**Introduction**

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This symposium issue of *The World Bank Economic Review* contains a selection of articles originally presented as papers at a conference on the role and interests of the developing countries in the multilateral trade negotiations held from October 30 to November 1, 1986, in Bangkok. Proposed by Anne Krueger, then Vice President of Economics and Research, the World Bank, the conference was designed by Jagdish Bhagwati and held under the auspices of the World Bank and the Thailand Development Research Institute. A few words to introduce the issue and to situate its contents in the current policy context are in order.

I. **MARKET ACCESS AND PROTECTIONISM**

The developing countries no longer need to be persuaded that access to foreign markets is important for their development. The economic success of the outward-oriented economies of East Asia has been decisive in changing many minds on this subject. The real worry now is whether protectionism will not frustrate the converts as they seek the benefits of the export-promoting strategy. The postwar period opened with much skepticism as to the feasibility of an export-oriented growth strategy. This “first export pessimism” (Bhagwati, forthcoming) was based on an assessment of natural market forces: the markets were not thought to be deep enough to absorb the exports—which were then predominantly of primary products—of an expanding developing world. By contrast, the current “second export pessimism” is based not on the view that markets do not exist but rather on the gloomy view that once these markets are entered protectionism will close them.

1. In addition, one paper by Chong-Hyun Nam has been included because it complements well the analysis by Finger and Nogues of the issues raised by countervailing duty actions.
2. In addition, numerous studies have shown that the outward-oriented countries have consistently performed better than those countries following an import-substituting strategy (see Balassa 1986; Bhagwati, forthcoming; Krueger 1983).
3. Among the contributory factors in this pessimism was the worry that synthetics were replacing natural products and that technical progress was simultaneously reducing inputs per unit of output (see Nurkse 1959).

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The second pessimism is thus man-made. It can therefore be eliminated by human action. Hence the new (as distinct from the old) pessimism requires, not adaptation to a situation that must be accepted as given, but rather a strategic response to alter the situation.

II. MULTILATERAL TRADE NEGOTIATIONS: RATIONALE

The Uruguay Round of Multilateral Trade Negotiations (MTN) is part of that strategy. First, there is the old “bicycle” theory. As protectionism intensifies in the congresses and parliaments, which respond to sectoral interests, the executives find it profitable to engage in trade negotiations and talks to keep momentum going in favor of freer trade. Ongoing negotiations also make it easier to keep protectionist legislators in check by invoking the possibility of upsetting delicately poised talks, while in the United States the delegation of authority to the executive to negotiate tariff reductions depends on rounds of trade negotiations (Snape 1987). In short, the smart way to keep freer trade going is to keep negotiating it: as with a bicycle, if you stop moving, you fall off.

Second, it is evident that the ability of the United States to bring the MTN to a start in Uruguay was a result not of consensus on the issues but almost entirely of the fear on the part of the trading partners of the United States that there was a real likelihood that the protectionist forces would triumph in the U.S. Congress if the efforts to launch the MTN failed. This fear was not sufficiently strong when the earlier U.S. efforts to start trade talks failed at the General Agreement on Tariffs and Trade (GATT) ministerial meeting in November 1982.

Third and equally important, the MTN also represent part of the protection-containment strategy of the United States in a different sense. In a pluralistic framework, lobbying pressures for protection are usually more potent than pressures for freer trade, since typically the benefits of protection accrue to a few (producers) while the costs are spread over many (consumers). Given the strength of the protectionist sentiment in recent years, the Reagan administration has been looking for “countervailing” lobbies that favor trade rather than protection, thus assisting in the growth and success of the export lobbies for sectors such as agriculture and services. Aside from bilateral moves in these areas, the United States has seen the MTN as the principal arena where these protrade interests can be given play.

III. UNIQUENESS OF THE URUGUAY ROUND FOR DEVELOPING COUNTRIES

The Uruguay Round, however, is unique from the viewpoint of the developing countries. It marks a sufficiently radical departure from the earlier GATT rounds in that, more than ever, it calls for the developing countries to engage actively in the negotiations.

Historically, the developing countries were not particularly active participants in the tariff-cutting exercises of the postwar period. With the GATT’s well-known
focus on first-difference reciprocity in trade negotiations, and the exemption traditionally accorded to developing countries from reciprocity, it was inevitable that the incentive afforded to developing countries to engage actively in the GATT rounds was small. This incentive was reduced further by the effective exclusion from the GATT negotiations of major agricultural products, important exports for many developing countries. The possibility of concessions by developed countries on agriculture could have induced greater interest in the GATT and possibly reciprocal bargaining by some developing countries; the waivers from the provisions of the GATT given to the United States and European countries in the late 1950s for their agricultural production effectively closed this door. Developing countries therefore did not participate actively in the earlier GATT rounds. The benefits of generalized tariff cuts came to them simply by way of their most favored nation (mfn) rights as GATT members.

The failure of developing countries to offer reciprocal tariff cuts or similar measures to increase access to their markets may have contributed to the bias of the tariff cuts away from the labor-intensive manufactured exports of the developing countries. Finger (1979) has produced data on how U.S. imports were affected by Kennedy Round concessions which show that the lower the participation by a group of countries in the Kennedy Round negotiations, the lower the share of U.S. imports from that group that benefited from U.S. concessions:

<table>
<thead>
<tr>
<th>Country group</th>
<th>Affected 1964 U.S. imports as a percentage of imports from each country group</th>
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</thead>
<tbody>
<tr>
<td>Major participants</td>
<td>70</td>
</tr>
<tr>
<td>Other developed-country participants</td>
<td>49</td>
</tr>
<tr>
<td>Active developing-country participants</td>
<td>33</td>
</tr>
<tr>
<td>Other developing countries</td>
<td>5</td>
</tr>
</tbody>
</table>

Moreover, aside from nonreciprocity in tariff bargaining, the developing countries generally enjoyed Special and Differential (S&D) treatment in two ways: (i) they were granted preferential entry under the Generalized System of Preferences (GSP) on their exports to developed countries, their market access being thus exempt from the mfn obligation of GATT membership; (ii) they were

4. By first-difference reciprocity, we mean reciprocity or balancing of trade concessions at the margin to be contrasted with full reciprocity or the "level playing fields" approach (see World Bank 1987, box 8-6).
5. Additional factors, such as the asymmetry of market-access obligations, are discussed below.
6. Cheh (1974) argued that exemptions from tariff cuts in the Kennedy Round largely centered on labor-related variables and therefore that the government could be minimizing "short-run adjustment costs," reflecting a "noneconomic" objective. (The absence of developing countries from the reciprocal negotiating table made it easier for developed countries to grant this assistance to labor.) Such a nonutilitarian objective was introduced into an augmented social utility function by Bhagwati and Srinivasan (1969) (following on the earlier work of Corden 1957 and Johnson 1965) in which consumption and sectoral allocation of labor were also considered as such noneconomic objectives. An alternative, but less plausible, interpretation seems to be that labor was an effective lobbyist perhaps because a "benign" government does have adjustment-cost-minimization for displaced labor in its objective function.
7. Tariff reductions and bindings.
permitted extensive exemptions from obligations to provide access to their domestic markets (termed reverse market access) on either infant-industry or balance of payments grounds, implicitly or explicitly under GATT Article XVIII.

An important consequence was an asymmetry of obligations between the developing and the developed countries under the GATT. This reinforced the lack of incentive to bargain in the GATT rounds. Equally, a chief consequence was the ease with which the developing countries could sustain unity in their trade positions. For as long as S&D was the ruling principle, the governments of the developing countries had a commonality of interests and a fairly unified agenda. They could have preferential access to external markets while choosing their own preferred level of openness or closedness without needing to offer reciprocal access.

This convenient deal and the resulting unity of the developing countries had origins and rationales that have now seriously weakened, resulting in both a differentiation of their trade interests and the need to participate actively in the Uruguay Round.

The rationale for preferential market access for the exports of developing countries was varied. It was sometimes justified as an extension of the infant-industry argument: preferential access implied that the infant was protected in foreign, not just domestic, markets. The primary rationale, however, was that it would be a form of “disguised” aid. The GSP schemes were part of a wider agenda of mechanisms designed to transfer more resources to the developing countries as budget-financed foreign aid programs faltered. The special drawing rights–link proposal was one such device. The GSP schemes were another. The implicit argument went something like this. Assume that the proposed beneficiary of a GSP program would like to export a certain amount. Given a preferential duty, this beneficiary then enjoys a terms of trade gain in not having to cut its export price by the amount of the preference, and the importing country offering the preference correspondingly loses tariff revenue.8

But if GSP schemes were intended to be such a mechanism for transferring aid, it equally meant that the GSP in practice would be characterized by the politics of aid. And that is precisely what happened. These preferential-entry schemes were tightly controlled by beneficiary and product. Equality of treatment on preferences was not available for all developing countries nor for all among them who were GATT members. Nor would there be bindings. The GSP would be subject to periodic renewal: beneficiaries, product coverage, and degree of preference would all be at the discretion of the importing country exactly as aid flows are.

Economists have debated whether the GSP produced significant welfare gains. The consensus seems to be that, granted as an “unrequited transfer” (that is, without direct reciprocal benefits), these schemes have generally produced few benefits in total—though there are significant gains for some countries. In gen-

8. The actual economics is of course more complicated. What is stated in the text is the implied argument underlying the case for GSP as an aid mechanism.
eral, preferences are low and the coverage limited, often excluding items in which the developing countries have significant export advantage while including items such as jet aircraft. Of the United States’s $120.3 billion in imports from developing countries in 1981, the total from GSP beneficiaries was $68.5 billion, and of this only $8.4 billion entered duty-free. Again, analyses of the European Economic Community’s GSP show that imports from nonbeneficiaries grew faster than those from beneficiaries (World Bank 1987, p. 167).

Several economists have wondered thus whether it was sensible for the developing countries to have pushed for the GSP benefits rather than for nonpreferential, generalized barrier reductions on products of interest to them. To suggest that the latter would have produced greater results in practice (without reciprocity) seems debatable, to say the least, and the evidence on the evolution of the Multifibre Arrangement would seem to militate against such a notion. Also unpersuasive is the criticism sometimes advanced that the GSP may have encouraged protectionism by prompting the protectionist lobbies to cite it as an added and obnoxious source of market disruption. While U.S. congressional testimonies to this effect are not lacking, can one seriously maintain that this does little more than lend some color to the protectionist outcry?

We now turn to the rationale for the lack of reverse market access to the developing countries themselves. Here, the economic philosophy of infant industry protection and the theory that balance of payments difficulties justified ongoing exchange and trade restrictions helped to legitimize the general exemptions from conventional GATT rules that the developing countries were granted, under Article XVIII (B) and Part IV in particular. Given these economic theories, which were widely shared at the time, it is arguable that the developed countries saw the accommodation of asymmetric obligations as desirable and legitimate, even though the GATT is a contract, the essence of which is the notion of symmetric rights and obligations (Bhagwati and Irwin 1987).

But aside from these economic perspectives, it may be argued that the willingness of the developed countries, and particularly of the United States, to permit these asymmetries reflected two other political-economy-theoretic elements. First, the developing countries’ share of world trade was sufficiently small for the question of reverse market access to be considered relatively unimportant. The transaction cost of insisting on reciprocal obligations was not commensurate with potential benefits.

Second, the United States can plausibly be regarded as the guarantor of the liberal international economic order, embodied in the Bretton Woods institutions and the GATT, and therefore to have been willing (albeit reluctantly) to accommodate the developing countries in their desire to maintain asymmetric rights under the GATT by appropriate modifications such as Part IV. Such an accommodation would permit the GATT’s continued comprehensive membership, while not seriously compromising its integrity, since the developing countries were not

9. Billion is 1,000 million.
yet important actors on the trade scene.\textsuperscript{10} The acceptance of developing countries as “free riders” in the GATT system would therefore have been logical.

By now, however, the rationales for asymmetry of obligations, which are aid transfer and balance of payments considerations, have weakened. The effective rationale for GSP was aid transfer. But this implies that beneficiary developing economies that have ceased to require aid are likely to be forced out of the schemes. This is the “graduation” issue now on the negotiating agenda. The candidates for such (involuntary) graduation are those which are successful exporters, are advanced industrially, or have reached high standards of living. Brazil, the Republic of Korea, and Taiwan are among the candidates. For the heavily indebted among them, with necessity to find markets abroad to earn foreign exchange for their debt service, this raises problems since loss of GSP benefits is tantamount to having tariffs raised against them.

The developing countries’ rationale for denial of access to their own markets has weakened even further. The economic theory of balance of payments management has changed with the advent of flexible exchange rates. It is not possible to argue convincingly that a developing country needs to be wedded to long-term controls to ration the use of foreign exchange when exchange rates can be changed. Nor can many adherents be found for the view that such controls offer a feasible way of permanently curing payments imbalances that reflect sustained macroeconomic imbalances. The economic theory underlying GATT Article XVIII (B) is outmoded.

Equally, the major developed countries are not willing any longer to see the more successful developing countries get by without reciprocal opening of their markets. The growth of reciprocitarian ideas in the United States has been particularly dramatic, with politicians and industry demanding “level playing fields” from the East Asian and many other larger developing economies. These markets are now substantial; the rise of successful new competitors crowds the producers of the “diminished giant” that the United States is now in the world economy; and the long period of U.S. trade deficits has fueled the exaggerated sense that Japan, Korea, Taiwan, and other larger developing economies have prospered by closing their markets and enjoying access to the open markets of the United States. Reverse market access is therefore a major new issue that the newly industrialized economies face today. The issue is likely to become important for more developing economies in the longer run.

IV. The Era of Negotiations

The Uruguay Round opens with an altogether new scenario for the developing countries. Issues which were taken for granted over the last two decades are now on the agenda. The agenda includes new sectors, such as services, for which the

\textsuperscript{10} This view fits in with the Gramscian thesis that a hegemonic power seeks such marginal accommodations with the nonhegemonic nations during its ideological primacy.
developed countries mainly seek well-defined GATT-style access to foreign markets as part of the overall conception of level playing fields or reciprocity. It also includes a serious attempt to address agricultural protection, an issue of export interest to many developing as well as developed countries. Agricultural exporters have been particularly frustrated in the GATT in the past, frustration that has discouraged them from offering concessions in GATT negotiations. In addition, questions about asymmetry of obligations, and about graduation on both market access and reverse market access, have become key.

The effect of these critical developments is to drag the developing countries, however unenthusiastically, into the MTN, where they will have to give in order to receive. But this also means that their interests will diverge depending on the issues and sectors in question, whereas simply receiving (S&D) united them with considerable ease in the past. These divergent interests will surely criss-cross both developing and developed countries, making likely the formation of negotiating groups that embrace coalitions of like-interested countries, whether developing or developed. Thus the Group of Ten (led by Brazil and India) opposed the inclusion of services on the agenda; many of the smaller developing countries deserted this position and went instead with major developed countries in the Group of Forty-eight coalition. And in the Cairns group of “fair-trading” agricultural exporters, Australia and Canada are joined by Argentina, Thailand, and Uruguay (among others) as forceful members.

V. THE BANGKOK CONFERENCE AND THIS SYMPOSIUM ISSUE

The Bankgok conference was designed to identify these interests within the framework of the sectoral and systematic issues likely to emerge at the MTN. The focus was on analyzing these interests rather than on suggesting specific prescriptions on issues, coalitions, and negotiating strategies.

The conference papers selected for this symposium issue of the Review fall into two broad groups. The first set deals with major new sectors, services (Bhagwati) and agriculture (Valdés, Sathirathai and Siamwalla) and with one perennial sector, textiles (Cable), in which the Multifibre Arrangement has just been renegotiated, which is of importance in the overall framework of the world trading system.\(^\text{11}\)

The second set deals with systemic issues. In view of the critical relevance of the S&D issues, Wolf addresses the underpinnings of this asymmetry of obligations, whereas Anjaria considers in depth Article XVIII (B) and the attendant balance of payments justification for denying reverse market access. These sys-

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11. The Sathirathai and Siamwalla case study of cassava exports from Thailand shows how critical is legal and negotiating expertise in handling trade issues (and/or improved dispute settlement procedures in the GATT), and how the GATT may need to be strengthened to assist the smaller developing countries. As developing countries enter the era of trade negotiations, this question will surely assume more importance.
temic questions impair the ability of the developing countries to participate symmetrically in the GATT as originally conceived. They are directly at issue in the intellectual debate on the world trading system and are explicitly or implicitly on the MTN agenda.

The critical systemic issues of the developed countries are altogether different. The developed countries do not resort to trade restrictions to deal with payments difficulties; nor do they comprehensively invoke infant-industry and related arguments for systematically rejecting foreign access to their markets. But their failure to adhere to the original GATT rule of law comes rather from their inability to deal with the sectoral politics of market disruption, reflected in part by their tendency to bypass the safeguards clause (Article XIX) in the GATT by resorting instead to bilateral arrangements such as voluntary export restraints (VERS). Hindley's paper addresses in a novel way the question of reforming Article XIX while keeping developing-country interests explicitly in the forefront.

Yet another worrisome development has been the tendency in developed countries to use the countervailing duty and antidumping mechanisms, designed to offset so-called unfair competition under free trade, as protectionist instruments instead. By harassing foreign suppliers with frivolous complaints, for instance by invoking these processes for minuscule subsidies, these instruments can be captured by protectionist interests and utilized to intimidate foreign competitors into accepting VERS and similar trade restrictions. Finger and Nogués, as also Nam, explore the facts on these mechanisms in depth; the former paper also offers an assessment of the harassment issue.

The issue does not offer a comprehensive guide to all the topics on the MTN agenda. It omits, for instance, protection of intellectual property rights and trade-related investment rules. But it should provide a handy and illuminating guide to the principal questions that developing economies must ask and answer as they negotiate at the MTN.

References


