What has been the approach of most developing countries towards international trade negotiations under the GATT and the WTO? How successful has this approach been? How has it changed over time?

<u>Introduction</u>

Throughout the history of trade developments the WTO (International Trade Organisation) and GATT (general agreement on tariffs and trade) have worked towards aiding the integration of world markets through rounds of agreements, aiming to lower barriers to trade. Developing countries involvement in these discussions, and their own strategies in the world market, has been on the agenda throughout the history of the GATT and WTO. This paper is aimed to assess the approach of the developing countries through the existence of GATT and the WTO, how successful or unsuccessful the countries have been in the approach, and how they've altered right through till 2011 to date. The GATT was an agreement formed in 1949 as a result of a failed attempt to create a formation of an organisation planned to be known as the "ITO", it was negotiated during the UN conference on trade and employment in Geneva. The purpose of the ITO was not only to address the barriers to trade directly, but rather other economic components which would be linked to trade such as unemployment, development investment, commodity agreements and restrictive business practices. The ITO talks never resulted in the formation of the organisation however. The collapse of the talks was majorly due to the American congress refusing to add their signature to the agreement along with a few other nations who didn't want development and employment issues, but rather an agenda focussing on trade only.

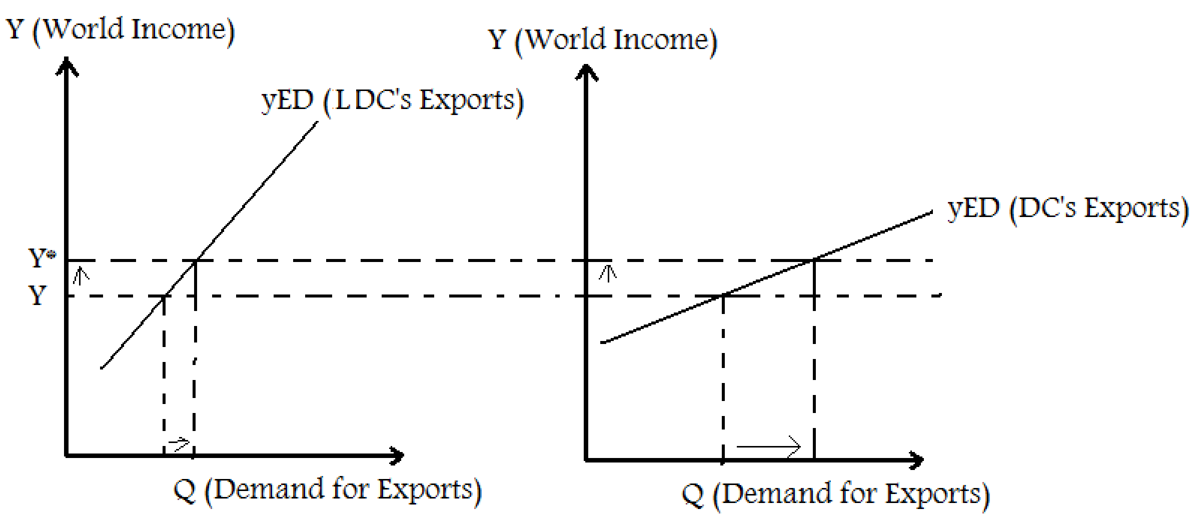
The GATT was based around the objectives of raising the standards of living, gaining full employment worldwide and accessing full optimal use of the world's resources. The main focus of the GATT meetings were on lowering countries tariffs, with all 8 rounds of the GATT, which will be evaluated later in the paper (Geneva, Annecy, Torquay, Geneva 2, Dillon, Kennedy, Tokyo and Uruguay) having tariffs covered on the agenda, and resulting in tariffs being lowered across the world. The most important GATT principle is non-discrimination, the formal rule for the members of the GATT is the most favoured nation principle (MFN). MFN obligates members to grant each other member at least the same tariff rates which it grants its most favoured trading partner, 'Under *the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members'* (*Source, WTO website: Understanding the WTO).* The national treatment provision prevents countries from discriminating also between imported and home produced goods once a good has crossed the border. Quotas are prevented whenever possible by the GATT as they completely limit out trade (a quota is a limit on the quantity of a good that can be imported into a country in a given period of time).

The GATT ceased to exist in 1995 when it was replaced by the World Trade Organisation (WTO). Similarly to its predecessor, the organisation exists in order to liberalise and supervise international trade, The WTO held many of the GATT's values and still even to date is still tackling some of the issues which were raised by the GATT particularly the Uruguay round which will be investigated deeper later on in the paper. The WTO is the trade governing body which is still fully operative to date. With members being locked in the latest round today, the Doha Round.

The arguments to liberalise world trade is based on the belief that free trade is an effective way to achieve an increase in world welfare. One of the arguments put forward for free trade is that free trade is that it would increase world output as free trade enables countries to enter into specialisation of the production of a good, meaning their resources are dedicated to the production of a certain good or service in which the country holds a comparative advantage in (a comparative advantage is where a country has the ability to produce a particular good or service at a lower than other countries). Naturally the countries scale of production of these good increases, resulting in economies of scale, again allowing for an even larger output per economy. Therefore free trade arguably will lead to combination of goods and services actually produced will yield the highest possible utility to global consumers, increasing global welfare.

Developing Countries Economic Strategies

Around the time of the formation of the GATT, the developing countries based their policies on the theories of two economists, Raul Prebisch and Hans Singer. The Prebicsh-Singer thesis as it is known states '*given the permanent tendency for the terms of trade to go against agricultural products, it is in the interest of developing countries to erect protective tariffs behind which they can industrialize'* (source:www.economyprofessor.com). The two economists believed that as the world income increases from increases in trade and specialisation that the income gap between the developing countries and the developed countries increases. Their theory is based around the observations that developing countries export agricultural goods (such as foods and resources), with the developed countries being industrialised and having more resources focused on producing more complex manufactured goods (cars, he clothes etc...). It is believed that the income elasticity of demand (%change in demand/%change in income) for manufactured goods is noticeably higher than the income inelastic agricultural produce of the developing countries. Which basically means that as the world income increases, the demand for the developed country exports rises faster than that of the developing, causing a shift of income in the long run to the already richer economies, leading to the income gap becoming larger (see diagram below)



This shows that as world income increases from Y to Y*, there is a much larger increase in demands for developed nations exports, in comparison to the small rise in demand for developing nations exports of agricultural goods. On top of this manufactured goods are on average more expensive than agricultural goods. As a result businesses in developed countries will enjoy a much larger revenue increase than developing nations agricultural workers (farmers etc...), widening the income gap between the two categories.

At the time, and for many decades onwards, developing nations were pursuing import substitution strategies. Import substitution is where manufacturing imports are frozen out of an economy by governments enforcing very high tariffs on manufacturing imports. This means that local firms will now no longer be put out of business from cheaper foreign competition it could not compete with. In theory this enables the governments to set up local firms as all the demand for manufacturing goods in the economy now are able to be satisfied by local producers. Although in the short run production costs are high for the newly formed infant firms which would act as a transfer of welfare from consumer to producer, this would be down to the consumers being charged higher prices than they were enjoying from foreign imports and therefore previous consumer surplus is eaten into. However in the long run as the industrial sector grows, the local firms gain economies of scale on their production (lower average production costs as the scale of production increases), from bulk buying of resources, transportation costs etc... Allowing the firms to produce at a lower cost making them much more globally competitive than before. Therefore in the long run consumers are also benefitted increasing welfare of the economy as consumer surplus will increase, along with other local benefits such as the multiplier effect will create to surrounding businesses. The rise in scale of local firms would increase the demand for labour, reducing unemployment. In theory the combination of economies of scale and the increase in physical and human capital quality would make the home produce competitive in the global markets, both in price and quality. Meaning that they would be able to export the highly demanded income elastic manufactured goods and reduce the income gap in the long run.

Developing Countries Approaches In Trade Negotiations

The developing countries viewed the ITO drafts put forward in the Geneva Round (1949) as a way for developed countries to keep developing countries dependent, based on the Prebisch-Singer thesis. The developing countries therefore began their involvement in GATT, passive to negotiations, as they saw the discussions as irrelevant to their current economic strategies. In the initial negotiations and for many decades onwards the developing countries refused to conform to discussions and demanded exemptions from tariff reductions. Mainly they were requesting exemption from the GATT's reciprocity principle. Resulting in the first few GATT rounds, in Annecy (1949), Torquay (1950) and Dillon (1960) turning a blind eye to the topic of agricultural sector.

The Kennedy round negotiations were held again in Geneva in 1964 lasting until 1967. In these rounds the developing countries were granted with special exemptions from tariff cuts and anti dumping measures were bought to the table for the first time in this round, If a company exports a product at a price lower than it supplies in its home country, or lower than its costs, it is said to be dumping. However the developing nations could not view this as a major success as these were always specific circumstances in which they would be exempt, never unconditional. On top of this most developing countries exports were still left out of the agenda such as textiles and cottons, or reduced by only a margin of the average reductions. Developing exports continued to be a common area of conflict with countries demanding special treatments on tariff cuts but instead suffered being neglected from the agenda.

The lack of current success achieved by the developing nations led to the formation of The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 as a permanent intergovernmental body appointing Raul Prebisch as its first secretary general. The UNCTAD organization was developed to '*maximize investment and development opportunities of developing countries and assist them in their efforts to integrate into the world economy on an equitable basis.'* (Source: UNCTAD Official Website). Its formation was due to developing economies feeling unsatisfied at the lack of results they were gaining from GATT. The formation allowed for the countries to press for trade measures which benefit developing countries. This was an indicator that developing countries wanted to begin to be viewed as serious influential members of the GATT rounds.

With the grouped force of UNCTAD, the first major recognisable achievement of the developing nations in the GATT was the Generalized System of Preferences (GSP) which was instituted in 1976. The GSP enabled for developing countries to gain access to the European markets with exclusive reductions to barriers of trade, there are three main areas of the agreement.

1. The standard general system of preferences which provides reductions on tariffs to '176 developing countries and territories on over 6200 tariff lines.'
2. "GSP+" which involves additional tariff reductions to support venerable developing countries in the world markets.
3. The Everything But Arms arrangement which provides trade barrier free access for all exports into Europe from the 49 least developed countries.

(Source: ec.europa.eu/trade)

The GSP was an incentive for developing countries to abandon their import substitution methods and pursue with integrating into the world markets. One particular group of developing countries whom were aiming to do just this were the NIC Asian Tigers (Hong Kong, Singapore, South Korea and Taiwan). These economies were pursuing with export led growth strategies in which they fully participate in world markets, exporting simple labour intensive manufacturing goods in which they'd hold a comparative advantage in. In contrast to import substitution the tigers undervalued their currency in order to boom exports. By opening up to the world markets, the export industries escaped the small local demand and were instead supplying to a larger international demand, increasing income rapidly, reductions in unemployment and fully competitive industrialised sectors were formed. This led to the turning the heads of many other developing countries to the idea that trade proposes major opportunities for rapid growth and began to take GATT rounds with more intent to succeed.

The Uruguay round was the next round initiated by the GATT, held in 1988. It was the most intense round of its time. Lasting a staggering 7 years, and at the time it may have appeared to be unsolvable. But in the end, the Uruguay Round brought about the biggest reform of the world's trading system since GATT was created at the end of the Second World War. They had revised the rules for settling disputes, with some measures implemented on the spot. The developing countries approach towards the GATT began to become evident throughout the round; they were beginning to see the importance of trade to their pursuing of growth and development. For the first time in the history of the rounds agriculture and textiles were bought under the discipline of the GATT as a result as a more hands on approach of developing nations in the negotiations. *'Domestic and export subsidies are being reduced;*

quotas and other trade restraints are being replaced with tariffs, which will be reduced over a period of years' (Source: World Trade Organisation by A.M.Babkina)The Uruguay round led to the end of GATT and the birth of its replacement organisation the WTO as mentioned earlier in the paper. The round led to an agreement to allow full access for textiles and clothing into world markers duty free from developing.

The most recent of rounds, now under the WTO, still ongoing in fact, is the Doha round which began in 2001. Referred to as the development round, due to development of the developing countries being the largest items on the agenda, "We seek to place developing countries' needs and interests at the heart of the Work Programme adopted in this Declaration,"(Source: www.WTO.org). An enormous contrast to the earlier rounds held under the previous GATT.

Analysis Of Developing Countries Success.

The developing nations import substitution strategies has a few explanations to its demise, explaining the switch in approach in GATT meetings. Firstly with the constant need for protection against competition, the home firms in developing countries never really grow up, and will constantly remain inefficient without any personal incentives to lower production costs and therefore increase competitiveness in the long run. Internal demand was not strong enough. The raw materials for the firms were expensive, resulting in the final product only being affordable for the richer percentage of the population. There was no need for the firms to improve productivity and efficiency. Meaning the firms would remain uncompetitive. On top of this with governments playing such a large part in the fate of firms, the problem of corruption is always a possibility, leading to misallocation of resources. As mentioned earlier along with high tariffs, the government often overvalued the currency above market value in able to make large quantity of capital imports relatively cheaper. However this harmed the agricultural sectors, making their products more expensive and less competitive in the global markets. The overvaluation of the currency acted damaged the agricultural sector, and therefore the poorer sector of the countries. With large bulks of intermediate goods and capital being imported and the country's exports falling developing countries suffered balance of payments difficulties, the borrowing is unsustainable in the long term and countries will be burdened with interest, hindering the countries growth.

The Asian tiger's successful rapid industrialisation and fast growing GDP astonished many trying to achieve the same. There are numerous explanations to how the tigers achieved such drastic results with export led growth, when many fell at the hurdles perusing with import substitution. Although the tigers protected their infant industries, the government demanded a solid export performance in return and kept a close watch on production costs and set targets constant for production, in order to remain protected, the industry had no choice but to increase efficiency, and fast. The balance of payments problem is also avoided as with an undervalued currency a balance of payments surplus is very common as export levels are so high and imports are made more expensive from the undervalued currency, meaning the tigers maximised potential demand their home firms could face allowing the firms to grow at the maximum rate.

Conclusion

In conclusion developing countries approach towards trade negotiations have changed dramatically over the years, however it has been a very long run saga, and as Keynes said "In the long run we are all dead". They had a reluctant start to trade negotiations at the beginning of the GATT with the attitude that trade wasn't an effective policy for them until they've grown their industrial sectors, sticking to import substitution strategies for over thirty years, gaining very limited results to show for it. Although led by the Tigers and their export led growth success in the 1970's, along with the formation of the UNCTAD in 1964 the developing countries began to play a more hands on strategy in the discussions under GATT, gaining effective results under trade liberalisation. I believe it is uncertain whether the developing countries will continue to open up to world markets with success, with the recent financial crisis crippling economies over the world, you have to ask the question if developing economies are ready to deal with situations like that.

It could also be argued that had the developing countries been so involved in the GATT discussions all along whether the GATT may have been a failure, with the Uruguay round lasting seven years, and the Doha round still ongoing after ten years. Are these difficulties being encountered due to the determination of the demands being put onto the agenda by the developing countries and the UNCTAD? Or is it a coincidence? One thing is for sure, developing countries will continue to cause debate and controversy when it comes to WTO meetings for the foreseeable future.

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