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Developing Countries in the ITO and GATT Negotiations

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Abstract

The literature examining the participation of developing countries in the General Agreement on Tariffs and Trade (GATT) and International Trade Organisation (ITO) negotiations generally sees their attitudes towards these projects as having been driven exclusively by a commitment to import substitution. This commitment, it is argued, led developing countries to oppose many aspects of the GATT/ITO project, particularly the requirement for reciprocal tariff cuts. This paper argues that this view misconstrues and caricatures the ideas and motivations underpinning developing countries' attitudes towards the GATT and ITO. Though import substitution and the related objective of industrialisation each played a part in shaping developing countries' attitudes, they are only aspects of a more complex set of aims and ideas. Developing countries were drawing from a range of key experiences and ideas beyond simply import substitution in forming their attitude towards the GATT/ITO project, in particular the volatility in commodity markets that preceded the negotiations, the legacy of colonialism, and the lessons provided by the 19th and 20th centuries on trade policy. Finally, it is argued that evidence from the first round of GATT negotiations indicates that developing countries were substantially less opposed to reciprocal tariff concessions than has previously been argued. These findings are important for anyone who wants to understand the evolution of the GATT and the role developing countries played in it, and the difficulties between the rich and poor nations that continue to characterise negotiations in the World Trade Organisation.

Keywords: GATT (General Agreement on Tariffs and Trade); ITO (International Trade Organisation); Developing countries; Colonialism; Tariff paradox

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Introduction

Much of the literature on developing countries in the General Agreement on Tariffs and Trade (GATT) argues that developing countries' behaviour in the GATT was driven by a commitment to import substitution and a demand for special and differential treatment (SDT). The precepts of import substitution are seen as having underpinned a desire by developing countries to evade commitments to tariff reductions and a refusal to engage in reciprocal tariff bargaining. Furthermore, due to their 'misguided' focus on import substitution, developing countries are generally seen as having opted not to participate in the GATT, demanding instead SDT provisions to escape GATT obligations. Elsewhere, with Rorden Wilkinson, I have shown that this characterisation of developing countries' actions in the GATT does not do justice to the extent to which developing countries participated in the GATT's activities (Wilkinson and Scott, 2008). In the present paper, the focus is on examining the critical period around the ultimately doomed negotiation of the Charter for an International Trade Organisation (ITO) and the process of creating the GATT.

This paper argues that, while a concern with maintaining the freedom to protect infant industries was clearly an important consideration underpinning developing countries' attitudes to the Charter and GATT, it was only one aspect of a more complex set of aims and ideas. In seeking to understand the views of the developing world with regard to the ITO and GATT, we do them a disservice in reducing those ideas to a 'relentless but misguided pursuit of ... import substitution' (Srinivasan, 1998: 27). While it is clearly true that the desire of developing countries to maintain a degree of freedom in commercial policy to allow the introduction of protection for infant industries was an important concern in determining their position with regard to the Charter and GATT, other ideas were also important. By forgetting these other factors, we can be led to characterise inaccurately the interaction between developing countries and the GATT.

Ideas emerge primarily from experience, and the lessons available to developing countries in 1947 from their recent experiences did not support a policy of free trade. Some of these are examined here, including the correlation over the preceding 150 years of relatively high tariffs with economic growth, the adverse experiences of countries relying on exporting primary goods at this time, and the legacy of colonialism in shaping attitudes towards the GATT. In addition, the attitudes developing countries had towards tariff negotiations in the formative years of the GATT are argued to belie the dogmatic fixation with import substitution that is generally attributed to them. There was a much greater degree of acceptance of the aim mentioned in the Charter and the GATT of the 'substantial reduction of tariffs' (US Department of State, 1945: Chapter III, Section B), particularly among the countries comprising the Preparatory Committee. In the first GATT round, held in Geneva in 1947, it was developed, not developing,

countries that were the impediments to an agreement. The only countries that made offers for tariff cuts that were sufficient in the eyes of the US delegation were developing, not developed, countries. These facts do not sit easily with the conventional view of developing countries' attitudes to the GATT.

This paper does not attempt to provide a comprehensive account of the process through which the Charter and the GATT were negotiated (for some excellent examinations of this process, see Wilcox, 1949; Brown, 1950; Gardner, 1956; Zeiler, 1999; Irwin et al., 2008). However, it does argue that these accounts tend to focus on the actions and attitudes of the industrialised countries. This is perfectly reasonable, as it was these countries that had the greatest influence in shaping the outcome, but it has the consequence that the views and ideas of the developing countries involved in the process are not fully understood. This paper seeks to go some way towards addressing this, and towards providing a more comprehensive understanding of the ideas developing countries brought to the negotiations and what motivated these ideas.

The paper unfolds as follows. The following section briefly examines the prevailing understanding of developing countries' attitudes towards the GATT and ITO. Following this, the paper examines some of the motivating ideas developing countries held and the experiences on which they were based, beginning with the volatile commodity markets that had characterised the years leading up to the 1946-47 negotiations, before analysing the legacy of colonialism in shaping the attitudes of developing countries towards the aims of the GATT. It then examines the lessons provided to developing countries on tariff policy by the experiences of the 19th and 20th centuries. The penultimate section turns to the ITO and GATT negotiations themselves, focusing particularly on the role developing countries played therein and their attitudes towards tariff liberalisation, before the final section concludes.

Prevailing interpretations of developing countries in the GATT/ITO negotiations

When the ITO was being negotiated, power was held overwhelmingly by the United States. By 1948 the United States controlled three-quarters of the world's monetary gold (Williams, 1991: 18fn) and accounted for one-third of the world's exports, whilst taking only a tenth of its imports (Wilcox, 1949: 10). However, the UK, with its large empire, was also still highly significant. Accounts of the development of the ITO and GATT project have therefore focused on the objectives and motivating principles of the US and UK (see, among others, Wilcox, 1949; Brown, 1950; Gardner, 1956; Zeiler, 1999; Irwin et al., 2008). This involved, among other areas, contention over the British and French Preference systems, by which their colonies were granted preferential access to their markets and in turn granted preferential access to British and French exports; the details

of how quantitative restrictions could be used in balance of payments crises; and the relationship between policies designed to maintain full employment and commercial commitments.

Developing countries were also present, however: nine of the 18 countries invited¹ to form the Preparatory Committee to draft a convention for the consideration of an International Conference on Trade and Employment were considered 'developing' at the time. Often their role is characterised as being almost purely oppositional. Wilcox, for instance, lists the demands made at Havana, particularly by the Latin America delegates, exasperated by what he saw as an attempt to destroy the enterprise (see Wilcox, 1949). Other commentators have frequently followed this line.

Some institutional reasons for developing countries seeking greater freedom from ITO and GATT discipline have been identified. Robert Hudec argues that the very nature of governing institutions made it inevitable that the ITO (and GATT) would provide exceptions for developing countries, since the ITO would be playing a 'governmental' role.

The power to govern usually brings with it, according to most twentieth-century political norms, a duty to take care of the disadvantaged members of the group being governed... [I]t was natural for the disadvantaged members of [the ITO] community to feel that the community must 'do something' to help them. The ITO had no money to give, only rules. Thus rule assistance was naturally the help that was sought (Hudec, 1987: 12-13).

J. Michael Finger makes a similar point, arguing that the treatment in the negotiations of disciplines on domestic policy as being a 'cost' to be given up for the common good meant that developing countries would be unlikely to be held to similar levels of commitments.

[T]he acceptance of *individual costs* [through disciplines on their commercial behaviour] for the common good was the basic trade-off each participant was being asked to make – the basic form of the negotiations. In such a context, it is very difficult to ask the weaker members of the community to make the same sacrifice as the stronger (Finger, 1991: 209).

¹ Australia, Belgium, Brazil, Canada, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Luxembourg, the Netherlands, New Zealand, Norway, South Africa, the UK and the US. The USSR had been invited to join the Preparatory Committee but declined. Australia, New Zealand and South Africa were all considered to be less developed countries. Czechoslovakia may be placed in a group of its own, due to its high prevalence of state trading under the influence of the USSR.

As Finger and Hudec argue, institutional issues contributed to the demand of less developed countries for exceptions in the Charter in support of development. Ian M. D. Little identifies three further underlying reasons for developing countries seeking to opt out of disciplines arising from their expectations of the future:

First, and this was a grave mistake, they never expected to be able to export manufactures to the industrialised countries; but they might export a little to their neighbors, especially if they were ethnic as well as geographic neighbors, hence the desire to be able to create new preferences. Second, they presumed that the industrialized countries would not protect against raw materials. Third, on competing farm products (sugar being the most important), the cause was probably lost anyway, for the United States itself proposed to exempt farm products from the ban on quotas (Little, 1982: 61).

Finger, Hudec and Little provide relatively rare attempts to situate developing countries attitudes towards the ITO and GATT within a wider context and to provide a more nuanced understanding of their demands. Those less focused on the early negotiations are more narrow in their conception of developing countries' ideas. Reflecting a fairly standard assessment, Collier (2006: 1425) argues that developing countries 'were marginalised, or chose to marginalise themselves, through the formula of "Special and Differential Treatment"'. Similarly, T. N. Srinivasan (1998: 27) argues that developing countries 'in their relentless but misguided pursuit of the import-substitution strategy of development, in effect opted out of the GATT' and received 'a permanent status of inferiority under the "special and differential" treatment clause'.

Bernard Hoekman writes that:

The traditional approach to SDT comprises trade preferences through the Generalized System of Preferences (GSP), limited reciprocity in trade negotiations, and temporary exemptions from certain rules, conditional on level of development (albeit undefined) (Hoekman, 2004: 3).

There is clearly a degree of truth to the claims concerning developing countries' demands for SDT. However, it is noteworthy that of these three elements of SDT identified by Hoekman, the GSP was introduced only in 1971,² the waiving of reciprocity in tariff negotiations (Article XXXVI.8) was introduced only as an element of Part IV in 1964, and a significant part of the temporary exemptions open to developing countries were introduced to Article XVIII at the 1954 Review. Furthermore, in the original GATT (that is, the Agreement as it was signed in 1947, before the changes made in the 1954

² The agreement to create a GSP was made at UNCTAD II in 1968. The waiver of Article 1 obligations (on MFN) was agreed in the GATT after the details of the GSP had been formulated and was signed on 25 June 1971 (GATT, 1972: 24-26).

Review and in the addition of Part IV) the only article that released developing countries from any obligations was Article XVIII on 'Governmental Assistance to Economic Development and Reconstruction', which gave exactly the same 'special' treatment afforded to developing countries to those countries undergoing post-war reconstruction.³ As such, developing countries in the GATT 1947 were formally afforded no greater derogation from GATT rules than was the UK or France.

This opens several questions. Since the provisions of SDT for developing countries were only introduced years after the GATT was created, what were developing countries doing before this time? Can their engagement with the GATT before this time accurately be characterised as being motivated purely by the demand for SDT, pursuing exceptions and escape clauses releasing them from GATT discipline? If so, why were they seemingly so unsuccessful in getting these provisions included in the GATT in 1947? Or did other ideas underlie their attitudes towards the GATT?

This paper investigates some of these questions, analysing in particular the ideas and concerns that developing countries brought to the ITO and GATT negotiations. Clearly, one of the most important elements in forming a country's views is the experiences it has gone through. The following section begins the analysis of some of the salient experiences underpinning developing countries' attitudes towards the GATT, through examining the fluctuations in commodity markets that preceded the negotiations.

Commodity price fluctuations

For developing countries exporting mainly primary commodities, the prospect of creating a liberal trade system, thereby relying on international markets for maintaining both demand and prices that were reasonably stable and profitable, was not altogether appealing. Three times in the previous 30 years they had faced massive disruption to their exports through external shocks, making the argument for an export-led growth strategy hard to make (Findlay and O'Rourke, 2007: 477). The First World War (WWI) created a large disruption to trade, with a significant (if unquantifiable) fall in the volume of trade and large increases in the cost of shipping goods. A second shock had occurred in the inter-war years with the Great Depression, in which countries exporting primary commodities lost markets and faced severely declining prices for their exports. Third, the Second World War (WWII) then disrupted the flow of goods around the world, and 'represented yet another shock to the export-led model, this time exposing sharply its vulnerability to the availability of imports and shipping and the instability of primary product markets in the face of world political disturbance' (Thorp, 1992). Findlay and

³ Note that Article XVIII was renamed as part of the 1954 Review at which all references to reconstruction were removed.

O'Rourke summarise the effect this had on attitudes at the time: 'Intellectually, this third major disruption to the international economy in three decades, following World War I and the Great Depression, made it extremely difficult for liberals to argue convincingly for an export-led growth strategy' (Findlay and O'Rourke, 2007: 477).

All countries involved in the Preparatory Committee, with the exception of the US, were concerned with another slump in US demand sending the world into another depression. Some members of the British cabinet, for instance, saw this as an inevitability rather than a risk (Zeiler, 1999: 38), a view that was perhaps not helped by the US Congress already in 1945 beginning to seek limits on social spending for full employment (Zeiler, 1999: 55). Australia sought to put full employment before freeing trade as the aim of the prospective ITO, arguing that the US and UK in particular, as the world's largest markets, needed to make an international commitment to maintain full employment, thereby guaranteeing stable import demand as a precursor to trade liberalisation (Capling, 2000: 6). To this end, Australia put forward a proposal to change Article 1 of the draft Charter on the purposes of the organisation, arguing that 'the positive objectives of ITO in expanding the volume of world trade by increasing effective demand are at least as important as the more negative aims of removing trade barriers, and that success in the latter depends on success in the former, rather than vice versa' (ECOSOC 1946b). India took umbrage at the idea expressed in the US Proposals that 'The attainment of approximately full employment by the major industrial and trading nations ... are essential to the expansion of international trade on which the full prosperity of these and other nations depends' (Proposals, section B 'Proposals Concerning Employment'). India argued that this implied the subordination of the interests of those countries not considered 'major industrial and trading nations', and they did not accept that India's prosperity 'must necessarily depend on the expansion of international trade' (UNCTE, 1946b: 17).

A further impact of these three trade disruptions was the impetus they gave to the establishment of import-substituting industrialisation. The impact of WWI on the exports of developing countries was far from uniform, notably with those countries exporting goods essential to the war effort (such as food and copper) doing substantially better than those exporting non-essential goods (Findlay and O'Rourke, 2007: 433). However, the exporting of manufactured goods from Europe to less developed countries was severely disrupted, helping to set in motion the shift towards import substitution in many developing countries, particularly in Latin America. This process was continued by the similar disruption of WWII (Bulmer-Thomas, 2003: 243-244). Protected industries set up during the War would subsequently face significant competitive pressure as the more efficient industries of Europe recovered, leading to demands in many developing countries for continued import protection.

These three severe disruptions to the world economy, and to the exports and critical imports of developing countries that had preceded the ITO negotiations, had helped to convince developing countries of the importance of loosening their reliance on an unstable world market. This required ensuring that they had the capacity to produce necessary manufactured goods domestically rather than continuing to rely on exports from Europe and the US, particularly in the context of demand moving increasingly to the US economy, which was viewed across the world as being prone to recession.

Industrialisation and colonialism

In addition to the need to industrialise to ensure the supply of manufactures without relying on the older industrialised nations, which had proven to be unreliable sources, developing countries had a strong desire to industrialise due to the legacy of colonialism. As argued by Paul Bairoch (1989a), the colonial experience for the less developed countries was one first of de-industrialisation, followed by protracted periods in which re-industrialisation was hampered by the trade regime put in place by the colonial governments. The early years of colonialism were ones of high protectionism in the colonising countries against competitive manufactured goods originating in the colonised areas, while domestic manufacturing capacity was built up. As Bairoch says:

[A]lready in 1700 the manufacturers had succeeded in banning imports of Indian cotton goods into England; but between 1769 and 1813 the English cotton industry had become mechanised. This led to an enormous increase in productivity in this sector, which was in turn induced after a complete reversal in the structure of trade: India was forced to switch from exporting manufactured goods (about 70% of her sales) to importing English cotton goods in exchange for war cotton and other agricultural products (Bairoch, 1989a: 108).

The driving force behind this reversal in trade structure was, of course, the enormous productivity growth that came with industrialisation, leading to English cotton-spinners having a productivity in 1830 of somewhere between 300-400 times higher than those in India or elsewhere practising traditional craft, but a wage level only slightly higher (Bairoch, 1989b: 239). Colonial trade policy of opening the colonies to free trade from the colonial core had the effect of:

de-industrializing the colonies in the nineteenth century. By opening up the ports to modern manufactured goods, these trade laws led first to the disappearance of existing crafts and later curbed the process of re-industrialisation (Bairoch, 1989a: 127).

Even those countries that were not directly colonised, or which had secured a degree of autonomy relatively early, were forced into adopting free trade through coercive treaties (Findlay and O'Rourke, 2007: 399-402). Colonisation and the imposition of commercial policy on nominally independent states, Bairoch concludes,

played a crucial role in explaining why 'they [i.e. the colonised countries] remained poor' and even why, at a certain stage of history, 'they became poorer'. And among the many causes of such an evolution is what I call compulsory economic liberalism of the future Third World countries (Bairoch, 1989b: 238).

This aspect of the colonial period was not lost on the less developed countries at the time of the ITO negotiations. They felt that the colonial powers had attempted to prevent the industrialisation of the colonies and this had an impact on their attitudes towards the colonial countries in the ITO negotiations. In the Indian Comments on the US Proposals, for instance, it is noted that 'Hostile influences, mainly of foreign origin, were also at work behind the scenes to put a brake on industrial progress' (UNCTE, 1946b: 9). Some Latin American countries at Havana argued that the ITO's focus on freeing trade was insufficient and that the Charter should reflect a philosophy of resistance to imperialism (Zeiler, 1999: 139).

Free trade as a concept was 'tainted' by the legacy of colonialism. As countries gained their independence, it is unsurprising that they sought to overturn the policies that had been forced on them by colonial governments, and demanded freedom to utilise the commercial restraints that the Western governments had previously reserved for their own use alone. Freedom in commercial policy was bound up with nascent political freedom.

For developing countries, the focus on trade liberalisation put forward by the US and UK in the plans for the ITO was primarily felt to be one of self-interest in opening new markets for manufactured goods and securing supplies of raw materials. As India stated in the *Comments*:

As leading industrial powers, the prosperity of both [the UK and USA] depends on the ready supply of cheap raw materials and on expanding markets for manufactured goods. Exports on an ever-increasing scale, rather than internal development, is the primary objective of both. The insistence on world-wide reduction of tariffs and the removal of trade barriers and on 'equal access to the markets and raw materials of the world' which has characterised every statement of policy made by either Government ... is thus easily explained (UNCTE, 1946b: 5).

Likewise, Australia felt that the US Proposals would 'fossilise' the existing international division of labour in favour of the wealthy industrialised countries, threatening their plans for industrialisation. As Capling states, 'From an Australian perspective what the US and Britain hailed as "trade liberalisation" looked more like Anglo-American imperialism' (Capling, 2000: 4-5, citing National Library of Australia, ms 4514, box 3, 'Report on London Discussions on Article VII, February–March 1944'). Again, for most developing countries, their concerns that the ITO Proposals reflected a neo-imperial desire to control developing countries' commercial policies were not the result of excessive pessimism or a predilection for conspiracy theory. They emerged out of the fact that for several hundred years their commercial policies *had* been controlled by the Western powers.

The US was at times somewhat dismissive of the importance placed by developing countries on industrialisation. Clair Wilcox derided the 'fetish of industrialisation', which he saw as based on the 'irrational belief' that it was only through rapid industrialisation that developing countries could secure improved standards of living (Wilcox, 1949: 30). As Capling points out,

[g]iven the US experience of industrialization through economic nationalist measures, this was hypocritical to say the least and did little to disarm the view that the US proposals were weighted in favour of the developed countries of the North (Capling 2000: 11).

The general view among development economists also gave a significant degree of support to developing countries' desires for industrialisation and for significant freedom in the measures employed to bring it about. Summarising the prevalent theories among development economists, Ian M. D. Little says that, '[i]t seems fair to say that the development establishment [in the 1950s] was in favour of planning trade, and much else, by direct controls, and also in favour of direct governmental initiatives in manufacturing investment' (Little, 1982: 75).

It should also be remembered that colonial sentiments in the industrial countries were still highly prevalent at the time of the ITO and GATT negotiations, making the distrust on the part of the colonised countries far from paranoia. Indian independence (and with it that of Pakistan and present-day Bangladesh) in 1947 was only granted because of the unexpected election of Atlee and the disorganised Conservative response to the Labour Party's swift movement towards pulling out of India (Owen, 2003). Most of the Conservative party was highly hostile to granting independence to Britain's colonies, no-one more so than Churchill himself, who frequently attacked the 'gross, dirty and corrupt ... baboos' of the Indian Congress (quoted in Owen, 2003: 405). When the idea of offering India Dominion status was mooted during the War, such was the strength of

opposition, it 'came closer to breaking up the wartime coalition than any issue except perhaps the Beveridge report' (Owen, 2003: 404).

The continued prevalence of these colonial opinions in some industrialised countries inevitably elicited a certain response on the part of developing countries and natural misgivings about the proposals put forward by the colonial powers. Developing countries were required to negotiate with representatives from other countries who still felt, to use Rudyard Kipling's famous phrase, the 'white man's burden' resting on their shoulders. That there was great distrust of the whole ITO/GATT project among developing countries in this context is unsurprising.

Academics seeking to understand the international political interaction within the UN recognise the important influence the legacy of colonialism has had on the behaviour of developing countries, even in the present day, notably on their attitudes towards UN intervention. By contrast, in the key books examining developing countries in the GATT it is almost invisible. Notably, T. N. Srinivasan's *Developing Countries and the Multilateral Trading System* (1998) does not mention colonialism once. Robert Hudec's (generally outstanding) *Developing Countries in the GATT Legal System* (1987) mentions it in three places: in connection with the issue of colonial preferences, as a contrast to the post-WWII world, and in relation to the trade lessons developing countries received from their colonial parents during the 1930s period of trade restrictions (Hudec, 1987: 6, 9 and 12, respectively). Hudec opens his book noting the fact that relations between developed and developing countries had previously been almost exclusively either *de jure* or *de facto* colonial, but this 'colonial past was not what the post-1945 world was looking for' (Hudec, 1987: 6). True enough, but the *legacy* of colonialism and the resulting scepticism felt by developing countries towards the trade plans of the colonial states is largely ignored. Yet understanding the lasting impact of this experience on the attitudes of developing countries is critical to understanding their interaction with the GATT, particularly in its early years. Robert Hudec should get credit for briefly mentioning the lessons given to developing countries that 'economic benefit was maximized by controlling trade and suppressing competition from alternative suppliers' (Hudec, 1987: 12). This at least raises one legacy of the colonial period. Others simply ignore it, making no attempt to consider the impact colonialism had on attitudes and policies adopted by developing countries towards the ITO/GATT.

The 'tariff paradox'

The idea of free trade was, as argued above, tainted in the eyes of the world's less developed countries by the legacy of colonialism. Further contributing to this disaffection with the project of post-war trade liberalisation was the fact that the experience of the 19th and first half of the 20th century had done little to convince developing countries (or

indeed anyone else) of the benefits of free trade. While economists are now more or less united in the belief that free trade is the optimal policy choice and will lead to the greatest economic benefits, the evidence from the 19th and first half of the 20th centuries does not offer this idea unequivocal support. In fact, economic historians have found that protectionism during this period was generally associated with *higher* growth rates and free trade associated with slower growth (Bairoch, 1989b; O'Rourke, 2000; Clemens and Williamson, 2001; Irwin, 2001; for a cautionary note on interpreting these findings, see also Irwin, 2002a). As Bairoch observes:

It is almost certain that during the XIXth century, contrary to the classical model, for most of the now developed countries, if not all those countries except the leader (UK), free trade meant depression and protection meant growth and development. On the other hand, it is certain that for the future less developed countries free trade meant ... the acceleration of the process of economic underdevelopment (Bairoch, 1989b: 241).

Looking at Latin America, Bulmer-Thomas (2003: 204-211) finds that import-substitution played a significant role in the post-Great Depression recoveries of Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru, and import substituting agricultural growth was important in Argentina, Costa Rica, Cuba, El Salvador, Guatemala and Mexico. Such findings have been repeated and broadened by Clemens and Williamson (2001), using a larger data-set and more countries. They found that, despite introducing various controls, 'the positive association between protection and growth before 1939 doggedly refuses attempts to make it go away' (Clemens and Williamson, 2001: 15), although the positive effect on growth is relatively weak (though still present) among less developed countries compared to countries in the core. It is only in the post-war period, which they also evaluate, in which trade openness becomes strongly positively associated with growth.

These findings were only made after relatively recent studies were undertaken, using data only recently available. Nonetheless, the key point is that for (often) newly independent developing countries entering the negotiations on creating the ITO and GATT, the experience of the 19th and early 20th century clearly did not provide clear evidence in support of the idea of free trade. Indeed, the available lessons were, *prima facie*, quite the opposite.

Little empirical evidence, therefore, was available at the time in support of the idea of free trade. Nor was free trade accepted as the optimum policy by development economists at the time. As Ian M. D. Little again notes, 'few academics among those who wrote mainly about development ... would have accepted, in the 1950s, that developing countries should avoid direct trade controls and have at most a modest tariff'

(Little, 1982: 75), though, as he recognises, there were important dissenters such as Jacob Viner and Gottfried Haberler.

The experiences examined in the previous sections underpinned the attitudes developing countries took to the ITO and GATT negotiations. Though they led to a certain degree of opposition towards the project of creating a post-war trade organisation, such opposition is sometimes exaggerated. The following section turns to an examination of this process and the positive role developing countries played in the negotiations.

The ITO and GATT negotiations

At times, developing countries' attitudes towards the ITO and GATT are presented as being entirely opposed to the project. In an oft-quoted line from Claire Wilcox, the vice-chair of the US delegation, at Havana '[s]ome eight hundred amendments were presented, among them as many as two hundred that would have destroyed the very foundations of the enterprise' (Wilcox, 1949: 47). He goes on, 'some of the proposals advanced in the name of economic development have to be seen to be believed' (Wilcox, 1949: 142). Clearly there was a great deal of dissatisfaction voiced by the developing countries towards the ITO Charter. Some of the reasons for this have been examined above. This section seeks to shed greater light on the actual process of the ITO and GATT negotiations, bringing out further issues that drove the attitudes of the less developed countries, and assessing the degree to which developing countries were opposed to the project.

The first issue is the exclusion of development from the proposed charter. In November 1945 the US Department of State circulated its 'Proposals for Expansion of World Trade and Employment' (US Department of State, 1945: henceforth 'Proposals'), which had been drafted during WWII in collaboration with the UK. The Proposals put forward by the US, which subsequently served as the basis for the ITO Charter, made no reference to development, nor to the special circumstances which less developed countries faced. This reflected the US attitude that economic development was best left to the private sector and required no government interference or protection. The US argued throughout the negotiations that 'development was primarily a matter of private capital investment and that special measures to deal with this belonged elsewhere, not in the commercial policy rules of the international system' (Finger, 1991: 207). The hypocrisy of this position, given the policies pursued by the US during its own period of industrialisation, was not unnoticed. As noted in India's Comments,

Under pressure exerted by countries of the British Empire, the UK made a half-hearted attempt to assert the right of undeveloped countries to apply

tariffs 'for a limited period under adequate safeguards for the protection of infant industries'. The USA, however, forgetful of its own history, was not prepared to concede even this limited right (UNCTE, 1946b: 6).

The developing countries sought the right to use the kinds of trade measures used by the industrialised countries during their own period of industrialisation.

The high degree of economic development attained by certain countries has been in no small measure due to the use of tariffs and other regulatory devices; and it is only proper that the use of these instruments should not be denied to countries that have just started on the path of development (UNCTE, 1946b: 61).

Brazil, supported by other developing countries, thought that the ITO should have as a central aim to 'encourage and promote the industrial and economic development of member countries, particularly of those whose development is less advanced' (UNCTE, 1946a: paragraph 3).

While the US and UK had been busy discussing the shape of the proposed ITO between themselves, it was natural that the issue of economic development should have been pushed to one side. When the process began to involve more countries, however, these ideas could no longer be ignored. The resolution of the Economic and Social Council of the UN to undertake a Conference on Trade and Employment, at which the Preparatory Committee would begin drafting the ITO Charter, followed closely the proposed resolution put forward by the US, except that it included a section, based on suggestions made by Columbia and Ecuador, calling for the Preparatory Committee 'to take into account the special conditions which prevail in countries whose manufacturing industry is still in its initial stages of development, and the questions that arise in connection with commodities which are subject to special problems of adjustment in international markets' (ECOSOC resolution, quoted in full in Brown, 1950: 59).

Following this, an effort to include developing countries' views and aims was made. A key sticking point was the demand by the less developed countries to be able to afford protection to infant industries, which is well covered elsewhere in the literature and will be dealt with only briefly here. Developing countries sought the right to impose tariffs and quantitative restrictions to protect infant industries. While the industrialised countries were not entirely opposed to this, there was substantial disagreement on how such protection should be given. The US strongly opposed the use of quantitative restrictions, and argued that the most economically beneficial way of supporting infant industries was through the granting of subsidies to domestic producers. The less developed countries were unimpressed with this. This was partly due to the hypocrisy of the argument, given the extensive use of tariffs and quantitative restrictions used by the industrialised

countries during their own industrialisation. The US argued in turn that the fact that industrialised countries had used poor economic policies in the past was not a good reason for developing countries to use them in the future. As Wilcox said, in the opening statement of the second plenary session of the London Conference:

It will doubtless be remarked, in the course of these proceedings, that the United States has not always practiced the gospel that it now presumes to preach. This I admit. But the fact that we have sinned in the past should not be taken to justify all of us in sinning in the future, to our mutual harm (ECOSOC, 1946a).

The less developed countries also argued that subsidies were not appropriate because of the fiscal pressures they faced. As India stated in the Comments, 'in this matter ... little consideration was shown for the interests and requirements of undeveloped countries whose financial resources are limited' (UNCTE, 1946a: 6). Despite feeling that it 'might find it useful in certain cases to subsidise exports', India supported the complete banning of export subsidies, recognising that one country introducing export subsidies may well lead others to introduce their own, and that 'India could not possibly enter into competition with countries like the USA in policies of this kind' (UNCTE, 1946b: 33). Brazil's proposed charter also envisaged the complete elimination of export subsidies (UNCTE, 1946a: paragraph 21). Export subsidies were not banned in the Charter, due to US desires to continue their use in agriculture. In fact, the US went to Havana seeking complete freedom for the use of export subsidies on primary goods (Brown, 1950: 146). This is a good example of developing countries, and India, one of the most belligerent at the Conference, seeking a more restrictive Charter. It does not fit well with the perception of developing countries in the negotiations demanding no restrictions be placed on their commercial policy.

A similar prevalent perception is that developing countries were unwilling to make tariff cuts, due to their pursuit of import substitution. It is certainly true that they demanded the right to raise protection for infant industries, but this is not a full picture of either their input into the negotiations on the ITO and GATT, nor their contribution to the first tariff-cutting round held in Geneva in 1947. In his comprehensive account of the negotiations on the Charter, William Brown notes that:

The inclusion in the Charter of an obligation to negotiate for the substantial reduction of tariffs and for the elimination of preferences ... was never a basic issue in the Preparatory Committee (Brown, 1950: 73).

Far from relentlessly trying to ensure that they would not have to make any contribution to the tariff-cutting process, the overall principle of tariff liberalisation was accepted by the developing countries on the Preparatory Committee (though with reservations by one un-

named country; (see ECOSOC, 1946c: 5-6; UNCTE, 1946d: 9-10). This is seldom reflected in the commentaries on developing countries' engagement with the GATT and the attitude they took to the negotiation of the GATT/ITO.

What was at issue, however, was the word 'substantial', how it should be interpreted, and by whom. The US position was that the countries actually participating in tariff negotiations would determine what constituted a 'substantial' reduction, and that the binding of a low tariff would be equal to the reduction of a high tariff. The latter point was supported strongly by low tariff countries, such as Brazil and the Netherlands. The importance of the clause came from the penalty clause that sanctioned penalties against any country that had failed to fulfil their obligations under the Charter, including in tariff negotiations (Brown, 1950: 74-75). Some less developed countries, particularly India, objected to this provision. They contended that:

[A]re we going to declare the country to be a defaulter merely because the performance made by it does not come up to the performance made by other countries which may be in an entirely different position, in an entirely different state of economic development, or because the performance is not what can be described as 'substantial'? (UNCTE, 1946c: 50).

The original plan was for such cases to be considered by a Tariff Committee, but the developing countries feared that this would be dominated by the industrialised countries, and strongly opposed granting the power to decide whether or not any country had fulfilled its obligations to a committee in which they were under-represented. This issue was finally resolved in Havana, through abandoning the suggested Tariff Committee (as a *quid pro quo* for the abandonment also of the proposed Economic Development Committee) and giving the role envisaged for the Tariff Committee to the Executive Board, along with guaranteed seats on the Board for less developed countries (Brown, 1950: 157-158).

The developing countries had other reasons to be sceptical of the ITO and GATT's requirements for tariff cuts. In 1947, many developing countries had relatively low average tariffs compared to those of the industrialised countries (see Clemens and Williamson, 2001: 35, Figure 2), though these rose substantially in the coming decades (Findlay and O'Rourke, 2007: 494-495). A greater impediment to their involvement in tariff-cutting negotiations, however, was the fact that the exports of developing countries were primarily to be found in raw materials, which entered the core markets duty-free anyway (see UNCTE, 1946b: 26). On any product in which they hoped to become competitive but did not presently export to any great extent, they were hampered by the principal supplier rule of negotiations. In agricultural goods, much of the time the greatest impediments to their exports lay in non-tariff barriers, such as high rates of internal taxes, on which the rich nations refused to negotiate (Wilkinson and Scott,

2008: 487), or subsidies, which, as noted above, the Charter permitted at the insistence of the US.

While the obligation to reduce overall tariffs was accepted within the Preparatory Committee, it was subject to greater resistance at the Havana Conference, where a number of Latin American countries opposed requirements to negotiate on tariffs (Brown, 1950: 157). The opposition to this requirement and to the Charter in general must, however, be placed within the context in which the negotiations had unfolded. The countries that joined the process at Havana had not previously had the opportunity to voice their own opinions and they bridled at the idea that the Charter should arrive at Havana as a *fait accompli*.

Only a select group of countries had been involved in the negotiations of the Charter, comprised of the victorious Western industrialised countries and a number of key developing countries. For the majority of developing countries the conference at Havana, held between 21 November 1947 and 24 March 1948, was the first opportunity that they had had to voice their opinions on the Charter and to push for the exceptions that suited their particular circumstances, as *all* countries, rich and poor, had done from the earliest opportunity. As Capling says, '[m]ost of the countries at Havana had not been a party to the earlier negotiations and the hard-fought compromises. Now it was their turn to denounce the Charter, to seek exemptions from its provisions, and to demand exceptions based on their own particular problems' (Capling, 2000: 19). Some, notably the US, had been in the privileged position of having written the Charter, and had therefore been able to include at the outset the exceptions they wanted, in particular the exclusion of agriculture and provisions for applying domestic and export subsidies to fit in with their agricultural policies. Others that had been invited to participate in the Preparatory Committee had had their particular concerns included in the drafting process as it moved through the Committee meetings in London in October to November 1946 and in Geneva in April to August 1947. Those in the Preparatory Committee could see the compromises that had gone into the Charter, but for the rest the Charter looked like it was being presented as a *fait accompli* in which their particular wishes were not given consideration. Havana was the first time they had had in the negotiation process to contribute, and this partly explains the truculent attitude they brought to the conference.

Again, though, past experiences with the dominant states coloured their reaction to the proposed Charter:

The experience of the 1940s, the collapse of the international trade and payments system, and the willingness of the developed countries to exploit their greater economic, political, and even military power in their relations with Latin American states had all combined to produce a certain cynicism with

regard to models of development that required an open door to foreign goods and capital (Bulmer-Thomas, 2003: 263).

Many Latin American countries had followed a policy of export-led development in the early 20th century, but had become disillusioned with it following the disruptions to their exports and the actions of the great powers:

The great powers had frequently acted irresponsibly (e.g. the Smoot-Hawley tariff) or selfishly (e.g. the Roca-Runciman pact⁴). The result was a growing sense of nationalism in a number of Latin American republics and a greater commitment – albeit poorly articulated – to inward-looking development and industrialisation as an alternative model to traditional export-led growth (Bulmer-Thomas, 2003: 238-239).

These factors all contributed to the opposition felt by many developing countries towards the plans for trade liberalisation in the Charter. Once again, their opposition to the Charter was in accord with the views of development economists at the time, 'few of whom would have accepted ... that LDCs should have agreed to the United States draft of the Havana Charter' (Little, 1982: 75).

Despite any opposition countries felt towards tariff reductions, at the Geneva Round of 1947 it was not the developing countries that made the process difficult. In fact, when assessing the original offers for tariff cuts that participating countries made, in the views of the US negotiators only Brazil and Syria-Lebanon made offers that were considered to be sufficient (Zeiler, 1999: 93). The greatest impediments to a deal were from the industrialised countries, notably the poor offer by the US on wool which threatened to collapse the negotiations (Capling, 2000: 15-16; Irwin, Mavroidis et al., 2008); a feeble offer by France, which met only 1 percent of US requests and sought to raise tariffs as compensation for converting to *ad valorem* duties (Zeiler, 1999: 93-95); and offers by the UK that were considered 'pitiable' by the US delegation (Zeiler, 1999: 106). This was partly because the UK was in no position to make concessions, following the collapse of Britain's reserves after convertibility with the dollar had been prematurely restored on 15 June 1947, just after the start of the conference. This policy had to be reversed two months later (Irwin, Mavroidis et al., 2008: 90-91). But it was also partly because of the support that the head of the UK delegation, Sir Stafford Cripps, had for the Imperial Preference system. One US cable described Cripps as 'marked by complete indifference bordering on open hostility toward the objectives of the Geneva Conference' (quoted in

⁴ Bulmer-Thomas summarises: 'The Roca-Runciman pact (known officially as the London Treaty) ... obliged Argentina to lower tariffs on many British imports and allowed British companies to pay remittances by means of a subtraction from Argentina's exports to Great Britain. Thus Great Britain extracted the maximum advantage from its negotiating position, but the long-run cost was extremely high as a result of Argentina's humiliation. See Rock (1991: 21-24). A similar agreement was reached with Uruguay' (Bulmer-Thomas 2003: 218 fn 73).

Irwin, Mavroidis et al., 2008: 88). Many countries were highly doubtful that the US would be able to undertake significant tariff cuts, although these fears proved to be somewhat unfounded. The US cut tariffs on approximately half of dutiable imports, with an average cut of 35 percent (Irwin, 2002b: 221). US official calculations estimated that the average tariff across all dutiable imports was reduced from 19.4 percent to 15.3 percent, a reduction of 21 percent (US Tariff Commission, 1948: 19, cited in Irwin et al., 2008: 142). These were largely unreciprocated by the other major powers but were agreed to by the US, due to the Cold War need to provide greater prosperity to Western Europe (Zeiler, 1999; Irwin, Mavroidis et al., 2008: 92-93) and the fear that failure to liberalise would lead to greater state involvement in trade (Gardner, 1956: 102). That said, there is no way of making precise comparisons of the concessions made by each participant. The US was expected to make greater reductions in tariff rates, due to its average tariff being among the highest in the world at the time. For some countries, notably the Benelux countries, the US was exchanging tariff reductions for bindings of low tariffs, making comparisons difficult (Woytinsky and Woytinsky, 1955: 267).

These cuts were, however, made only on select products. 'The tariff reductions were not across the board or applied to import-sensitive sectors, such as agriculture goods or labour-intensive manufactures, but concentrated on industrial goods' (Irwin, Mavroidis et al., 2008: 94). This reflected the interests of the major powers and was to be repeated in each further GATT round. The consequence of this focus was that many developing countries, both contracting parties and those outside, considered the GATT to be irrelevant. 'Agriculture was excluded from its terms of reference ... [while] trade in manufactures was addressed as a matter of urgency, with drastic cuts in trade barriers being applied by most members' (Bulmer-Thomas, 2003: 268). Indeed, given the lack of discipline placed on trade in agricultural goods, for those countries in which such goods represented their principal exports, the GATT was arguably largely irrelevant. For example, 90.5 percent of Guatemala's exports consisted of just two products (coffee and bananas) (Bulmer-Thomas, 2003: 59). Given the lack of discipline on agricultural products, coupled with the proscribing of negotiations for the reduction of internal taxes that such tropical 'luxury' products tended to face in the major markets, it is hard to see what benefits GATT accession held. Many other developing countries were in a similar position. This failure of the GATT to tackle the problems of international trade in primary commodities then stiffened the commitment of many developing countries towards industrialisation through inward-looking development.

Conclusion

All too often, the ideas that are taken to have lain behind the attitudes developing countries took to the ITO and GATT negotiations are characterised as being simply import substitution and a demand for SDT, leading them to demand no restrictions on

their trade policy and to opt out of the GATT. Certainly, import substitution and SDT were features of the beliefs and requests made by less developed countries, but there was a great deal more behind the attitudes they took to the negotiations. This paper has examined some of these, taking as a departing point the dual contention that to understand a country's behaviour and views it is necessary to understand the ideas that lie behind them, and that nothing contributes more to those views than their previous experiences. For developing countries, the most important experience underlying their attitudes in the GATT negotiations was that of colonialism, and the control of their commercial policies that colonialism entailed. And yet, these experiences are absent from almost all the literature on the GATT, reflecting a lack of historical attention therein. A more historically-informed literature gives a much better, more nuanced understanding of the origins of the import-substitution policies pursued by developing countries, along with the legacy of colonialism on the relations with the industrialised countries. These include Bairoch (1989a; 1989b); Bulmer-Thomas (2003); Findlay and O'Rourke (2007); and Thorp (1992), among others. This rich literature has been touched on in this paper, though many more lessons remain to be drawn from it in understanding the evolution of the GATT.

This paper has also argued that the economic experiences of the 19th century and the first half of the 20th century did not provide clear lessons to developing countries that they would benefit from the freer trade in manufactured items that the ITO and GATT envisaged. In fact, quite the opposite was the case, which was one of the reasons why many of the countries that had pursued an export-led development path during this time (particularly in Latin America) increasingly turned towards a more inward-looking strategy (Bulmer-Thomas, 2003). It is not without irony that they did this at a time when the developed countries were doing the opposite, undergoing substantial liberalisation in the GATT.

This paper does not argue that developing countries were right to pursue the policies they did, nor that the ideas motivating these policies were always justified. It is clear that import substitution was carried far beyond the stage where it could have been beneficial. This was recognised even by those most associated with providing the rationale for this strategy, such as Raul Prebisch (see UNCTAD, 1964: 31-39; see also Ho, 2008). Nonetheless, characterising the relationship between developing countries and the world trade system exclusively in terms of special and differential treatment and import substitution does not do justice to the complexity of this interaction.

P Sai-wing Ho (2008) has argued that the arguments made by the likes of Prebisch, Myrdal and Singer, who advocated greater intervention by developing countries in their economies, have subsequently been caricatured within the academic literature in order to further entrench orthodox market-based policies. He argues that:

Long before the term 'globalization' became current, that need for policy space was articulated by, among others, many of the 'pioneers' in economic development. Unfortunately, what they actually articulated, and how they did so, have almost always been distorted and misrepresented by mainstream economists as the latter wage intellectual debates in order to shrink such policy space in accordance with their beliefs in how unimpeded functioning of markets would best promote development. Such distortions and misrepresentations, and the resulting terms in which the debates have been conducted, have doubtlessly shaped policy discourses and contributed to the ongoing push by the mainstream in support of globalization (Ho, 2008: 509).

Something similar has taken place in the literature on the GATT, in which the policies and ideas of developing countries have been over-simplified, reduced to a fundamental oppositional attitude towards the project and relentless demand for special and differential treatment. Insufficient effort has been made to understand both what lay behind these policies and the range of acts that developing countries undertook that diverged from this narrow conception of their activity.

This narrow conception does not reflect either the experiences of the early years, or the attitude developing countries had towards liberalisation. As argued above, many (though not all) developing countries, especially those in the preparatory committee, accepted the aim of the ITO/GATT to make significant tariff cuts. Furthermore, the only countries that made offers in the first tariff round that the US delegation considered to be acceptable were from developing, not developed countries. It is true that they sought derogations from the rules, in particular the freedom to raise tariffs to protect infant industries, but *all* countries were seeking clauses relaxing certain rules to fit with their individual policy requirements. There was little, if any, difference between the actions of developing countries in the preparatory committee and those of the industrialised countries.

The importance of understanding the creation of the GATT resonates today, as does the role of developing countries in that process. As Richard Gardner argues in his seminal work on the construction of the post-war institutions, *Sterling Dollar Diplomacy*, one of the key reasons for the failure of the ITO was 'the failure to devote more attention at the very outset to the economic needs of the under-developed countries' (Gardner, 1956: 379). With the failure of the ITO, the GATT came to be the institution governing world trade. The GATT worked well for the developed countries, but functioned less well for the developing countries that had always been sceptical, with some justification, of this project. Indeed, Paul Collier argues that the GATT owed its success partly to the exclusion of developing countries, an exclusion that was bought by SDT (Collier, 2006: 1427). The failure of the GATT to reflect their interests adequately contributed to the post-war turning towards inward-looking industrialisation in many of the agricultural

exporting countries. This unsatisfactory interaction between development and the GATT has plagued the institution ever since and has subsequently been passed onto the WTO, playing a critical part in the current Doha Development Round (Wilkinson, 2001; Narlikar and Wilkinson, 2004). Much could be gained from a more accurate understanding of this problematic interaction.

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