Anni Bolitho reports on a community writing project that brought consumers and producers of water together in New South Wales, Australia. This led to new insights in water supply, water demand management and new symbolisms for water as a source of creativeness. Old symbolism comes from West Bengal, where rivers stand for female lives. Flooding was part of riverine lives to which people adjusted themselves. The colonial attitude has been to control rivers.

Bangladesh has an estimated 10 million tubewells. Many are contaminated by arsenic, which is also entering the foodchain causing serious health and social problems. Poor women bear the brunt as they lose income-generating activities and have to give free labour in exchange for access to arsenic-free wells owned by higher castes and/or more wealthy households. The crisis can nevertheless become an opportunity by providing equitable access to arsenic-free water, water-related production and project planning and implementation. Ultimately the crisis is a test for democratic, effective and non-discriminatory local government. EPW

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Development and Policy Space

Putting Development First: The Importance of Policy Space in the WTO and International Financial Institutions
edited by Kevin P Gallagher;
Zed Books, London, 2005;
pp 301, £ 18.95.

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While developing countries hope that they will be able to right the wrongs of the Uruguay round of the World Trade Organisation (WTO), there are growing concerns over whether they will, in fact, benefit from the Doha round. Against this background, *Putting Development First,* asks two pertinent questions: (i) how do the rules of the WTO and other measures required by international financial institutions restrict the ability of developing countries to establish sound development policies? And (ii) in light of the fact that national policy space is now limited, what policies can developing countries initiate to preserve their autonomy?

Putting Development First is a collection of 12 essays written by prominent development economists from the North and the South. A few essays tackle general issues related to the opening of developing economies, their "optimum degree" of openness, links between economic growth and openness, the general effects of restrictions on investment and industry and identify problem areas for developing countries. Other essays tackle specific issues and deal with them systematically. The latter are the focus of this review.

The book may be divided into three parts. The first part, based on economic theories and empirical evidence (largely from east Asia), argues that it has become increasingly important for the state to intervene and make markets more development friendly. The second part demonstrates that the policies put in place by developing countries and now scorned at by developed countries are the same policies used by the latter during the initial stages of their development. The third part of the book offers alternate perspectives and policies that could help policy-makers expand the existing policy space.

State Intervention

Globalisation is not without its advantages. Some gains from globalisation are tangible even in developing countries: the demand for a country's products are no longer constrained by its own markets, a country's investment is no longer constrained by how much it can save and producers can have access to other means of production (even if this comes at a price). However, these gains are not without challenges. In 'Development Policies in a World of Globalisation', Joseph Stiglitz suggests that the biggest challenges faced by developing countries are those associated with borrowing from abroad, particularly with sovereign bankruptcy and industrial policies. Thus, Stiglitz sets up the background for the rest of the book and explains the problems related to sovereign bankruptcy. He writes that these problems are further exacerbated as there is no good way of dealing with sovereign bankruptcy. He then quickly moves on to dealing with industrial policy.

Economic theory suggests that what separates developed countries from developing countries is the gap in knowledge. This gap can be reduced by having perfect markets and full (or next to full) information. Owing to the fact that the loss of even the slightest bit of information can have marked effects, the government needs to intervene. Economic history shows that industrial policies played an instrumental role in the development of east Asian and some European countries. While markets and entrepreneurship are vital, it was the government that was responsible for shaping the economic environment. Depending upon the extent to which the government intervenes and the kinds of regulations that it imposes, development may be boosted or thwarted. To support this idea, Sanjay Lall ('Rethinking Industrial Strategy: The Role of the State in Globalisation') describes in great detail the structural features of industrialisation of developing countries. He makes a case-by-case study of industrialisation policies adopted by Singapore, Korea, Taiwan and Hong Kong, pointing out that in each case, industrial policies have worked effectively owing to the manner in which the governments have intervened.

However, WTO rules are such that they prohibit those interventions that affect trade, to the detriment of developing countries. Robert Wade carries this train of thought forward in 'What Strategies are Viable for Developing Countries Today?' by delving into the mechanics of WTO agreements. He lists the main agreements of the Uruguay round and shows how they "tip the playing field against developing countries" by restricting the ability of governments of developing countries to set up policies that would favour growth of domestic firms and industries. Few can dispute the validity of Wade's argument. Developing countries have been denied rights to export textiles and other goods for at least the last 30 years. They have also been pressurised into curtailing their rights in the services sector and intellectual property over the last 10 years in favour of developed countries. Farmers of developing countries are at risk of losing their livelihoods because developed countries have not done away with their agricultural subsidies [Das 2005]. Wade feels that governments should work towards the "internal integration" of the domestic economy so that attempts at "external integration" are not counterproductive. He further suggests that "re-tooling" multilateral and regional institutions to choose appropriate levels of protection for developing countries. Of course, protection alone is not enough – it needs to be a part of larger industrial strategy.

Kicking the Ladder

The developed countries are at the helm of the newly established global economic system. They are, therefore, in a position to make recommendations regarding policy and institutions to developing countries. The second section of the book looks at instruments such as performance requirements and investment rules used by the developing countries to provide some protection to domestic policy space. However, what is more interesting is Ha-Joon Chang's inquiry ('Kicking Away the Ladder: Good Policies and Good Institutions in Historical Perspective') into whether developed countries have in place the same policies and institutions that they recommend developing countries have when they were themselves developing.

Looking back at economic history, one finds that almost all developed countries used some form of infant industry protection, which they actively discourage today. The UK and the US used tariff protection most aggressively, often in combination with export subsidies and tariff rebates. Developed countries have repeatedly stated that developing countries have tariffs that are far higher than theirs had been in the past, not realising that owing to the gap between the two, the developing economies need to have much higher tariffs! As far as institutions are concerned, not a single developed country developed under democracy; their property rights at the time fell far below modern standards well into the 20th century; their financial, welfare and labour institutions were developed during the early 20th century and corporate and government institutions were established only after they were well developed.

However, developed countries are now "kicking away the ladder" primarily because the world standards in policy and institutions have risen and because they call the shots in the global economy.

Alternatives

· In 'Neoliberalism as a Political Opportunity: Constraint and Innovation in Contemporary Development Strategy', Peter Evans suggests that neoliberalism is not an unlikely regime to adopt as it may help in transforming not just developing countries but the entire global system. His critique of neoliberalism is sound; he recognises it generally favours multilateral political pressure through treaty devices such as the WTO and prefers keeping the role of national governments to a minimum. This could prove to have anti-development effects, especially, since developing countries are a more vulnerable group. Be that as it may, Evans argues that it is necessary to recognise the potential of neoliberalism – it may lead states of the South towards capability-centred development strategies that result in a broader distribution of public investement, increasing its returns to citizens. Neoliberalism pushes states towards smart industrial policy. Finally, it has made a case for collective action, thereby creating a more democratic global system. However, what is a matter for concern is whether neoliberalism can be used to spread that benefits of development and create more encompassing alliances, especially for developing countries.

Ajit Singh ('Special and Differential Treatment: The Multilateral Trading System and Economic Development in the 21st Century') strongly advocates special and differential treatment (S&DT) for developing countries in international trade rules, a view that is supported by economists and policy-makers in developing countries but not by those of developed countries. There is no doubt that the current and previous approaches of S&DT have been flawed but Singh argues that the endorsement of S&DT by ministers at Doha "provides a basis for working towards realising the inherent potential of S&DT for economic development". Of course, it would be necessary to develop a new concept of S&DT so that the fears of developing countries regarding the WTO's agreements on agriculture, property rights and trade in goods and services are allayed.

Putting Development First explains the current arrangements between international trade and financial institutions and developing countries and how the latter are affected. By pooling together literature that examines the role of domestic governments in the process of globalisation, it is able to provide a thorough theoretical and empirical analysis of how attempts to increase developing countries' openness may impinge on their domestic policy space, impairing their ability to be able to adopt effective policies for their development. The book may not be the final word on actual policies that could be put into place to preserve policy space but it should be able to guide policy and decision-makers in the right direction. EPW

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Reference

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