# Globalization: The Free Trade Fix

by Tina Rosenberg (08/18/2002 *NYT Magazine*, p. 28/1)

Globalization is a phenomenon that has remade the economy of virtually every nation, reshaped almost every industry and touched billions of lives, often in surprising and ambiguous ways. The stories filling the front pages in recent weeks -- about economic crisis and contagion in Argentina, Uruguay and Brazil, about President Bush getting the trade bill he wanted -- are all part of the same story, the largest story of our times: what globalization has done, or has failed to do.

Globalization is meant to signify integration and unity -- yet it has proved, in its way, to be no less polarizing than the cold-war divisions it has supplanted. The lines between globalization's supporters and its critics run not only between countries but also through them, as people struggle to come to terms with the defining economic force shaping the planet today. The two sides in the discussion -- a shouting match, really -- describe what seem to be two completely different forces. Is the globe being knit together by the Nikes and Microsofts and Citigroups in a dynamic new system that will eventually lift the have-nots of the world up from medieval misery? Or are ordinary people now victims of ruthless corporate domination, as the Nikes and Microsofts and Citigroups roll over the poor in nation after nation in search of new profits?

The debate over globalization's true nature has divided people in third-world countries since the phenomenon arose. It is now an issue in the United States as well, and many Americans -- those who neither make the deals inside World Trade Organization meetings nor man the barricades outside -- are perplexed.

When I first set out to see for myself whether globalization has been for better or for worse, I was perplexed, too. I had sympathy for some of the issues raised by the protesters, especially their outrage over sweatshops. But I have also spent many years in Latin America, and I have seen firsthand how protected economies became corrupt systems that helped only those with clout. In general, I thought the protesters were simply being sentimental; after all, the masters of the universe must know what they are doing. But that was before I studied the agreements that regulate global trade -- including this month's new law granting President Bush a free hand to negotiate trade agreements, a document redolent of corporate lobbying. And it was before looking at globalization up close in Chile and Mexico, two nations that have embraced globalization especially ardently in the region of the third world that has done the most to follow the accepted rules. I no longer think the masters of the universe know what they are doing.

The architects of globalization are right that international economic integration is not only good for the poor; it is essential. To embrace self-sufficiency or to deride growth, as some protesters do, is to glamorize poverty. No nation has ever developed over the long term without trade. East Asia is the most recent example. Since the mid-1970's, Japan, Korea, Taiwan, China and their neighbors have lifted 300 million people out of poverty, chiefly through trade.

But the protesters are also right -- no nation has ever developed over the long term under the rules being imposed today on third-world countries by the institutions controlling globalization. The United States, Germany, France and Japan all became wealthy and powerful nations behind the barriers of protectionism. East Asia built its export industry by protecting its markets and banks from foreign competition and requiring investors to buy local products and build local know-how. These are all practices discouraged or made illegal by the rules of trade today.

The World Trade Organization was designed as a meeting place where willing nations could sit in equality and negotiate rules of trade for their mutual advantage, in the service of sustainable international development. Instead, it has become an unbalanced institution largely controlled by the United States and the nations of Europe, and especially the agribusiness, pharmaceutical and financial-services industries in these countries. At W.T.O. meetings, important deals are hammered out in negotiations attended by the trade ministers of a couple dozen powerful nations, while those of poor countries wait in the bar outside for news.

The International Monetary Fund was created to prevent future Great Depressions in part by lending countries in recession money and pressing them to adopt expansionary policies, like deficit spending and low interest rates, so they would continue to buy their neighbors' products. Over time, its mission has evolved into the reverse: it has become a long-term manager of the economies of developing countries, blindly committed to the bitter medicine of contraction no matter what the illness. Its formation was an acknowledgment that markets sometimes work imperfectly, but it has become a champion of market supremacy in all situations, echoing the voice of Wall Street and the United States Treasury Department, more interested in getting wealthy creditors repaid than in serving the poor.

It is often said that globalization is a force of nature, as unstoppable and difficult to contain as a storm. This is un true and misleading. Globalization is a powerful phenomenon -- but it is not irreversible, and indeed the previous wave of globalization, at the turn of the last century, was stopped dead by World War I. Today it would be more likely for globalization to be sabotaged by its own inequities, as disillusioned nations withdraw from a system they see as indifferent or harmful to the poor.

Globalization's supporters portray it as the peeling away of distortions to reveal a clean and elegant system of international commerce, the one nature intended. It is anything but. The accord creating the W.T.O. is 22,500 pages long -- not exactly a free trade agreement. All globalization, it seems, is local, the rules drawn up by, and written to benefit, powerful nations and powerful interests within those nations. Globalization has been good for the United States, but even in this country, the gains go disproportionately to the wealthy and to big business.

It's not too late for globalization to work. But the system is in need of serious reform. More equitable rules would spread its benefits to the ordinary citizens of wealthy countries. They would also help to preserve globalization by giving the poor of the world a stake in the system -- and, not incidentally, improve the lives of hundreds of millions of people. Here, then, are nine new rules for the global economy -- a prescription to save globalization from itself.

**1. Make the State a Partner**

If there is any place in Latin America where the poor have thrived because of globalization, it is Chile. Between 1987 and 1998, Chile cut poverty by more than half. Its success shows that poor nations can take advantage of globalization -- if they have governments that actively make it happen.

Chile reduced poverty by growing its economy -- 6.6 percent a year from 1985 to 2000. One of the few points economists can agree on is that growth is the most important thing a nation can do for its poor. They can't agree on basics like whether poverty in the world is up or down in the last 15 years -- the number of people who live on less than $1 a day is slightly down, but the number who live on less than $2 is slightly up. Inequality has soared during the last 15 years, but economists cannot agree on whether globalization is mainly at fault or whether other forces, like the uneven spread of technology, are responsible. They can't agree on how to reduce inequality -- growth tends not to change it. They can't agree on whether the poor who have not been helped are victims of globalization or have simply not yet enjoyed access to its benefits -- in other words, whether the solution is more globalization or less. But economists agree on one thing: to help the poor, you'd better grow.

For the rest of Latin America, and most of the developing world except China (and to a lesser extent India), globalization as practiced today is failing, and it is failing because it has not produced growth. Excluding China, the growth rate of poor countries was 2 percent a year lower in the 1990's than in the 1970's, when closed economies were the norm and the world was in a recession brought on in part by oil-price shocks. Latin American economies in the 1990's grew at an average annual rate of 2.9 percent -- about half the rate of the 1960's. By the end of the 1990's, 11 million more Latin Americans lived in poverty than at the beginning of the decade. And in country after country, Latin America's poor are suffering -- either from economic crises and market panics or from the day-to-day deprivations that globalization was supposed to relieve. The surprise is not that Latin Americans are once again voting for populist candidates but that the revolt against globalization took so long.

When I visited Eastern Europe after the end of Communism, a time when democracy was mainly bringing poverty, I heard over and over again that the reason for Chile's success was Augusto Pinochet. Only a dictator with a strong hand can put his country through the pain of economic reform, went the popular wisdom. In truth, we now know that inflicting pain is the easy part; governments democratic and dictatorial are all instituting free-market austerity. The point is not to inflict pain but to lessen it. In this Pinochet failed, and the democratic governments that followed him beginning in 1990 have succeeded .

What Pinochet did was to shut down sectors of Chile's economy that produced goods for the domestic market, like subsistence farming and appliance manufacturing, and point the economy toward exports. Here he was following the standard advice that economists give developing countries -- but there are different ways to do it, and Pinochet's were disastrous. Instead of helping the losers, he dismantled the social safety net and much of the regulatory apparatus that might have kept privatization honest. When the world economy went into recession in 1982, Chile's integration into the global marketplace and its dependence on foreign capital magnified the crash. Poverty soared, and unemployment reached 20 percent.

Pinochet's second wave of globalization, in the late 1980's, worked better, because the state did not stand on the side. It regulated the changes effectively and aggressively promoted exports. But Pinochet created a time bomb in Chile: the country's exports were, and still are, nonrenewable natural resources. Chile began subsidizing companies that cut down native forests for wood chips, for example, and the industry is rapidly deforesting the nation.

Chile began to grow, but inequality soared -- the other problem with Pinochet's globalization was that it left out the poor. While the democratic governments that succeeded Pinochet have not yet been able to reduce inequality, at least it is no longer increasing, and they have been able to use the fruits of Chile's growth to help the poor.

Chile's democratic governments have spread the benefits of economic integration by designing effective social programs and aiming them at the poor. Chile has sunk money into revitalizing the 900 worst primary schools. It now leads Latin America in computers in schools, along with Costa Rica. It provides the very low-income with housing subsidies, child care and income support. Open economy or closed, these are good things. But Chile's government is also taking action to mitigate one of the most dangerous aspects of global integration: the violent ups and downs that come from linking your economy to the rest of the world. This year it created unemployment insurance. And it was the first nation to institute what is essentially a tax on short-term capital, to discourage the kind of investment that can flood out during a market panic.

The conventional wisdom among economists today is that successful globalizers must be like Chile. This was not always the thinking. In the 1980's, the Washington Consensus -- the master-of-the-universe ideology at the time, highly influenced by the Reagan and Thatcher administrations -- held that government was in the way. Globalizers' tasks included privatization, deregulation, fiscal austerity and financial liberalization. ''In the 1980's and up to 1996 or 1997, the state was considered the devil,'' says Juan Martin, an Argentine economist at the United Nations' Economic Commission for Latin America and the Caribbean. ''Now we know you need infrastructure, institutions, education. In fact, when the economy opens, you need more control mechanisms from the state, not fewer.''

And what if you don't have these things? Bolivia carried out extensive reforms beginning in 1985 -- a year in which it had inflation of 23,000 percent -- to make the economy more stable and efficient. But in the words of the World Bank, ''It is a good example of a country that has achieved successful stabilization and implemented innovative market reforms, yet made only limited progress in the fight against poverty.'' Latin America is full of nations that cannot make globalization work. The saddest example is Haiti, an excellent student of the rules of globalization, ranked at the top of the I.M.F.'s index of trade openness. Yet over the 1990's, Haiti's economy contracted; annual per capita income is now $250. No surprise -- if you are a corrupt and misgoverned nation with a closed economy, becoming a corrupt and misgoverned nation with an open economy is not going to solve your problems.

**2. Import Know-How Along with the Assembly Line**

If there is a showcase for globalization in Latin America, it lies on the outskirts of Puebla, Mexico, at Volkswagen Mexico. Every New Beetle in the world is made here, 440 a day, in a factory so sparkling and clean that you could have a baby on the floor, so high-tech that in some halls it is not evident that human beings work here. Volkswagen Mexico also makes Jettas and, in a special hall, 80 classic Beetles a day to sell in Mexico, one of the last places in the world where the old Bug still chugs.

The Volkswagen factory is the biggest single industrial plant in Mexico. Humans do work here -- 11,000 people in assembly-line jobs, 4,000 more in the rest of the factory -- with 11,000 more jobs in the industrial park of VW suppliers across the street making parts, seats, dashboards and other components. Perhaps 50,000 more people work in other companies around Mexico that supply VW. The average monthly wage in the plant is $760, among the highest in the country's industrial sector. The factory is the equal of any in Germany, the product of a billion-dollar investment in 1995, when VW chose Puebla as the exclusive site for the New Beetle.

Ahhh, globalization.

Except . . . this plant is not here because Mexico has an open economy, but because it had a closed one. In 1962, Mexico decreed that any automaker that wanted to sell cars here had to produce them here. Five years later, VW opened the factory. Mexico's local content requirement is now illegal, except for very limited exceptions, under W.T.O. rules; in Mexico the local content requirement for automobiles is being phased out and will disappear entirely in January 2004.

The Puebla factory, for all the jobs and foreign exchange it brings Mexico, also refutes the argument that foreign technology automatically rubs off on the local host. Despite 40 years here, the auto industry has not created much local business or know-how. VW makes the point that it buys 60 percent of its parts in Mexico, but the ''local'' suppliers are virtually all foreign-owned and import most of the materials they use. The value Mexico adds to the Beetles it exports is mainly labor. Technology transfer -- the transmission of know-how from foreign companies to local ones -- is limited in part because most foreign trade today is intracompany; Ford Hermosillo, for example, is a stamping and assembly plant shipping exclusively to Ford plants in the United States. Trade like this is particularly impenetrable to outsiders. ''In spite of the fact that Mexico has been host to many car plants, we don't know how to build a car,'' says Huberto Juarez, an economist at the Autonomous University of Puebla.

Volkswagen Mexico is the epitome of the strategy Mexico has chosen for globalization -- assembly of imported parts. It is a strategy that makes perfect sense given Mexico's proximity to the world's largest market, and it has given rise to the maquila industry, which uses Mexican labor to assemble foreign parts and then re-export the finished products. Although the economic slowdown in the United States is hurting the maquila industry, it still employs a million people and brings the country $10 billion a year in foreign exchange. The factories have turned Mexico into one of the developing world's biggest exporters of medium- and high-technology products. But the maquila sector remains an island and has failed to stimulate Mexican industries -- one reason Mexico's globalization has brought disappointing growth, averaging only 3 percent a year during the 1990's.

In countries as varied as South Korea, China and Mauritius, however, assembly work has been the crucible of wider development. Jeffrey Sachs, the development economist who now directs Columbia University's Earth Institute, says that the maquila industry is ''magnificent.'' ''I could cite 10 success stories,'' he says, ''and every one started with a maquila sector.'' When Korea opened its export-processing zone in Masan in the early 1970's, local inputs were 3 percent of the export value, according to the British development group Oxfam. Ten years later they were almost 50 percent. General Motors took a Korean textile company called Daewoo and helped shape it into a conglomerate making cars, electronic goods, ships and dozens of other products. Daewoo calls itself ''a locomotive for national economic development since its founding in 1967.'' And despite the company's recent troubles, it's true -- because Korea made it true. G.M. did not tutor Daewoo because it welcomed competition but because Korea demanded it. Korea wanted to build high-tech industry, and it did so by requiring technology transfer and by closing markets to imports.

Maquilas first appeared in Mexico in 1966. Although the country has gone from assembling clothing to assembling high-tech goods, nearly 40 years later 97 percent of the components used in Mexican maquilas are still imported, and the value that Mexico adds to its exports has actually declined sharply since the mid-1970's.

Mexico has never required companies to transfer technology to locals, and indeed, under the rules of the North American Free Trade Agreement, it cannot. ''We should have included a technical component in Nafta,'' says Luis de la Calle, one of the treaty's negotiators and later Mexico's under secretary of economy for foreign trade. ''We should be getting a significant transfer of technology from the United States, and we didn't really try.''

Without technology transfer, maquila work is marked for extinction. As transport costs become less important, Mexico is increasingly competing with China and Bangladesh -- where labor goes for as little as 9 cents an hour. This is one reason that real wages for the lowest-paid workers in Mexico dropped by 50 percent from 1985 to 2000. Businesses, in fact, are already leaving to go to China.

**3. Sweat the Sweatshops – But Sweat other problems more**

When Americans think about globalization, they often think about sweatshops -- one aspect of globalization that ordinary people believe they can influence through their buying choices. In many of the factories in Mexico, Central America and Asia producing American-brand toys, clothes, sneakers and other goods, exploitation is the norm. The young women who work in them -- almost all sweatshop workers are young women -- endure starvation wages, forced overtime and dangerous working conditions.

In Chile, I met a man who works at a chicken-processing plant in a small town. The plant is owned by Chileans and processes chicken for the domestic market and for export to Europe, Asia and other countries in Latin America. His job is to stand in a freezing room and crack open chickens as they come down an assembly line at the rate of 41 per minute. When visitors arrive at the factory (the owners did not return my phone calls requesting a visit or an interview), the workers get a respite, as the line slows down to half-speed for show. His work uniform does not protect him from the cold, the man said, and after a few minutes of work he loses feeling in his hands. Some of his colleagues, he said, are no longer able to raise their arms. If he misses a day he is docked $30. He earns less than $200 a month.

Is this man a victim of globalization? The protesters say that he is, and at one point I would have said so, too. He -- and all workers -- should have dignified conditions and the right to organize. All companies should follow local labor laws, and activists should pressure companies to pay their workers decent wages.

But today if I were to picket globalization, I would protest other inequities. In a way, the chicken worker, who came to the factory when driving a taxi ceased to be profitable, is a beneficiary of globalization. So are the millions of young women who have left rural villages to be exploited gluing tennis shoes or assembling computer keyboards. The losers are those who get laid off when companies move to low-wage countries, or those forced off their land when imports undercut their crop prices, or those who can no longer afford life-saving medicine -- people whose choices in life diminish because of global trade. Globalization has offered this man a hellish job, but it is a choice he did not have before, and he took it; I don't name him because he is afraid of being fired. When this chicken company is hiring, the lines go around the block.

**4. Get Rid of the Lobbyists**

The argument that open economies help the poor rests to a large extent on the evidence that closed economies do not. While South Korea and other East Asian countries successfully used trade barriers to create export industries, this is rare; most protected economies are disasters. ''The main tendency in a sheltered market is to goof off,'' says Jagdish Bhagwati, a prominent free-trader who is the Arthur Lehman professor of economics at Columbia University. ''A crutch becomes a permanent crutch. Infant-industry protection should be for infant industries.''

Anyone who has lived or traveled in the third world can attest that while controlled economies theoretically allow governments to help the poor, in practice it's usually a different story. In Latin America, spending on social programs largely goes to the urban middle class. Attention goes to people who can organize, strike, lobby and contribute money. And in a closed economy, the ''state'' car factory is often owned by the dictator's son and the country's forests can be chopped down by his golf partner.

Free trade, its proponents argue, takes these decisions away from the government and leaves them to the market, which punishes corruption. And it's true that a system that took corruption and undue political influence out of economic decision-making could indeed benefit the poor. But humans have not yet invented such a system -- and if they did, it would certainly not be the current system of globalization, which is soiled with the footprints of special interests. In every country that negotiates at the W.T.O. or cuts a free-trade deal, trade ministers fall under heavy pressure from powerful business groups. Lobbyists have learned that they can often quietly slip provisions that pay big dividends into complex trade deals. None have been more successful at getting what they want than those from America.

The most egregious example of a special-interest provision is the W.T.O.'s rules on intellectual property. The ability of poor nations to make or import cheap copies of drugs still under patent in rich countries has been a boon to world public health. But the W.T.O. will require most of its poor members to accept patents on medicine by 2005, with the very poorest nations following in 2016. This regime does nothing for the poor. Medicine prices will probably double, but poor countries will never offer enough of a market to persuade the pharmaceutical industry to invent cures for their diseases.

The intellectual-property rules have won worldwide notoriety for the obstacles they pose to cheap AIDS medicine. They are also the provision of the W.T.O. that economists respect the least. They were rammed into the W.T.O. by Washington in response to the industry groups who control United States trade policy on the subject. ''This is not a trade issue,'' Bhagwati says. ''It's a royalty-collection issue. It's pharmaceuticals and software throwing their weight around.'' The World Bank calculated that the intellectual-property rules will result in a transfer of $40 billion a year from poor countries to corporations in the developed world.

**5. No Dumping**

Manuel de Jesus Gomez is a corn farmer in the hills of Puebla State, 72 years old and less than five feet tall. I met him in his field of six acres, where he was trudging behind a plow pulled by a burro. He farms the same way campesinos in these hills have been farming for thousands of years. In Puebla, and in the poverty belt of Mexico's southern states -- Chiapas, Oaxaca, Guerrero -- corn growers plow with animals and irrigate by praying for rain.

Before Nafta, corn covered 60 percent of Mexico's cultivated land. This is where corn was born, and it remains a symbol of the nation and daily bread for most Mexicans. But in the Nafta negotiations, Mexico agreed to open itself to subsidized American corn, a policy that has crushed small corn farmers. ''Before, we could make a living, but now sometimes what we sell our corn for doesn't even cover our costs,'' Gomez says. With Nafta, he suddenly had to compete with American corn -- raised with the most modern methods, but more important, subsidized to sell overseas at 20 percent less than the cost of production. Subsidized American corn now makes up almost half of the world's stock, effectively setting the world price so low that local small farmers can no longer survive. This competition helped cut the price paid to Gomez for his corn by half.

Because of corn's importance to Mexico, when it negotiated Nafta it was promised 15 years to gradually raise the amount of corn that could enter the country without tariffs. But Mexico voluntarily lifted the quotas in less than three years -- to help the chicken and pork industry, Mexican negotiators told me unabashedly. (Eduardo Bours, a member of the family that owns Mexico's largest chicken processor, was one of Mexico's Nafta negotiators.) The state lost some $2 billion in tariffs it could have charged, and farmers were instantly exposed to competition from the north. According to ANEC, a national association of campesino cooperatives, half a million corn farmers have left their land and moved to Mexican cities or to America. If it were not for a weak peso, which keeps the price of imports relatively high, far more farmers would be forced off their land.

The toll on small farmers is particularly bitter because cheaper corn has not translated into cheaper food for Mexicans. As part of its economic reforms, Mexico has gradually removed price controls on tortillas and tortilla flour. Tortilla prices have nearly tripled in real terms even as the price of corn has dropped.

Is this how it was supposed to be? I asked Andres Rosenzweig, a longtime Mexican agriculture official who helped negotiate the agricultural sections of Nafta. He was silent for a minute. ''The problems of rural poverty in Mexico did not start with Nafta,'' he said. ''The size of our farms is not viable, and they get smaller each generation because farmers have many children, who divide the land. A family in Puebla with five hectares could raise 10, maybe 15, tons of corn each year. That was an annual income of 16,000 pesos,'' the equivalent of $1,600 today. ''Double it and you still die of hunger. This has nothing to do with Nafta.

''The solution for small corn farmers,'' he went on, ''is to educate their children and find them jobs outside agriculture. But Mexico was not growing, not generating jobs. Who's going to employ them? Nafta.''

One prominent antiglobalization report keeps referring to farms like Gomez's as ''small-scale, diversified, self-reliant, community-based agriculture systems.'' You could call them that, I guess; you could also use words like ''malnourished,'' ''undereducated'' and ''miserable'' to describe their inhabitants. Rosenzweig is right -- this is not a life to be romanticized.

But to turn the farm families' malnutrition into starvation makes no sense. Mexico spends foreign exchange to buy corn. Instead, it could be spending money to bring farmers irrigation, technical help and credit. A system in which the government purchased farmers' corn at a guaranteed price -- done away with in states like Puebla during the free-market reforms of the mid-1990's -- has now been replaced by direct payments to farmers. The program is focused on the poor, but the payments are symbolic -- $36 an acre. In addition, rural credit has disappeared, as the government has effectively shut down the rural bank, which was badly run, and other banks won't lend to small farmers. There is a program -- understaffed and poorly publicized -- to help small producers, but the farmers I met didn't know about it.

Free trade is a religion, and with religion comes hypocrisy. Rich nations press other countries to open their agricultural markets. At the urging of the I.M.F. and Washington, Haiti slashed its tariffs on rice in 1995. Prices paid to rice farmers fell by 25 percent, which has devastated Haiti's rural poor. In China, the tariff demands of W.T.O. membership will cost tens of millions of peasants their livelihoods. But European farmers get 35 percent of their income from government subsidies, and American farmers get 20 percent. Farm subsidies in the United States, moreover, are a huge corporate-welfare program, with nearly 70 percent of payments going to the largest 10 percent of producers. Subsidies also depress crop prices abroad by encouraging overproduction. The farm bill President Bush signed in May -- with substantial Democratic support -- provides about $57 billion in subsidies for American corn and other commodities over the next 10 years.

Wealthy nations justify pressure on small countries to open markets by arguing that these countries cannot grow rice and corn efficiently -- that American crops are cheap food for the world's hungry. But with subsidies this large, it takes chutzpah to question other nations' efficiency. And in fact, the poor suffer when America is the supermarket to the world, even at bargain prices. There is plenty of food in the world, and even many countries with severe malnutrition are food exporters. The problem is that poor people can't afford it. The poor are the small farmers. Three-quarters of the world's poor are rural. If they are forced off their land by subsidized grain imports, they starve.

**6. Help countries break the coffee habit**

Back in the 1950's, Latin American economists made a simple calculation. The products their nations exported -- copper, tin, coffee, rice and other commodities -- were buying less and less of the high-value-added goods they wanted to import. In effect, they were getting poorer each day. Their solution was to close their markets and develop domestic industries to produce their own appliances and other goods for their citizens.

The strategy, which became known as import substitution, produced high growth -- for a while. But these closed economies ultimately proved unsustainable. Latin American governments made their consumers buy inferior and expensive products -- remember the Brazilian computer of the 1970's? Growth depended on heavy borrowing and high deficits. When they could no longer roll over their debts, Latin American economies crashed, and a decade of stagnation resulted.

At the time, the architects of import substitution could not imagine that it was possible to export anything but commodities. But East Asia -- as poor or poorer than Latin America in the 1960's -- showed in the 1980's and 1990's that it can be done. Unfortunately, the rules of global trade now prohibit countries from using the strategies successfully employed to develop export industries in East Asia.

American trade officials argue that they are not using tariffs to block poor countries from exporting, and they are right -- the average tariff charged by the United States is a negligible 1.7 percent, much lower than other nations. But the rules rich nations have set -- on technology transfer, local content and government aid to their infant industries, among other things -- are destroying poor nations' abilities to move beyond commodities. ''We are pulling up the ladder on policies the developed countries used to become rich,'' says Lori Wallach, the director of Public Citizen's Global Trade Watch.

The commodities that poor countries are left to export are even more of a dead end today than in the 1950's. Because of oversupply, prices for coffee, cocoa, rice, sugar and tin dropped by more than 60 percent between 1980 and 2000. Because of the price collapse of commodities and sub-Saharan Africa's failure to move beyond them, the region's share of world trade dropped by two-thirds during that time. If it had the same share of exports today that it had at the start of the 1980's, per capita income in sub-Saharan Africa would be almost twice as high.

**7. Let the people go.**

Probably the single most important change for the developing world would be to legalize the export of the one thing they ha ve in abundance --people. Earlier waves of globalization were kinder to the poor because not only capital, but also labor, was free to move. Dani Rodrik, an economist at Harvard's Kennedy School of Government and a leading academic critic of the rules of globalization, argues for a scheme of legal short-term migration. If rich nations opened 3 percent of their work forces to temporary migrants, who then had to return home, Rodrik says, it would generate $200 billion annually in wages, and a lot of technology transfer for poor countries.

**8. Free the I.M.F.**

Globalization means risk. By opening its economy, a nation makes itself vulnerable to contagion from abroad. Countries that have liberalized their capital markets are especially susceptible, as short-term capital that has whooshed into a country on investor whim whooshes out just as fast when investors panic. This is how a real-estate crisis in Thailand in 1997 touched off one of the biggest global conflagrations since the Depression.

The desire to keep money from rushing out inspired Chile to install speed bumps discouraging short-term capital inflows. But Chile's policy runs counter to the standard advice of the I.M.F., which has required many countries to open their capital markets. ''There were so many obstacles to capital-market integration that it was hard to err on the side of pushing countries to liberalize too much,'' says Ken Rogoff, the I.M.F.'s director of research.

Prudent nations are wary of capital liberalization, and rightly so. Joseph Stiglitz, the Nobel Prize-winning economist who has become the most influential critic of globalization's rules, writes that in December 1997, when he was chief economist at the World Bank, he met with South Korean officials who were balking at the I.M.F.'s advice to open their capital markets. They were scared of the hot money, but they could not disagree with the I.M.F., lest they be seen as irresponsible. If the I.M.F. expressed disapproval, it would drive away other donors and private investors as well.

In the wake of the Asian collapse, Prime Minister Mahathir Mohamad imposed capital controls in Malaysia -- to worldwide condemnation. But his policy is now widely considered to be the reason that Malaysia stayed stable while its neighbors did not. ''It turned out to be a brilliant decision,'' Bhagwati says.

Post-crash, the I.M.F. prescribed its standard advice for nations -- making loan arrangements contingent on spending cuts, interest-rate hikes and other contractionary measures. But balancing a budget in recession is, as Stiglitz puts it in his new book, ''Globalization and Its Discontents,'' a recommendation last taken seriously in the days of Herbert Hoover. The I.M.F.'s recommendations deepened the crisis and forced governments to reduce much of the cushion that was left for the poor. Indonesia had to cut subsidies on food. ''While the I.M.F. had provided some $23 billion to be used to support the exchange rate and bail out creditors,'' Stiglitz writes, ''the far, far, smaller sums required to help the poor were not forthcoming.''

Is your international financial infrastructure breeding Bolsheviks? If it does create a backlash, one reason is the standard Bolshevik explanation -- the I.M.F. really is controlled by the epicenter of international capital. Formal influence in the I.M.F. depends on a nation's financial contribution, and America is the only country with enough shares to have a veto. It is striking how many economists think the I.M.F. is part of the ''Wall Street-Treasury complex,'' in the words of Bhagwati. The fund serves ''the interests of global finance,'' Stiglitz says. It listens to the ''voice of the markets,'' says Nancy Birdsall, president of the Center for Global Development in Washington and a former executive vice president of the Inter-American Development Bank. ''The I.M.F. is a front for the U.S. government -- keep the masses away from our taxpayers,'' Sachs says.

I.M.F. officials argue that their advice is completely equitable -- they tell even wealthy countries to open their markets and contract their economies. In fact, Stiglitz writes, the I.M.F. told the Clinton administration to hike interest rates to lower the danger of inflation -- at a time when inflation was the lowest it had been in decades. But the White House fortunately had the luxury of ignoring the I.M.F.: Washington will only have to take the organization's advice the next time it turns to the I.M.F. for a loan. And that will be never.

**9. Let the poor get rich the way the rich have**

The idea that free trade maximizes benefits for all is one of the few tenets economists agree on. But the power of the idea has led to the overly credulous acceptance of much of what is put forward in its name. Stiglitz writes that there is simply no support for many I.M.F. policies, and in some cases the I.M.F. has ignored clear evidence that what it advocated was harmful. You can always argue -- and American and I.M.F. officials do -- that countries that follow the I.M.F.'s line but still fail to grow either didn't follow the openness recipe precisely enough or didn't check off other items on the to-do list, like expanding education.

Policy makers also seem to be skipping the fine print on supposedly congenial studies. An influential recent paper by the World Bank economists David Dollar and Aart Kraay is a case in point. It finds a strong correlation between globalization and growth and is widely cited to support the standard rules of openness. But in fact, on close reading, it does not support them. Among successful ''globalizers,'' Dollar and Kraay count countries like China, India and Malaysia, all of whom are trading and growing but still have protected economies and could not be doing more to misbehave by the received wisdom of globalization.

Dani Rodrik of Harvard used Dollar and Kraay's data to look at whether the single-best measure of openness -- a country's tariff levels -- correlates with growth. They do, he found -- but not the way they are supposed to. High-tariff countries grew faster. Rodrik argues that the countries in the study may have begun to trade more because they had grown and gotten richer, not the other way around. China and India, he points out, began trade reforms about 10 years after they began high growth.

When economists talk about many of the policies associated with free trade today, they are talking about national averages and ignoring questions of distribution and inequality. They are talking about equations, not what works in messy third-world economies. What economic model taught in school takes into account a government ministry that stops work because it has run out of pens? The I.M.F. and the World Bank -- which recommends many of the same austerity measures as the I.M.F. and frequently conditions its loans on I.M.F.-advocated reforms -- often tell countries to cut subsidies, including many that do help the poor, and impose user fees on services like water. The argument is that subsidies are an inefficient way to help poor people -- because they help rich people too -- and instead, countries should aid the poor directly with vouchers or social programs. As an equation, it adds up. But in the real world, the subsidies disappear, and the vouchers never materialize.

The I.M.F. argues that it often saves countries from even more budget cuts. ''Countries come to us when they are in severe distress and no one will lend to them,'' Rogoff says. ''They may even have to run surpluses because their loans are being called in. Being in an I.M.F. program means less austerity.'' But a third of the developing world is under I.M.F. tutelage, some countries for decades, during which they must remodel their economies according to the standard I.M.F. blueprint. In March 2000, a panel appointed to advise Congress on international financial institutions, named for its head, Allan Meltzer of Carnegie Mellon University, recommended unanimously that the I.M.F. should undertake only short-term crisis assistance and get out of the business of long-term economic micromanagement altogether.

The standard reforms deprive countries of flexibility, the power to get rich the way we know can work. ''Most Latin American countries have had deep reforms, have gone much further than India or China and haven't gotten much return for their effort,'' Birdsall says. ''Many of the reforms were about creating an efficient economy, but the economic technicalities are not addressing the fundamental question of why countries are not growing, or the constraint that all these people are being left out. Economists are way too allergic to the wishy-washy concept of fairness.''

The protesters in the street, the Asian financial crisis, criticism from respected economists like Stiglitz and Rodrik and those on the Meltzer Commission and particularly the growing realization in the circles of power that globalization is sustainable for wealthy nations only if it is acceptable to the poor ones are all combining to change the rules --slightly. The debt-forgiveness initiative for the poorest nations, for all its limitations, is one example. The Asian crisis has modified the I.M.F.'s view on capital markets, and it is beginning to apply less pressure on countries in crisis to cut government spending. It is also debating whether it should be encouraging countries to adopt Chile's speed bumps. The incoming director of the W.T.O. is from Thailand, and third-world countries are beginning to assert themselves more and more.

But the changes do not alter the underlying idea of globalization, that openness is the universal prescription for all ills. ''Belt-tightening is not a development strategy,'' Sachs says. ''The I.M.F. has no sense that its job is to help countries climb a ladder.''

Sachs says that for many developing nations, even climbing the ladder is unrealistic. ''It can't work in an AIDS pandemic or an endemic malaria zone. I don't have a strategy for a significant number of countries, other than we ought to help them stay alive and control disease and have clean water. You can't do this purely on market forces. The prospects for the Central African Republic are not the same as for Shanghai, and it doesn't do any good to give pep talks.''

China, Chile and other nations show that under the right conditions, globalization can lift the poor out of misery. Hundreds of millions of poor people will never be helped by globalization, but hundreds of millions more could be benefiting now, if the rules had not been rigged to help the rich and follow abstract orthodoxies. Globalization can begin to work for the vast majority of the world's population only if it ceases to be viewed as an end in itself, and instead is treated as a tool in service of development: a way to provide food, health, housing and education to the wretched of the earth.