

Group 16

Athgo International

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Policy Memorandum Proposal

I. There are currently a billion people in the world living on less than \$1 per day, and many more are hovering dangerously close. The vast majority of these people are living in the global south. The world is currently on track to meeting the MDG addressing poverty. However, this is almost entirely due to huge successes in China and India; the rate of poverty in Sub-Saharan Africa has not improved. Furthermore, because the MDG is aimed at reducing the *percentage* of individuals in poverty, official success disguises the fact that the actual number of individuals living in poverty is still increasing.

Developing economies are disproportionately engaged in agriculture, petty services, and asset liquidation in the form of natural resource exploitation. Because these are all decreasing returns activities, they represent a serious misallocation of resources. Primary commodity exports are also vulnerable to decreasing terms of trade.

II. Extensive empirical evidence demonstrates that the growth of the manufacturing sector is positively related to the growth of GDP, and that growth in the manufacturing sector is positively related to productivity increases both inside and outside of the manufacturing sector. These relationships are collectively referred to as Kaldor's growth laws. The manufacturing sector thus represents a collection of increasing returns activities crucial to the development of local capacity that lays the foundation for sustained economic growth.

South Korea is the most dramatic economic success story of our time. It is therefore no surprise that many have turned to it as a model of "good governance". Development in South Korea was fueled by two things; intensive protection and subsidization of manufacturing industries. Crucially, this help was conditioned on the meeting of frequent productivity benchmarks.

III. If LDC's are ever going to develop, they must invest in manufacturing. The problem is that barriers to entry are high, and the sector is relatively capital intensive. That is why some degree of subsidization and protection from competition are crucially important. Current WTO policy, however, punishes countries for protecting infant industries. The WTO allows subsidy exceptions for countries with GDP's under \$1,000. This threshold is too low. We recommend that it be raised to the threshold for Less Developed Countries - \$4,000. In order to distinguish this type of protectionism from the type creating inefficiency and stemming merely from interest group pressure, we must create a certification process. Countries with a GDP below a particular threshold presenting the WTO with a proposal for infant industry development in the manufacturing sector must be able to implement their strategy without retaliation, so long as certain conditions are met. These conditions are threefold: transparent budgets, and the successful completion of productivity benchmarks for an allotted period of time, and the presentation of proof that the products under manufacture are targeted to foreign markets. This last point deserves special emphasis, as the failure to recognize its importance was largely important for the failure of ISI.

In Korea, this model was accompanied by no small amount of corruption. The Korean model will remain both viable and effective, however, so long as those implementing it remain committed to both carrots and sticks. Adapting Korean disincentives to a democratic system presents difficulties, but is not insurmountable. We recommend that the state either manage the enterprise directly or maintain ownership. To achieve legitimacy in the eyes of the international community the process must be transparent, with clearly delineated and consistently upheld benchmarks.

IV. Our group will become American representatives to the WTO and lobby for this reform. Eventually, South Korea was able to open up to world trade with one of the most competitive and successful manufacturing sectors in the world.