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REVIEW ESSAY

Is trade good for development? The elusive question*

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This review presents the research paths taken in recent decades in the attempt to identify the causal relationship between international trade and development. It argues that this is a highly empirical issue which the traditional, multi-country studies have not been successful in unraveling. The academic literature found fertile ground in which to question the channels by which trade may affect development and give rise to research with more specific themes. The result is an enormous and diverse range of studies. Some of these lines of research, referencing important texts in the literature, are presented herein.

Keywords: International trade; development; growth; liberalization; exports.

The sharp growth in international trade in the last fifty years inevitably leads to the issue of its impact on the lives of individuals around the world. The academic community has been pouring over this issue for decades. The responses are varied, and no consensus seems to emerge. In fact, the consensus is that what should interest us is not whether international trade is good or bad for development, but rather what type of trade is good for which country. So, answers to how trade may raise the level of development for particular groups within a country and through what channels may international trade contribute to development are more specific issues that lead to a better understanding of the relationship between international trade and development. Thus, the academic literature in the area has over time undergone an expansion regarding not only the volume but also the delimitation of the objects and research

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methods. It is a field of study that offers a rich and productive line of research that counts on the theoretical and empirical contribution of various areas of academic knowledge.

What economic theory tells us

One of the few proposals accepted by most economists is that *there is gain from trade*. David Ricardo, in 1817, claimed that, in the case of countries specializing in the production of goods in which they have a comparative advantage, there is gain from trade. In the so-called Ricardian model, countries have different technologies which create a differential in labor productivity that, necessarily, gives each one a comparative advantage, that is, relative efficiency in producing a good. By specializing in the production of the good in which it has relative production efficiency, there is a reallocation of production factors toward the more productive sector and, consequently, an increase in production. The good that stops being produced is then imported from the country that is relatively more efficient in its production and, therefore, is able to sell it at a lower price. Buying from abroad at a lower price than that which would be paid if it were produced domestically (and selling goods abroad at a higher price than would be obtained in case the economy were closed) generates such a *gain from trade*. It is all an issue of the efficient allocation of productive resources.

Like Adam Smith, proposing in 1776 that the origin of the wealth of nations is in the division of labor, Ricardo shows that the international division of production leads to the increase of income and, therefore, to increased consumption and the well-being of the population.

This is a very simple theory, with absolute unrealistic assumptions but which marks the beginning of the modern theory of international trade by establishing that there are comparative (and not absolute) advantages which drive trade between different countries. However, complete specialization in the production of a good is not a reasonable result because such a phenomenon is rarely seen.

In the 1930s, with the work of economists Heckscher and Ohlin, there appeared a new theoretical model of trade (systematized in the following decade by Paul Samuelson), wherein the difference between countries is not given by

differences in production technology (which is available to everyone), but by differences in the adoption of productive factors. The result of total specialization of the country in the production of the good in which it has the comparative advantage does not occur as in the Ricardian model. However, it is this good that the country will export, and will import the good in which it does not have comparative advantage in production. In other words, as in Ricardo there is the reallocation of production (and of productive factors) toward the more productive sector. This leads to the gain in trade and the increase in well-being.

However, by introducing more than one production factor, which are used in different proportions in the production of different goods, the reallocation of production due to international trade leads to a reallocation of domestic income in this economy. In other words, despite still predicting a liquid gain in international trade, there are groups that gain income and others that lose income. The redistributive effect of international trade is the so-called Stolper-Samuelson effect.

Here we have a first ambiguity in the relationship between trade and development. Although the theory is clear and precise as to the existence of commercial gain, this is not distributed among all the individuals of the country that opens to the rest of the world. More than presenting an unequal distribution of income, the model states that there are groups of individuals (groups divided according to the ownership of the factors of production, labor, property, capital, technology, etc) which effectively lose income with international trade.

Although this is an issue of distribution of income (since the net gain from trade continues to exist for the country as a whole) and, therefore, able to be resolved with redistributive policies, there is clearly a conflict of interests as to the commercial policy. Individual positions against international trade are legitimate, mainly when there is uncertainty as to the replacement of losses through redistributive policies.

Until the 1980s, the only available models (for economists within the so-called mainstream) to explain the pattern of international trade were those based on the principle of comparative advantage. There was, however, a growing imbalance between the flow of trade effectively observed and that predicted by the theory due to the growing flow of trade between countries very similar to each

other (with a similar combination of productive factors, all capital-rich). The models based on comparative advantage, as shown above, explain trade from the differences (not the similarities) between partners. It is very useful, for example, to explain trade between countries that produce raw materials and countries that produce manufactured goods. On the other hand, however, it does not explain the growing trade among countries that produce, export and import manufactured goods (among the United States, Europe and Japan) which represents the greater part of international trade.

Since 1980, there have appeared the so-called 'new trade models' (HELPMAN and KRUGMAN, 1985). By incorporating hypotheses of imperfect competition and economies of scale, these models are able to explain intra-industry trade patterns; that is, among goods from the same sector. Developed countries not only trade a lot among themselves, but exchange very similar goods. Most of the trade between Canada and the United States, for example, involves automobiles and parts. Each one is, simultaneously, an importer and an exporter of these products. The traditional models (Heckscher-Ohlin) cannot explain this phenomenon, whereas the new models can.

However, by abandoning the hypotheses of neoclassical economics of perfectly competitive markets and first degree homogeneous production functions, the new models generate various results that are frequently ambiguous with respect to the existence of trade gain. There is no clear model, as with the traditional models, relating international trade and the generation of income, or economic growth and development (GROSSMAN and HELPMAN, 1991). There are, for example, cases in which protectionist trade policies generate an increase in well-being. There are, in other settings, cases in which free trade is the best solution.

Krugman and Obstfeld (2009), Feenstra (2003), Bhagwati et al. (1998), and Dixit and Norman (1980) show, in detail, the models presented here. Krugman (1994) offers a collection of seminal articles that reflect the evolution of the theory of international trade which culminates in the so-called 'new models'. A more comprehensive collection, with very influential articles on the development of economic theory on trade, comes from LEAMER (2001).

Although economic theory helps us understand the problem it seems incapable of giving us a clear and definitive answer to the question of whether trade is good or bad for economic development. This is a highly empirical issue.

Empirical studies that intended to give us the big answer – and their critics

Empirical studies, seeking to establish the relationship between economic growth and international trade, are long standing. EDWARDS (1993) did an extensive review of articles published between 1970 and the beginning of the 1990s. The author shows that two aspects were consolidated in the literature of this period. The first of these deals with the study of specific countries. This aspect shows that countries with import substitution policies grow less than countries which implemented export-oriented policies. The contrast is between the low growth of Latin America in the 80s and the rapid growth of the East Asian countries during the same period. Krueger (1990) is a prime example of this aspect. There are also several multi-country studies that, according to Edwards (1993, p. 1395), are based on the assumption of the causal relationship between growth and trade results from exports. The failure of the model of import substitution occurs due to anti-export bias and not due to economic inefficiencies generated by these models of development.

However, perhaps the most influential article ever written about the relationship between income growth and of the well-being of the population and international trade is Sachs and Warner (1995). In the nearly 20 years following its publication, the article was the target of much criticism, but also was used many times as a justification for trade policy proposals. According to Google Scholar, there are more than 5,000 citations.

Sachs and Warner (1995) is an ambitious empirical study that intends to show that the various economic reforms undertaken in the 80s and 90s by developing countries and those in transition from socialism generated benefits in terms of economic growth. That is, countries that reformed their economies are precisely those that obtained greater growth rates. The *open* variable constructed by the authors shows a positive correlation with economic growth (more open countries grow more). They also show that such a correlation remains even when additional variables, which are also correlated with income growth, are included in

the estimated regression. The result seems clear: more open countries grow more and, therefore, developing countries should have policies that generate greater openness (as measure by *open*) to be successful in the tasks of growing and developing.

There were many criticisms received after the publication of the article, most of them regarding methodological issues. Here, we will focus on two of these issues as it seems that these were the reasons that the literature dealing with establishing relationships between development and trade underwent a qualitative change from the end of the 90s.

The first of these deals with the difficulty of finding reliable indicators of barriers to international trade that are induced by public policies. To state that countries with no access to the sea trade less and, therefore, grow less and are more impoverished, is not a statement that leads to the proposal of some trade policies, or any other public policy, even though it may be true. Designing development policies, including trade policies, is the primary reason for seeking to understand the relationship between international trade and economic development.

Thus, it is necessary to obtain measures of trade restrictions such as tariffs or quotas. However, there is no way to obtain these data for many countries, over a long period of time, so it is necessary to conduct econometric exercises such as the one proposed by Sachs and Warner (1995). The variable *open* created by the authors is a combination of several indicators considered to be correlated with the degree of trade openness of a country. They are: premium in the foreign exchange black market, concentration of exports in state enterprises, socialist economies, proportion of imports of intermediate goods and capital on which quotas and tariffs are imposed. A country is classified as *open* according to the values for any one of these variables. That is, only the existence of a sufficiently increased premium (more than 20%, according to the authors) in the foreign exchange black market leads to classification as a 'closed' country. Rodríguez and Rodrik (2001) argue that *open* is more correlated with poor administration of economic policies that with measures of trade openness. They even show that, if the variable *open* is substituted by a dummy variable with a value of '01' for countries in sub-Saharan African, the results obtained would be precisely the same. That is, *open* is not an

appropriate measure of trade openness induced by trade policy. An exercise such as proposed by Sachs and Warner (1995) would only be valid to support policy proposals if *open* were such a measure.

Rodríguez and Rodrik (2001) reviewed other empirical articles that attempt to show the relationship between economic growth and trade openness, but that are equally marked by methodological flaws. Although Sachs and Warner's (1995) result continues to be used, the literature focused on these issues sought other methodologies to account for the difficulty in obtaining a broad database of tariffs and other barriers induced by trade policies.

A second methodological issue unresolved in Sachs and Warner (1995) and in the related literature is the problem of endogeneity. Countries that grow more and are richer may have greater participation in trade for reasons other than trade policy (or exposure to international trade, for reasons other than that of public policy). That is, the correlation observed between economic growth (and development) and international trade may, in fact, reflect a causality that does not involve these two variables directly. Again, if the ultimate objective is to design development policies, it is necessary to identify precisely the causal relationships. Frankel and Romer (1999) attempted to control this problem, even though this has not been a fruitful aspect of the literature.

Looking for more accurate answers

The perception that the problem of empirical verification of the relationship between development and international trade was not being resolved appropriately through large, multi-country studies led the literature in the area to seek new paths. One approach that has been extremely fruitful is the search to find contingent or conditional relationships between trade and development, as put forth by Rodríguez and Rodrik (2001).

Therefore, the empirical studies have focused more on specific research sectors and problems. The richness of the methodological approaches and thematic diversity is one of the most impressive characteristics of the literature. The issue is no longer exclusively of interest to economists and it has come to be seen, quite appropriately, as an issue of public policy. This has opened the way for researchers from various disciplines to interact and to offer more creative

solutions for the problem of identifying the causal relationship between international trade and economic development.

Although it is not possible to account for the myriad studies published in the area, this review presents a small but representative sample of the literature showing some of the paths followed by the academic community in the last twenty years of research.

Firms, productivity, employment and salary

The difficult search for general, macro relationships between international trade and economic development has generated a branch of literature that uses data from firms to try to gain evidence of this relationship. The rationale is that, although the macro result is important for the performance of the economy as a whole, those who in fact engage, and respond to the incentives of public policy, in international trade are the companies. They are also the ones who generate employment, production and income. The recent availability of firm-level microdata in several countries gave a tremendous impulse to the development of this approach.

One of the stylized facts in the literature on international trade is that firms that export are different from firms that do not export. Exporting firms generally are larger in terms of production and employment, pay higher salaries, use more capital and more skilled labor and are more productive than firms that do not export (BERNARD et al., 2007). Although exporting firms represent a small portion of the total of firms in any country, they are capable of influencing the aggregated results significantly.

Several studies seek to understand the dynamic of these firms in various countries. One of the results found is that firms engaged in exporting part of their production are more innovative than other firms. De Negri (2005) for Brazil, Van Bisebroeck (2005) for sub-Saharan Africa and Wei and Liu (2006) for China are examples. Other studies show that these are the firms that survive difficulties and grow (BERNARD and JENSEN, 2007; BRIDGES and GUARIGLIA, 2008; ESTEVE-PÉREZ et al., 2007).

However, several authors (for example, BERNARD and JENSEN, 1999; SALOMON and SHAVER, 2005) argue that an incentive policy for exportation is not

the most appropriate policy to raise the productivity of firms and generate good jobs. The evidence points to the more productive firms exporting, and not the opposite (the fact of exporting leads to increased productivity). Thus, the implication in this literature is that, in fact, engaging in international trade is important for the economic development of a country. However, the appropriate policy is to promote innovation and increased productivity in all domestic firms. Those that perform better will naturally export part of their production and will grow more than other firms.

What is the role of trade policy in promoting increased productivity of firms? A series of studies of several countries shows that there is a relationship between tariff reduction and growth in the productivity of firms. Schor (2004) for Brazil, Pavcnik (2002) for Chile, Amiti and Konings (2007) for Indonesia, Topalova and Khandelwal (2011) for India, Bas (2012) for Argentina, Bas and Strauss-Kahn (2014) for France, Teshima (2008) for México and Yu (2014) for China are examples. The mechanisms by which tariff reduction increases the productivity of firms are the increase in competition with imports and the importation of cheaper and more productive inputs. There is also the composition effect that increases the total productivity of the economy. That is, the more productive firms grow and the less productive firms lose market share or end their activities (for Brazil, this effect is seen in SCHOR, 2006).

However, the closing of less productive firms, although contributing to increased productivity of the economy as a whole, may mean a reduction in employment levels in case the firms remaining in the market do not absorb all the labor dismissed by the first firms. Therefore, one question that merits being answered is what effect on employment levels (and on the salaries of those who continue to be employed) does the larger engagement of the country in international trade have? Without doubt, this is a crucial point for the better understanding of the relationship between development and trade.

As mentioned briefly above, economic theory points to a clear redistributive effect of trade openness. In developed countries, trade with less developed countries (and with a relatively greater amount of unskilled workers) leads to a reduction in salary for less skilled workers and an increase in income inequality. In less developed countries, it is the opposite. "Are your wages set in

Beijing?" (FREEMAN, 1995) is concerned with explaining why low-skilled workers in developed countries have had their salaries reduced. Woods (1997) argues that the opening of the East Asian countries (in the 1970s-80s) to international trade led to a reduction of income inequality, with increased salaries of low-skilled workers, as predicted by the theory. The entrance of Latin American countries into the international economy in the 1980s, however, seems not to have contributed to the reduction of inequality in the same way. The explanation, according to the author, is the entrance of China into international trade (with relative abundance of unskilled labor) and the development of technologies that spare unskilled labor, reducing the demand for it and, consequently, the salaries of these workers. Since then, several empirical studies have sought evidence in this direction.

Hoekman and Winters (2005) did a comprehensive review of the empirical literature dealing with the impact of trade liberalization on employment and salaries. The authors showed that, in general, the effect of increased trade induced by tariff reductions on employment and salary is very small. The changes seen in recent decades (greater income inequality both in developed and undeveloped countries) is the result of changes in domestic variables, mainly the adoption of technologies that reduce the demand for unskilled labor. Arbache and Corseuil (2004) showed similar results for Brazil.

Dependence on commodity exports

Abundance of natural resources is not synonymous with wealth. One of the stylized facts in the literature is that countries with a greater wealth of natural resources (specifically those countries that export those resources) are not those with greater growth, much less are the richest or the most developed. The common sense is that these countries could use the income generated by the exports of their natural resources to import machines and equipment, educate their populations and become richer. Unfortunately, this is far from the reality of most of these countries.

The majority of studies that attempt to understand why the exports of natural resources does not lead to economic development may be divided between those that emphasize the economic consequences and those that point to the political consequences of the exploitation of natural resources.

Frankel (2010) did a review of the literature focused primarily on the economic determinants of the failure of countries rich in natural resources to follow a path of growth and development. One of the first explanations proposed was called the Prebisch-Singer hypothesis. The theoretical reason is that the countries that export natural commodities would be tied to a dynamic of low-growth, because there would be a long-term trend for the prices of these goods to fall in relation to the prices of manufactured goods. The commodities, as developed countries grow richer, would have a decreasing share of the consumers expenditure while manufactured goods would have an increasing share. That is, it is the hypothesis that the demand for commodities would be inelastic with respect to the income of the rest of the world. Although this theoretical explanation has been used as justification for public policy proposals, the empirical evidence is not of a downward trend in the prices of basic products (mainly after the 'boom' seen in the first decades of this century). There is, on the other hand, evidence of a wide fluctuation in the prices of commodities. This variation brings major difficulties to the administration of economic policy and the result frequently is the almost synchronized fluctuation of the prices of exported commodities and the rate of growth of the country. Some countries are able to introduce mechanisms intended to reduce these variations in growth such as, for example, Chile. However, these are rare cases.

A known obstacle to the development generated by the concentration of exportation of commodities, especially in times of rising prices, is the so-called Dutch Disease (VAN WIJNBERGEN, 1984). The exports of primary goods whose price in the international market increases necessarily leads to an increase in the income arising from the sale. The problem is that the revenues are in foreign currency and need to be converted to national currency in order to be used by local producers. This massive influx of foreign currency leads to an appreciation of the local currency. It is possible to implement monetary sterilization policies, but for a short period. Thus, with the low price of the foreign currency, the exports of other goods with stable prices (generally, manufactured goods) stops being profitable and there is a shift of productive resources toward the exporting sectors of commodities and non-tradable goods. The latter have their prices raised, given that there is an increase of income in the local economy and the prices are not

influenced by international prices. This process contributes to the increase in inflation that, in turn, exacerbates the appreciation of the domestic currency. Overall, the 'boom' in the prices of exported primary goods hinders investment in and production of manufactured goods that, generally, is the dynamic sector of the economy for generating innovation and gains in productivity.

One branch of the literature that deals with the so-called curse of natural resources uses economic policy to establish a relationship between abundance of natural resources and the occurrence of civil war. Collier and Hoeffler (2004) present empirical results based on a database of multiple civil wars between 1960 and 1999, which show the fact that there are variables associated with the viability of rebellion (financing of the rebels) that have great explanatory power. These authors emphasize that the variable ratio of primary exports in relation to the internal product of a country increases the probability of occurrence of civil war more than variables related to ethnic or religious diversity. Fearon (2005) shows that what matters is the availability and exportation of oil, and not any other commodity. The author argues that petroleum exporting countries systematically have weaker and more dysfunctional governments than countries with the same level of per-capita income. Thus, government control generates a rent for which it is worth fighting, which increases the probability of the occurrence of civil war. Therefore, there is both motive and opportunity for the emergence of violent conflicts when there is a concentration of exports of natural resources.

Basedau and Lay (2009), however, explain the ambiguity of the relationship between availability of natural resources and civil wars. The authors show that, in countries with a high per-capita level of wealth, the governments use these resources to guarantee stability through redistributive policies and funding of apparatus of security and repression. Thus, they distinguish the variables 'dependence on the export of natural resources', which has a positive relationship with the probability of violent conflict, from 'per-capita wealth in natural resources', which has a negative relationship with the probability of civil war.

The studies presented above aim to find a general relationship between abundance of natural resources and low growth and development. However, hidden within this pattern is a large diversity that stimulates another branch in the literature. The question raised is why some countries are able to free themselves

from the curse of natural resources (famous cases are Norway and Botswana) and others are not. There are, certainly, variables not included in the previous articles. A vast range of case studies has been produced about this topic. Among recent articles, Arellano-Yanguas (2011), Tyburski (2012), Sala-I-Martin and Subramanian (2013), and Holden (2013) can be cited.

Food security, import and export of food

Despite being treated at times as synonyms, food security and self-sufficiency in food production do not always go together. Food security is related to the availability and affordability of food to the population. International trade can have a considerable effect either on the increase or on the reduction of the food security of a population.

Trade policies are recognizably effective when dealing with altering both the price and amount of goods available in an economy. They are frequently used with the purpose of controlling the supply and the price of food, more specifically by developing countries. Nevertheless, trade policies are not the only instruments that can be used for this purpose. There are numerous domestic policies that could be used to control the price and amount of food and, another fundamental aspect of food security, the income available for its acquisition.

Generally, trade, based on export-restricting policies for countries that export food and restricting imports for countries that import food aim to dissociate the development of domestic prices from international prices. The reduction of exports increases the supply of food in the domestic economy, which reduces pressures to raise prices. The restriction of imports, on the other hand, prevents low international prices from offsetting domestic production. Import tariffs increase the domestic price, which encourages local production.

Two relevant issues arise in these situations. The first deals with the distributive effect that such policies generate. In exporting countries, food buyers benefit to the detriment of the producers. In importing countries, the producers benefit while the consumers face higher prices. The effect on the income of the poorer part of the population depends on the organization of each country, individually. In the case of the poorest part of the population being composed of small, rural producers and the country being an exporter of food (India, for

example), the price reduction policy reduces the income obtained from the sale of food and increases poverty. In the case of the urban population being the most disadvantaged group, then this policy reduces poverty and encourages the development of the country.

The second issue to be considered is the effectiveness of this policy to reduce the sensitivity of domestic prices in the face of fluctuations in international prices. The sharp rise in food prices in 2007/2008 led several countries to manage their trade policies (increasing restrictions on exports or reducing restrictions on imports) in an attempt to protect the countries from the high price in the international market. Headey (2011) argues that these changes had a significant impact on the crisis itself. Exporter countries reacted to the higher prices by restricting exports, which reinforces the high prices. Importer countries, then, anticipate the imports in order to avoid future price increases. This also leads to higher prices in the international food market.

Although the crisis in food prices has put the costs of dependency on international food trade (which occurs in most countries) back at the center of the debate, Dorosh (2009) reminds us that international trade may have a significant effect on reducing the costs of domestic food price stabilization policies. During periods that he calls 'normal', international trade may be used as a buffer to stocks used by governments to stabilize food prices and reduce the vulnerability of certain groups within the population to this fluctuation. Generally, a drop in prices is offset by government purchases to avoid greater losses by the producers. These purchases and the maintenance of the stocks have a considerable cost for governments that could use these fiscal resources for other purposes. Easing control of the exports, during these 'normal' times, would reduce the internal pressure of price reduction. The opening of imports would have a similar role in times of increased prices. Undoubtedly, international trade is not the solution to food insecurity. Yet, it can help by being one more instrument available for the regulation of the food market.

Moreover, international trade can also contribute to greater food security in times of crisis; that is, in 'non-normal' times. Dorosh (2001) did a thorough study on the impact of liberalization of Indian rice exports on the supply and price of food in Bangladesh. The author shows that, in periods of crop failures, imports

from India were fundamental in stabilizing rice prices and preventing a significant portion of the population from suffering food shortages due to the limitation of supply or of income.

Trade growth does not take in an institutional void

The growth of international trade flow has occurred, in recent decades, under the regulation of GATT (General Agreement of Tariffs and Trade) which subsequently became the WTO (World Trade Organization). Thus, many of the characteristics of this growth are due to the way that these institutions are consolidated and how the various countries interact within them.

The GATT, initially created as part of the post-war economic architecture, was only a vehicle for tariff negotiations among the member countries (BARTON et al., 2006). Some of its founding members were developing countries, but the focus of the negotiations was always on tariff reduction of manufactured goods, mostly produced in developed countries. Clearly, the products exported mostly by developing countries, clothing and agriculture, received special and differential treatment in relation to the products exported by developed countries. The subject of agricultural trade liberalization is still on the agenda and is far from resolved. The Multi Fibre Arrangement was in force until 2004 and was based on fixed export quotas on clothing from developing countries to developed ones.

Barton et al. (2006) argue that the origin of the current system comes from the North American decision in the 1930s, unlike the United Kingdom which opened unilaterally, to liberalize its trade through negotiations and bargaining. The authors point to the fact that this strategy was important for resolving domestic policy issues in the United States besides the need for obtaining support from several allies for other international political issues during the Cold War. On the other hand, the authors argue that the creation of the WTO in 2005 reflects the lack of major restrictions by the United States and other developed countries acting in their own interests. One reflection of this is the imposition of the Single Undertaking where, unlike the GATT, all member countries are signatories to all agreements which compose the regime. Another example is the implementation of a system of unanimous approval of rule changes or the rise of new members

which, according to Steinberg (2002), allows the full exercise of the power of the developed countries.

Developing countries, in this context, seek to negotiate greater access to rich countries' markets for their exports (generally subject to tariffs much above the average) and special and differential treatment, with exceptions and a grace period for the adoption of the rules of the WTO agreements. According to Rodrik (2001), this behavior reinforces the idea that the maximization of the trade volume is associated directly with economic development. That is, the integration with world trade would be a condition necessary for growth and economic development. As stated above, this claim is far from being confirmed, both in theory and in practice.

Narlikar (2003) goes in the same direction in reporting the difficulty that developing countries find in forming coalitions in the rounds of negotiations held regularly by the WTO. In many situations, the developed countries can easily dismantle the coalitions offering the small countries greater access to their markets. Furthermore, the search for access and special and differential treatment inevitably places the developing countries in defensive positions, hindering negotiations with results that favor their development policies.

However, one of the main characteristics of the current trade regime that hinders the adoption of pro-development policies in developing countries is the restriction of the use of several domestic policy instruments in the WTO agreements. That is what many researchers call the restriction of 'policy space'. According to Rodrik (2001) and Stiglitz and Charlton (2005), this is one of the major obstacles that the trade regime places on economic development.

Final considerations

The expansion of the literature on the relationship between trade policy and development has been quite strong in recent decades and there are no signs of this process slowing down. A growing number of empirical studies have expanded the number of countries studies as well as approaches and methods turned out to be increasingly sophisticated. The causal relationship between trade policies and economic development remains current and seems to be far from conclusive.

This challenge is present on more precise subjects as well, such as the relationship between trade and income redistribution (GOLDBERG and PAVCNIK, 2007), trade and poverty (WINTERS et al., 2004) and trade and environment (FRANKEL and ROSE, 2005), which are all, one way or another, related to development. In 1996, Dunoff (1996) titled his article, "Trade and': Recent Developments in Trade Policy and Scholarship – And Their Surprising Political Implications". Certainly, the subject will yield many other studies that will try to clarify ambiguities and disagreements that continue to prevail.

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