part responsible for his 1998 Nobel Prize in Economics.⁴ The foundation of his thesis is a belief in individuals as the agents of positive change. The real challenge, he argues is to imbue individuals with freedoms of the type that will allow them to pursue that which they have cause to value.⁵ He argues that "Greater freedom enhances the ability of people to help themselves and also to influence the world."⁶ The process of achieving those freedoms is Sen's conception of development.

⁴ See, in particular Sen (1999).

⁵ Of course, if the aspirations of an individual include behaviour which would harm others, this bad has to be weighed against the good freedom brings, and legal restrictions may be necessary.

⁶ *Ibid*, p. 18.

Sen conceives of two roles for freedom in development: constitutive and instrumental. Constitutive freedoms are valuable in and of their own right—they *constitute* development. They include such freedoms as freedom from starvation and premature mortality, and the freedoms that come with basic literacy and civil rights. As well as being basic elements of development, freedoms can act to foster other types of freedom. That is, they can be *instrumental* in achieving development, as when education of women results in their achieving smaller families, which they presumably have reason to value. So freedoms can be both an end and a means to development.

What types of freedom does Sen have in mind? The possibilities are myriad, but he concentrates on five basic types of instrumental freedoms:

- Political freedoms/civil rights (e.g., free speech, elections)
- Economic facilities (e.g., opportunities for participating in trade and production, access to credit)
- Social opportunities (e.g., socially-provided education and health facilities)
- Transparency guarantees (e.g., openness in government and business)
- Protective security (e.g., social safety net)

These freedoms are instrumental in the sense that each one is important in fostering the achievement of other freedoms or, in other words, in the process of development. A democratic government is more likely to respond to the desires of its citizens in providing social opportunities and protective security, for example.⁷ Another example is the importance of education in allowing people to make informed decisions about what they actually want to pursue in life—a dynamic particularly important to the impoverished, who will often be resigned to lowered ambitions.

Sen coins the term “functionings” to describe the various things that an individual may value doing or being. These can range from the very basic (being nourished, being free from avoidable disease) to the complex (having self-respect in the community).⁸ The set of various functionings that an individual is able to achieve Sen calls an individual’s “capability.”⁹ One way to think about his conception of development is that it is aimed at expanding the capabilities of individuals, through the provision of freedoms.

Individuals’ capability sets are a function of both processes and opportunities. Processes are the institutions that grant freedoms, such as voting rights, political or civil rights. Opportunities arise from individuals’ personal or social circumstances. The distinction is important from a policy perspective; despite the provision of public health care (an institution), for example, an individual might be hampered by a debilitating infirmity (creating lack of opportunity).

A side note: it should be obvious that this concept of development is not something that only needs to take place in what we have traditionally called “developing countries.” While it may be so also under Brundtland’s definition, development according to Sen is very clearly a challenge for both developing and developed nations. Sen uses the black population of the United States as a frequent example of underdevelopment in expounding his thesis.

⁷ Though there are important instances of non-democratic governments providing these types of services as well, including notably China and Cuba.

⁸ The concept of functionings is an interesting fit with the concept advanced by psychologist Abraham Maslow of a hierarchy of human needs, running from food, shelter and heat through to “self actualization,” or full realization of individual potentials and desires.

⁹ Note that this concept allows us to distinguish between a rich person who is fasting and a poor person who is hungry. Though they both may be achieving the same functioning, the former has a much better capability set.

It is also clear that development according to Sen is not a strategy devised by technocrats and imposed on the passive populations of low-income countries. While there is a critically important role for governments and development agencies in fostering development, that role consists of freeing individuals to be the agents of their own development.¹⁰

III.B The role of income and markets in development

Before we go on to apply Sen's definition of development to our understanding of trade and sustainable development, it might be useful to briefly explore how income, GDP growth and the market fit in his conception of development.

Possession of disposable income powerfully expands an individual's capability set. But it is only one of many desirable sources of freedom. Sen uses the example of a rich slave to illustrate the fact that income must be supplemented by other forms of freedom to result in real development. And he argues that there is no direct relationship between income and well-being that can apply to different individuals. A hundred dollars to a poor man, for example, may be very different than a hundred dollars to a millionaire.

As well as redefining development, Sen also asserts his own definition of poverty, rejecting the thesis that it is equivalent to low incomes. Rather, he defines it as capability deprivation, or in other words the lack of what he calls development. Conversely, poverty alleviation is the process of development. By this definition, a lack of income is one element of poverty, but only one of many. The essence of poverty, then, is a lack of choices—a lack of avenues by which to fulfil one's life objectives. Lack of education, discrimination or exposure to environmental degradation may be just as important in this deprivation as low levels of income.

It should be obvious that, given Sen's focus on individuals, equitable income distribution is of critical importance in ensuring that GDP growth actually contributes to development.

In Sen's view, the market has two roles that are both important to development. First, the market is a source of income generation, and income as we have noted is an important element of an individual's capability. Second, the ability to transact is a freedom in and of itself, and one which the majority of humanity seems to have reason to value. Free markets, all other things being equal, are better than controlled ones. Even if the two systems were just as efficient at producing goods and services, most people would choose the former.

III.C The role of environment in development

If our concern is a new view of trade and sustainable development, it is worth asking how Sen's view of development corresponds to *sustainable* development. What is the role of environment?

Pioneering work on this question has been done by Duraiappah (2001), who asks first how environment fits in the conception of development enunciated by Sen, and how environmental management can contribute to development.

¹⁰ It is interesting to note the similarities between this role and the role of the WTO, which in essence frees the agents of change (firms) from the strictures of unfair or unpredictable government regulation.

The simple answer to the question is that environmental integrity is one of the many freedoms that allow an individual to pursue that which the individual has reason to value. Environmental degradation can be an important source of unfreedom:

- It can erode the resource base on which people directly depend, as in the depletion of a fish stock or a forest on which a community depends for its livelihood and food.
- It can destroy environmental services provided by nature, as when deforestation erodes the ability of a watershed to hold back rainwater, resulting in catastrophic flooding.
- It can cause socially-disruptive adjustments, as in the imminent submersion (due to climate-change induced sea-level rise) of a number of populated South Pacific atolls.
- It can be health damaging, as when individuals are forced to breathe the pollution created by traffic and industry in their cities, or the smoke from large forest fires.

Duraiappah classifies environmental integrity as an element of protective security—one of Sen's five basic instrumental freedoms. In the same way that freedom from crime and mishap expands an individual's capability, so does freedom from the many forms of environmental degradation.

Note that while Sen's conception of development can accommodate part of the current definition of sustainable development, it does lack an important element. While it makes the case for environmental protection as an important freedom, it does so only for the present generation (or for future generations only insofar as such provision is desirable to the present generation). This is not nearly so powerful a limitation as that imposed by the Brundtland definition of sustainable development, which asks that actions by the present generation not impede the ability of future generations to meet their own needs.

IV. Trade and sustainable development in the new framework

Having propounded a new definition of development, and explored how it might be expanded to accommodate a new definition of sustainable development, we now turn to the question: how can trade and trade liberalization best serve this cause?

This question, even under the traditional definition of development, is not asked nearly often enough. The objectives of the trade regime, judged by their final outcome, seem much more to concern political compromises than service to any higher objective. Certainly, this seems to have been the driver for the Uruguay Round results on key issues such as textiles and agriculture. From there it is a long way to having the goal of development drive the negotiations, something many analysts claim it did not do in the Uruguay Round negotiations on TRIPs, services and other areas (and something many are claiming is, as of early 2003, surprisingly absent even in the negotiations of the Doha "Development" Round).

This section first sets out some implications for the trade and sustainable development nexus of a new definition of development. It then turns to a particularly important set of implications, looking at the importance that the new definition assigns to the strength of domestic institutions. Finally, it suggests some paths for achieving development as we conceive it here, through the trading system.

IV.A The implications of Sen's definition

Sen's framework deals equally with environmental and economic considerations. Both are reduced to elements of development, but elements that, like an only child suddenly forced to fight for food at a table crowded with cousins, must now contend with a good deal of company. A single-minded focus on either environmental protection or economic growth is clearly inappropriate.

The result will ring familiar to those steeped in the trade and environment debates, who have for years argued that trade liberalization in absence of strong regimes for environmental management would result in development-retarding environmental damage, and in the long run might even set back the cause of economic growth. The same argument can now be seen to apply to a whole range of necessary domestic institutions. In their absence, liberalizing trade flows may not lead to sustainable development, since GDP growth on its own is inadequate.

In a more positive sense, we should ask the question: what does trade liberalization mean for the domestic institutions and freedoms that are necessary for development as we have now defined it? Can it strengthen them, or erode them? How can we ensure that we achieve the former rather than the latter? This is the subject of the paper's next section.

First, however, we need to be specific about what we mean when we talk about trade and trade liberalization. It has become fashionable to use those terms to mean everything that is negotiated in the World Trade Organization, or in bilateral or regional treaties that contain trade provisions. Clearly, though, such a definition embodies more than just trade. It also includes provisions on investment, intellectual property, government procurement, competition policy and elements of standard-setting that are as much related to domestic policy objectives as they are to international trade. We will, henceforth, mean to include reference to these elements of what has been called "deeper integration"¹¹ when we talk of trade and trade liberalization, though we do so in the knowledge that the convenience of the shorthand carries a price in terms of clarity.

IV.B The importance of institutions

According to the framework propounded by Sen, if we value development we should be aiming for the establishment of adequate domestic institutions for freedom to at least the same degree that we strive for trade liberalization. Among these institutions might be, as appropriate for the circumstances, a strong public education system, some sort of system of public health provision, a healthy system of finance and credit, some modicum of public law and order, democracy and other civil rights, a strong system of environmental management, and so on. To be clear: these types of institutions lead to *instrumental* freedoms—each helps to bring about the other elements of freedom that constitute development.

To put the issue on a more familiar footing: there are a number of elements at the domestic level that are widely understood to be necessary if a country is to fully exploit the opportunities offered by liberalized trade. They include, among other things, adequate physical infrastructure for export, access to credit at stable and reasonable rates for exporting firms and some degree of macroeconomic stability. But this list is premised on the implicit goal of increasing trade (specifically export) flows. If we instead look to foster *development*, many of these institutions are still necessary, but they are joined by other institutions with aims other than economic growth.

¹¹ See Rodrik (2000).

The dynamic, however, is the same: in order to benefit from the full potential of trade liberalization to promote sustainable development, a country needs a strong set of domestic institutions of freedom.

This conclusion, the result of Sen's analysis, is the same as that reached by Rodrik (2001), who "questions the centrality of trade and trade policy and emphasizes instead the critical role of domestic institutional innovations. [He] argues that economic growth is rarely sparked by imported blueprints and opening up the economy is hardly ever critical at the outset." For Rodrik, based on extensive historical analysis, certain types of institutions are essential in supporting healthy markets. These include:

- Property rights
- Market regulatory institutions
- Macroeconomic stabilization
- Social insurance/safety net
- Conflict management/rule of law

He argues that no country has developed simply by opening itself up to foreign trade and investment. The trick, in the successful cases, has been to combine the opportunities offered by world markets with a domestic investment and institution-building strategy to stimulate the "animal spirits" of domestic entrepreneurs. He argues that almost all of the outstanding cases—East Asia, China, India since the early 1980s—involve partial and gradual opening up to imports and foreign investment.

IV.C Strategies for development through trade

How can trade policy best contribute to sustainable development as we have now defined it? We have, throughout this paper, criticized the idea that a single-minded focus on liberalization is inadequate. In closing, we will consider some of the alternatives, based on the preceding discussions.

First, it is critically important to more fully understand the potential impacts of trade liberalization in each country's case. This is a basic prerequisite to effective strategies for development through trade. How will agriculture liberalization, investment liberalization, impact on the countries that adopt them? The answers will differ from country to country, sector to sector. This type of understanding can come only with a sharpened ability to undertake assessment of trade liberalization, the result of capacity-building efforts such as the Trade Knowledge Network and others.

In particular, we should like to know how liberalization will affect the institutions and freedoms that we desire as part of the development process. The areas of deeper integration—intellectual property rights, investment law, competition policy, are of particular interest here, not only because they directly mandate institutional change, but also because their implementation involves dedicating a significant amount of resources. As Finger and Schuler (1999) and Rodrik (2001) have pointed out, adopting these sorts of institutions may actually come at the expense of institutions that are more appropriate to a country's development priorities.

One possible strategy for pursuing development through trade liberalization is to better tailor liberalization packages to the needs of developing countries. That is, there is a wide range of capacities to exploit the opportunities offered by trade liberalization, and a wide range of

vulnerabilities and existing institutions of freedom. Ideally, each situation would demand a different package of implementation. In the same way that individual country situations are assessed in the process of accession to the WTO, with the resulting required reforms based on needs and capacities, there may be scope for developing countries to adopt individually tailored packages of reform that deviate in certain ways from the final results of multilateral negotiations. Beyond the standard longer lead times for adopting certain obligations, these might be in the nature of exemptions granting space for certain development-oriented policies.

There is, of course, a great deal of resistance to the principle of differentiation in special and differential treatment in the WTO, primarily from those larger developing countries who suspect that the less-developed countries' gain might be their loss. And if a varied approach to reform is adopted, there will need to be some means for determining at what point the special treatment has finished its work and should be ended—a particularly difficult question. Despite the difficulties, if development is the final goal, we will at some point need to devise something other than a cookie-cutter strategy for WTO-mandated reform in developing countries. Indeed, such an approach has the support of history, which shows that today's developed countries achieved their success in large part through the use of strategies that are now being circumscribed for all countries, such as strategic protection and subsidization of industries.¹²

As well, there may be a need to look beyond the WTO for support in creating needed domestic institutions. In that sense, the precedent of the collaborative Integrated Framework—an initiative of capacity building for trade involving the WTO, the World Bank and others—may be instructive. Certainly, it will be necessary to examine the role of the World Bank and others in strongly promoting privatization of services, given the central nature of many of those types of services to the development process. The difficulty in involving institutions outside the WTO for such efforts has always been the inability to link those efforts to the actual rights and obligations of the WTO members. That is, ideally we would manage to involve collaborative institution building in developing countries as part of the WTO program of special and differential treatment. This would imply that the effort would also impact on the obligations of the countries involved, for example, exempting countries from certain undertakings until institutions are domestically strong enough. There is no precedent for this sort of cross-fertilization of efforts and it is difficult to imagine how it might be done in practice. But if sustainable development is to be, in fact, the central objective of the trading system, such innovations will have to occur.

¹² See Chang (2002).

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