180: DEVELOPING COUNTRIES' ABOUT-FACE IN THE URUGUAY ROUND

by

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Table of Contents

List of Tables

Abstract

International trade ties the world together and is hypothetically fair and equal. In reality, it is highly asymmetrical and poses a significant challenge for developing countries. A massive sea change occurred in the international trade regime during the Uruguay Round of negotiations of the General Agreement on Tariffs and Trade (GATT) from 1986 to 1994. Developing countries as a whole began to embrace liberal trade policies which seemed to be the only alternative to failing import substitution industrialization (ISI). An historical comparative account describing and explaining this transformation of developing countries' attitudes toward the GATT is used in this dissertation to provide an alternative explanation for the transition of developing countries from having little interest in the Uruguay Round of GATT negotiations to sharply changing course and adopting neo-liberal policies which supported the conclusion of the Round. Three theoretical approaches seek to explain *why* this change occurred, including: liberal trade theory (economic reforms), dependency theory (external forces) and constructivism (the role epistemic communities).

The Uruguay Round negotiations were dynamic and heavily influenced by two power-house developing economies, India and Brazil, who were initially opposed to the Round itself. Kenya found itself in a starkly different situation with minimal ability to participate or influence negotiations. These three countries constitute the study's illustrative case studies. As negotiations progressed, India and Brazil changed course and agreed to the Round's 'single-undertaking' and the 'inequitable Grand Bargain' between the developed and developing economies. This subsequently led to other developing countries following suit through a powerful *demonstration effect* in a trade-off between the inclusion of trade in services and intellectual property for reforms in agriculture and textiles & clothing. While economic reforms began to occur and attitudes began to change during the Uruguay Round itself, assessing developing countries during the Round found that no single theoretical approach can explain developing countries' transformation; rather each had their own trajectory for their economic reforms. A multi-dimensional conclusion provides the most comprehensive account of this transformation of the global trade regime.

List of Abbreviations Used

ACP	Africa, Caribbean and Pacific Group
AD	Anti-Dumping
AoA	Agreement on Agriculture
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CEB	Brazilian Entrepreneurial Coalition
COMSEA	Common Market for Eastern and Southern Africa
CSIS	Centre for Strategic and International Studies
CCFF	Compensatory and Contingency Financing Facility
CVD	Countervailing Duty
DSM	Dispute Settlement Mechanism
EEC	European Economic Community
ECOSOC	Economic and Social Council
EPZ	Export Processing Zone
FAO	Food and Agricultural Organization of the United Nations
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNG	Group of Negotiations on Goods
GoK	Government of Kenya
GSP	Generalized System of Preferences
IBRD	International Bank for Reconstruction and Development

ICITO	Interim Commission for the International Trade Organization
IPE	International Political Economy
ISI	Import Substitution Industrialization
IT	Information Technology
KES	Kenyan Shilling (KES)
LDC	Least Developed Country
ITO	International Trade Organization
LTA	Long Term Agreement
MRTP	Monopoly and Restrictive Trade Practice
MFA	Multi-Fibre Arrangement
MUB	Manufacturing-Under-Bond
NIEO	New International Economic Order
TNC	Trade Negotiation Committees
NTBs	Non-Tariff Barriers
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
REER	Real Effective Exchange Rates
SADC	South African Development Community
SAPs	Structural Adjustment Programs
SUNS	South-North Development Monitor
TRIMS	Trade-Related aspects on Investment Measures
TRIPS	Trade-Related aspects on Intellectual Property Rights
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

UNECLA	United Nations Economic Commission for Latin America and the Caribbean
UK	United Kingdom
US	United States of America
VERs	Voluntary Export Restraints
WB	World Bank
WHO	World Health Organization
WTO	World Trade Organization

Glossary

Anti-Dumping: meaning against dumping. Dumping is a process where countries export commodities at a lower price than would normally be charged in the home country. This devalues their economies and harms their competition within various sectors. This is most notable for developing countries; particularly in agriculture, where industrialized economies employ the process of 'dumping' their excess agricultural commodities into developing countries' markets which inevitably hurts domestic farmers.

Primary Sources: An original document, providing the original source of information. An example would be direct minutes from a meeting, interview or an original document from a given situation in time.

Balance-of-Payments: a system in which all monetary transactions are recorded for every country in the world which includes all of their imports and exports. These could be in goods and services or other areas such as financial transfers. In order to have a balance-of-payments situation occur, a country cannot have a surplus or a deficit and all accounts must sum to zero.

Bretton Woods System: Following the Second World War, this monetary system was established to govern the relations between the industrialized economies. This group of countries established the IMF and World Bank (previously known as the International Bank for Reconstruction and development [IBRD]). Under this system, exchange rates were tied by independent countries to the US dollar until it was terminated on 15 August 1971.

C.D. Howe Institute: This not-for-profit organization was founded in Montreal, Quebec in 1958 by strong labour leaders and prominent members of the business community. Its focus was to increase standards of living by establishing strong public and economic policies. In the 1960s its policy initiatives supported Canada's move toward free trade to be competitive internationally. By the 1980s they moved towards building a national presence and the 1990s saw the C.D. Howe Institute take a leadership role and establish itself as a prominent mainstream pro-business think tank in two notable areas: constitutional issues and social policy. From the year 2000 to the present day, the Institute has focused on further policy areas, including: security and economic cooperation in North America, tax competitiveness, monetary policy, financial services and policy development in Canada.

Chicago School: The Chicago School is a group of economists who were in favour of monetarism and rejected the Keynesian ideas that predominated up until the mid-1970s. Under a system of monetarism government heavily regulated the state and the economy. The works of Milton Freidman are associated with the type of system that supported centrally planned banking to ensure that supply and demand were in equilibrium (meaning balanced) Keynesianism, on-the-other-hand, is associated with John Maynard Keynes who advocated for a mixed economy including both the public and private

sectors with more emphasis on the latter, while government intervention be kept to a minimum and occur only in times of crisis such as a recession.

Core-Periphery Theory: This theory is based on economic prosperity in states or regions. In order for the high growth state or region, being the core to expand and develop, it must engross surrounding states or regions of the periphery to ensure its political and economic success. Additionally, resources flow from the poor underdeveloped countries into the core wealthy countries disadvantaging the former.

Countervailing Duties (CVD): these duties help to neutralize the negative impacts of subsidies to certain commodities which distort trade. Trade import duties are imposed by the importing country to ensure that its domestic industry is not be harmed from export subsidies by the foreign country. This is outlined in detail in the GATT Article VI in the GATT Agreement on Subsidies and Countervailing Measures.

Crawling Peg: this allows for the adjustment of the exchange rate over time. It also allows for the fluctuation of the fixed exchange rate to ensure stability and is adjusted for inflation and other market factors.

Developing Country: According to the United Nations a developing country in comparison to other countries has a low Human Development Index with an underdeveloped industrial sector as well as a low standard of living.

Dispute Settlement Mechanism (DSM): this is one of the main pillars of the WTO that was implemented in order to establish equity amongst members within the multilateral trading system. If a dispute arises between two countries, one is able to take their complaint to the dispute settlement panel that will look into the situation and make a decision as to how to move forward. It also addresses if a country is at fault and in violation of the GATT/WTO rules. Prior to the WTO, there was no effective mechanism for settling disputes. This area was particularly important for developing countries in the Uruguay Round in order to allow for greater equity between developed and developing countries trading practices.

East Asian Tigers: Taiwan, Singapore, South Korea and Hong Kong.

Epistemic Communities: Peter M. Haas notes that, "an epistemic community is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area. Although an epistemic community may consist of professionals from a variety of disciplines and backgrounds, they have (1) a shared set of normative and principled beliefs, which provide a value-based rationale for the social action of community members; (2) shared causal beliefs, which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basis for elucidating the multiple linkages between possible policy actions and desired outcomes; (3) shared notions of validity- that is, intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise;

and (4) a common policy enterprise-that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence" (Haas, 1992: 3).

G-10: Argentina, Brazil, Cuba, Egypt, India, Nicaragua, Nigeria, Peru, Tanzania, and Yugoslavia.

G-24: Argentina, Bangladesh, Brazil, Burma, Cameroon, Columbia, Cote d'Ivoire, Cuba, Cyprus, Egypt, Ghana, India, Jamaica, Nicaragua, Nigeria, Pakistan, Peru, Romania, Sri Lanka, Tanzania, Trinidad and Tobago, Uruguay, Yugoslavia, and Zaire.

Import Deposits: Import deposits are set in place to ensure that duties on imports are paid. As such, for period of time, money is put into an account for items such as deposits which may in fact depress imports and act as a non-tariff barrier to trade.

Import Substitution Industrialization (ISI): under this economic policy, rather than focusing on foreign imports for production purposes, domestic production is promoted. The goal of ISI is that by using local production, dependency on foreign imports will be reduced. This policy was adopted by many Latin American economies in the 1960s and 1970s under the direction of Raúl Prebish who at the time was the head of the United Nations Commission for Latin America and the Caribbean (UNECLA).

Institutional Capacity: refers to a country's ability to develop infrastructure to manage power supplies, telecommunications, strengthen technological capacity, establish a banking and financial system and develop skills to effectively participate and negotiate in international trade. Additionally it must be capable of developing and implementing trade policies as well as establishing strong regulatory regimes in order to deal with the volatility of markets (Michalpoulos, 2001: 90-91).

Least Developed Country (LDC): According to the United Nations (UN), least developed countries (LDCs) are countries with the lowest Human Development Index ratings as well as the lowest levels of socioeconomic development. As noted by the UN, in order to be classified as an LDC a county must meet the following three criteria: economic vulnerability, weakness in human resource (health, literacy, education and nutrition) and poverty.

Lomé Convention: first negotiated in 1976 (and again four more times until 1999) between the European Economic Community (EEC) and the African, Caribbean and Pacific (ACP) Group of States which outlined two main objectives. First, it sought to allow most mineral and agricultural exports to enter the EEC duty free. Based on a quota system, beef and sugar exports from ACP states were granted preferential access from the ACP Group of States. Second, the agreement outlined the EEC commitments to aid in investment in ACP countries.

Managed Trade: a process where the interventionist policies of a government restricting local and international trade results in economic advancement. This practice is heralded

by scholars, including Robert Wade, who link this practice to the success of the Asian Tigers' export-oriented economies.

Most Favoured Nation (MFN): Article I of the GATT states that, "any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately to the like product originating in or destined for the territories of all other Contracting Parties" (GATT, Article 1).

Negative Consensus: a process by which countries do not directly vote per se, rather they do not demonstrate any opposition to the outcomes of negotiations.

Non-Tariff Barriers (NTBs): are not in the form of a regular tariff or tax but still restrict imports causing a barrier to trade. These for example, can come in the forms of countervailing duties and anti-dumping measures

Oil Crises of the 1970s: Two oil shocks occurred in the 1970s as a result of major industrial powers including Canada, the US and Germany realizing a significant peak in their domestic oil production. This led to several producers placing embargos on oil commodities. The first oil shock occurred in 1973 by major Arab-oil exporters that caused the Organization of the Petroleum Exporting Countries (OPEC) to place an embargo on oil producers in a response to Western states' support for Israel during the Yom Kippur War. The second oil shock occurred in 1979 as a result of the Iranian Revolution in order to overturn the Pahlavi Dynasty.

Plano Real: In 1993 and 1994, Minister of Finance Fernando Henrique Cardoso established the Plano Real for the Brazilian Economy in order to establish greater stabilization of its currency by adjusting prices daily to avoid further inflation.

Quantitative Restrictions (QRs): This is a protectionist type of restriction in which physical limits were applied for a specific period on the number of imports allowed into a country. This was evident in the area of textiles & clothing as well as in agriculture. Quantitative restrictions were most difficult for developing countries and acted as a barrier to trade, challenging the growth of their domestic economies.

Reciprocal Bargaining: "is the principle that nations must extend to others trade benefits that are equivalent to those extended, with equivalence usually determined by negotiation" (Moon, 2000: 258). This was a give-and-take method used in negotiations.

Recollections: Diaries, autobiographies and memoirs are examples of recollection sources.

Request-and-offer-system: Countries will put out offers or proposals to another country based on their trade specification and will make a decision based on the best offer. In order to ensure the best offer, both qualitative and quantitative factors are considered.

Running Records: private or non-profit organizations that maintain documents on an issue, topic or event.

Safeguards: these are used to protect specific industries from foreign competition and used as a form of restraint in the GATT/WTO. For example, restricting the amount of textiles imported into a country for a period of time to protect its domestic industries to avoid injury or loss. Other forms of safeguard include: subsides and dumping.

South Centre Organization: is an intergovernmental policy think tank of developing countries headquartered in Geneva, Switzerland. It holds Observer Status with the United Nations and also other international development agencies in order to both encourage and enhance South-South cooperation, collaboration and foster greater relationships between the South and North in areas of economics, politics, security and sovereignty.

Structural Adjustment Programs (SAPs): programs designed to help rebuild developing countries by reforming their exports and imports though trade liberalization, establishing financial sector reforms, encouraging foreign investments, abolishing the permit-licensing system, lowering tariffs and taxes, and encouraging more open economies. These programs were typically imposed as part of agreements with International Financial Institutions (IFIs) for debt refinancing by developing countries. Based on a neo-liberal approach, the goal was to establish long-term economic development.

Technological Innovation: for the purposes of this research study, technological innovation is understood as a process that spurs the development of and diffusion of new knowledge, the exchange of information, and the workings of different groups, organizations, governments and businesses in order to cooperate and collaborate with one another to establish competitive advantages, efficiency and the effective allocation of resources.

Voluntary Export Restraints (VERs): These are restrictions imposed by government during a specific period of time on the quantity of commodities it will allow into the country. This has been noticed in steel, footwear, textiles and clothing as well as automobiles.

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Chapter 1: Introduction

International trade ties the world together and is hypothetically fair and equal. In reality, it is highly asymmetrical and poses a significant challenge for developing countries.[1] A massive sea change occurred in the international trade regime during the Uruguay Round of negotiations from 1986 to 1994. Developing countries as a whole began to embrace liberal trade policies which seemed to be the only alternative to failing import substitution industrialization (ISI).[2] These countries transitioned at unprecedented rates from having little interest in participating in the Uruguay Round to actively participating nearly two years prior to its conclusion. This radical and dramatic transformation had major impacts on both developing countries and the governance of global trade. It was during this Round that the historically asymmetrical relationship between developing and developed countries was challenged. Developing countries largely came to regard the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) as 'the only game in town'. Trade regime issues that in the past would have been relatively easy to resolve subsequently became increasingly complex because developing countries would not concede to policies they perceived as contrary to their interests.

[1] **Developing Country**: According to the United Nations a developing country in comparison to other countries has a low Human Development Index with an underdeveloped industrial sector as well as a low standard of living.

[2] **Import Substitution Industrialization (ISI):** under this economic policy, rather than focusing on foreign imports for production purposes, domestic production is promoted. The goal of ISI is that by using local production, dependency on foreign imports will be reduced (Bruton, 1989). This policy was adopted by many Latin American economies in the 1960s and 1970s under the influence of Raúl Prebisch who at the time was the head of the United Nations Commission for Latin America and the Caribbean (UNECLA). ISI has much longer roots in the economic histories of many developed countries, such as Canada, Australia and Germany.

An historical comparative account describing and explaining this transformation of developing countries' attitudes toward the GATT, followed by major economic reforms and trade liberalization, has yet to be completed. This dissertation examines *why* developing countries as a group decided to become more involved in the global trade regime and turn away from ISI in the course of the Uruguay Round. Embracing this explanatory challenge makes a valuable contribution to the study of international trade and the evolving role of developing countries. The Uruguay Round is encompassed in this dissertation; however, attention is necessarily given to the critical characteristics of developing countries' attitudes towards the GATT prior to this period. The core analytical question is *why* many developing countries which were initially viewed as marginal players with little interest in the early GATT changed course during the Uruguay Round and demonstrated strong support for successful negotiations. It further provides an explanation for this transformation and *why* it occurred specifically during this Round of trade negotiations. The focus is on w*hy* these countries made a 180 degree change in their decision-making processes in the Uruguay Round, an about-face which caused them to become prominent players in the global trade regime in ways that continue to reverberate in global politics.

1.1 Dissertation Purpose and Objectives

'The primary purpose of this dissertation is to provide an explanation for the transition of developing countries from having little interest in the Uruguay Round of GATT negotiations to sharply changing course and adopting neo-liberal policies which supported the conclusion of the Round.'

Towards this end, it addresses the following core research questions by employing three theoretical approaches:

- *The Liberal View:* Did developing countries undergo trade liberalization by choice, as a result of the failures of import substitution industrialization (ISI), and embrace liberal trade policies that served their own best interests?

- *The Dependency View:* Did 'external forces' impose conditionalities on developing countries and thereby coerce them into accepting trade liberalization, due to their reliance on debt relief and foreign aid?

- *The Constructivist View*: Did 'epistemic communities'[3] have a significant role in developing countries' trade liberalization, whereby an ascendant segment of their own political elites, officials and technocrats promoted the benefits of embracing liberal trade policies?

The purpose statement identifies an important project that has yet to be undertaken in a systematic manner. This analysis focuses on the global trade regime between 1986 and 1994 to answer the above research questions and provide a persuasive explanation for this transition. It aims to fill a key gap in the literature, since much attention has been

[3] **Epistemic Communities:** Peter M. Haas notes that, "an epistemic community is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area. Although an epistemic community may consist of professionals from a variety of disciplines and backgrounds, they have (1) a shared set of normative and principled beliefs, which provide a value-based rationale for the social action of community members; (2) shared causal beliefs, which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basis for elucidating the multiple linkages between possible policy actions and desired outcomes; (3) shared notions of validity - that is, intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise; and (4) a common policy enterprise - that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence" (Haas, 1992: 3).

given to the fact that many developing countries began to embrace liberal trade policies but little is found on the reasons for their transition as a group, specifically in the Uruguay Round.

1.2 Historical Background

The post-World War II global trade regime was very different from today's. These decades were a rebuilding phase for many countries that identified a need to create an international system of economic cooperation between major economies of the industrialized world. These countries, including the US, Japan, and the countries that became the European Economic Community (EEC), were establishing large domestic markets, alliance networks, as well as domestic and international institutions. Conversely, developing countries were not prominent actors in this post-war trade regime. Many were still colonies of imperial powers or just emerging from colonial rule.

In rebuilding the world economy, the International Trade Organization (ITO) was to be one of the three pillars of the Bretton Woods Institutions. It never came into being as it was voted against by the US Congress (Hudec, 1987: 11-18). The GATT was then established in 1947 as an interim agreement, signed by twenty-three Contracting Parties. This arrangement lasted nearly fifty years. Eleven of these Contracting Parties, almost

half, were developing countries who played a marginal role in trade negotiations and acted primarily as observers until the 1980s.[4]

Significant world events, including the Oil Crisis of the 1970s[5], the Recession of the 1980s, and the collapse of Communism in the Soviet Union and the East Bloc, contributed to developing countries' increased participation in the trade regime. The protectionist policies of ISI, employed by many national governments, were leading to structural limitations in their economic development. As a result, several developing countries made the decision to integrate more fully into the global economy. Many Asian economies moved to outward-oriented, export-led growth strategies in the manufacturing sector to promote their comparative advantage (Whalley (III), 1989:17-18 and Wade, 1990). Together with state involvement and opening of their markets, they pursued their own 'developmental state' models and began to realize benefits from trade growth, including increases in gross domestic product (GDP) as well as the diversity and robustness of their domestic economies.

[4] **Eleven Developing Countries**: Brazil, Burma, China, Ceylon (Sri Lanka), Chile, China, India, Lebanon, Pakistan, Southern Rhodesia (Zimbabwe), and Syria (WTO, www.wto.org).

[5] **Oil Crises of the 1970s**: Two oil shocks occurred in the 1970s as a result of major industrial powers including Canada, the US and Germany realizing a significant peak in their domestic oil production. This led to several producers placing embargos on oil commodities. The first oil shock occurred in 1973 by major Arab-oil exporters that caused the Organization of the Petroleum Exporting Countries (OPEC) to place an embargo on oil producers in a response to Western states' support for Israel during the Yom Kippur War. The second oil shock occurred in 1979 as a result of the Iranian Revolution in order to overturn the Pahlavi Dynasty.

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In the 1980s the changing world economy impacted the structure of the GATT system (Ostry, 2000:3). An increasing number of new issues directly impacted developing countries' domestic interests and came to prominence on the GATT agenda. However, between 1980 and 1985 developing countries (notably India and Brazil) were strictly opposed to these being added to a new Round of multilateral trade negotiations since they felt their interests had not been adequately dealt with during the previous Tokyo Round. Sylvia Ostry commented that,

> the role of a group of developing countries, tagged the G-10[6] hardliners and led by Brazil and India, was in many ways even more important in the Uruguay Round's transformation of the system. The G-10 were bitterly opposed to the inclusion of the so-called new issues—trade in services, intellectual property and investment—central to the American negotiating agenda. Without the new issues it is doubtful that the American business community or American politicians would have supported a multilateral negotiation and, indeed, the long delay in launching the Round was the most significant factor in the origins of the US multi-track policy in the 1980s which included bilateralism, unilateralism and – if possible – multilateralism (Ostry, 2000: 3).

Led by the US, the launch of the Uruguay Round in 1986 saw a radical transformation in developing countries' attitudes toward participation in the GATT, moving toward greater trade liberalization and economic integration. The old GATT system, which primarily dealt with tariff reductions on goods, was unable to deal with these new issues making them prominent topics of debate.

The transformation of the global trade regime resulted in an increasingly complex system, with numerous players having diverse and incompatible interests; however, the

[6] **G-10:** Argentina, Brazil, Cuba, Egypt, India, Nicaragua, Nigeria, Peru, Tanzania, and Yugoslavia.

successful completion of the Uruguay Round heavily depended on developing countries' support. Without it, there would likely be no WTO. After years of negotiations and deliberations, the Uruguay Round was agreed to by 123 countries, most of which were developing countries led primarily by India and, to a lesser extent, Brazil. Following this change, developing countries became increasingly assertive in resisting policies that were not perceived to be in their domestic political interests, making the global trade hierarchy considerably less stratified. Today, the situations of some formerly developing and emerging countries are more akin to developed economies in terms of their level of development, economic growth and GDP, while many developed countries are struggling with economic stagnation and new pressure for protectionism. As noted by James H. Mittelman,

> emergence denotes clusters of self-organization that are responding strategically to the global economy in which they are enmeshed. They are adapting organically to a dynamic system. The micro-elements contribute to constituting macro-behaviour in an increasing polycentric world. The politics of emergence is a crucial part of this phenomenon…But what, if anything, do emerging powers linked in a lose meshwork of international groupings have in common? It is that the constituent members are marked by large economies that have opened up, by high rates of economic growth and by strides to augment their power in global governances (Mittelman, 2013: 26).

As can be realized from Mittelman's explanation, developing countries that fall into the emerging classification, notably India and Brazil, are more in-line with their developed country counterparts through their response to the international system as the means of remaining competitive.

1.3 Relationship to Current Knowledge:

Developing Countries as Marginal Players Pre-Uruguay Round

Developing countries were widely regarded as marginal players in the early years of the GATT trade regime. This was not entirely true of all developing countries. Those that were more advanced and had already begun to establish substantial domestic markets did in fact actively participate, including both India and Brazil from 1947 onwards. Due to some of the structural limitations of the GATT system itself (including the *principle of reciprocity*, the *principal supplier rule* and a focus mainly on tariffs - discussed in Chapter 3), it was difficult for them to make adequate concessions during negotiations. Many issues of importance to developing countries, such as the areas of agriculture and textiles & clothing, were left outside the discussions and, in addition, developing countries had limited incentive to participate. Consequently, it was difficult for them to engage and advance their economic and political interests in the GATT context (Wilkinson and Scott: 2008, 485-487).

At the same time, from its formation in 1964 onwards, many were influenced by the United Nations Conference on Trade and Development (UNCTAD), and even prior to this pursued ISI and highly protectionist trade policies from the post-war era until the 1980s and early 1990s (Pollock, 2006: 16). This inward- oriented development approach was used in an attempt to build infant industries and strengthen national economies. David Pollock cites Raúl Prebisch in his work explaining the goal of ISI as follows: "to resist subordination of the national economy to foreign movements and contingencies we must develop inwardly, strengthen our international structure and achieve an autonomous

functioning of our economy" (Prebisch in Pollock, 2006: 16). As a result of this strategy, many developing countries diversified. They shielded themselves from other economies and traded generally within a particular geographic region and/or with traditional colonial metropoles rather than within the context of the larger multilateral trade regime.

Another reason behind some developing countries' lack of involvement in early GATT Rounds is highlighted by Sheila Page in her work on their trade regime participation from 1947 up to the Doha Round of 2001. She notes that in the early GATT Rounds developing countries were not active participants because, for many of them, trade was not a major part of their economic strategies prior to the Uruguay Round. In comparison to the rest of the world, and for that matter in comparison to the US market, their share of international trade was relatively small (Page, 2002:12). Page also describes a technical rule in the GATT which helps explain their effective exclusion. The *principal supplier* rule deals with major economic partners trading various commodities. They would negotiate together and determine appropriate tariffs so long as they were the principal supplier or purchaser. Since most developing countries were not principal suppliers this excluded them from a significant role in the trade system and the process of negotiations. Faizel Ismail supports this point on the impact of the principal supplier rule, noting that, "developing countries were willing to participate in negotiations but were rendered unable to do so" (Ismail, 2008:53). The structure of the GATT itself, therefore, made it difficult for developing countries to be part of the negotiation process.

Both of these works are useful in explaining the lack of participation by developing countries in early GATT negotiations. Nonetheless, Page does not provide a detailed discussion on the lack of participation by developing countries in the early GATT Rounds (pre-Uruguay), nor does she provide specific case analyses to explain why developing countries made the transition to greater trade liberalization in the Uruguay Round and their impact on the global trade regime. Ismail's work discusses the early GATT Rounds but fails to explain the importance of the establishment of the UNCTAD in 1964 and its significance for developing countries. Under the leadership of the first Secretary General and ISI champion, Raul Prébisch, it became the preferred forum for developing countries to discuss and address trade issues and concerns. With UNCTAD coming into being (as examined in Chapter 3), a new section was added to the GATT during the Kennedy Round from 1964 to 1967 - Part IV on 'Trade and Development'- recognizing the need for different treatment of developing countries due to their vastly diverse stages of development. This focused primarily on reducing trade barriers, higher minimum trading prices and food aid programs (WTO, www.wto.org). However, developing countries continued to support UNCTAD since many felt it better reflected their interests (Singh, 2005:4). As a result, there was a divide between developed and developing countries with different forums for trade negotiations which threatened the multilateral trade regime (although UNCTAD was a forum for informal discussions, never for binding negotiations) (Srinivasan, 1999: 1051).

Wayne Sandiford's historical account of developing countries in the GATT/WTO negotiations highlights some of the major world events that led to increased participation

by many developing countries over time and discusses issues which became important during various trade Rounds. He argues that participation by developing countries in the early GATT Rounds was minimal, in part because these Rounds dealt primarily with tariff concessions and most developing countries were not trading similar goods or were not *principal suppliers* (Sandiford, 1994:1-2). Up until the Tokyo Round from 1973 to 1979, most of the topics in the GATT related to tariff concessions on goods but this Round extended to new areas: reduction of subsidies, technical barriers to trade, non-tariff measures, government procurement, customs valuations, import licensing and textiles & clothing [the latter leading to the Multi-Fibre Arrangement in 1974] (Ismail, 2008:53). However, the consensus in the literature is that most developing countries remained by-standers in the GATT since they played such a small role in global trade during the early Rounds. Michael Finger notes that, "through GATT's Tokyo Round, that ended in 1979, developing-country participation in multilateral trade negotiations was either passive or defensive. Developing countries that had joined the GATT had in large part remained by-standers" (Finger, 2007: 440-460).

A series of influential international occurrences since the end of the Second World War, including the formation of the European Common Market in the 1960s, the 1970s Oil Crisis, and the 1980s Recession, impressed on member states the need for a new trade Round in the 1980s, resulting in the launch of the Uruguay Round in 1986 (Krueger, 2007:341). Gilbert Winham notes that, "for much of the post-war period growth in trade and output had been buoyant, but growth rather fell as countries entered the 1970s, and then fell further under the impact of the shock of increasing oil prices after 1973, and

again after the second shock in 1979. Inflation further compounded the situation, and efforts to contain inflation helped bring on the recession in 1982" (Winham, 2009: 19). These events led not only to rapidly escalating debt loads in developing countries but also greater levels of protectionism by developed countries, specifically with respect to agricultural products from developing country exporters. Even with attempts made to liberalize agricultural trade in the Tokyo Round and subsequent Rounds, this issue remained one of the major areas of contention for developing countries due to heavy subsidization by developed countries. This undermined developing countries' internal trade policies making domestic agricultural goods more costly to produce and cheaper to import. With respect to trade in services, this issue became a new agenda item that was not dealt with under the GATT since the latter focused primarily on merchandise trade. Winham remarked on the importance of trade in services and its impact on domestic trade policies. He states that, "governments were well aware of the increasing importance of services in domestic economies, with the result that pressures mounted from developed countries to liberalize trade in service products" (Winham, 2009:19). As noted by Mr. Carlos Pérez del Castillo,[7] for developing countries this issue was problematic since they felt such liberalization would disproportionately benefit the developed countries and that participating countries should resolve issues with respect to goods before moving to a new agenda item (Pérez del Castillo, 2009: 5).

[7] **Carlos Pérez del Castillo** is currently the Special Advisor on International Trade Negotiations to the President of the Republic of Uruguay.

Literature on the period leading up to the Uruguay Round contains little on specifically *why* there was a mass turn by developing countries as a group from ISI, and towards trade liberalization through the multilateral trading system. Attention was directed to the fact that there were problems with previous industrial development policies which precipitated this ideological and policy shift. The reality was that this form of industrial strategy was proving unsustainable due to the financial crisis of the 1980s, leading to high inflation and unemployment, heavily indebted economies, and increased levels of inequality. However, an explanation for *why* so many developing countries embraced the alternative path of trade liberalization has yet to be fully articulated.

1.4 Relationship to Current Knowledge:

The Uruguay Round and Developing Countries

Three potential explanations for developing countries' change in attitude to supporting the Uruguay Round and adopting liberal trade policies can be identified in the literature. This dissertation will determine which is more accurate, or alternatively if a combination of these perspectives provides the most persuasive account. They are:

1) ***Economic reforms***: the liberal view that economic reforms began in many developing countries as a result of the failures of ISI, leading to an intellectual conversion to liberal trade policies that better served the interests of developing country governments.

2) ***External forces***: a dependency inspired perspective that developing countries were effectively coerced by external conditionalities into trade liberalization by international financial institutions and developed countries on which they were dependent for foreign aid and debt relief. As a result, they were left with no other option but to adopt trade liberalization.

3) ***Epistemic communities***: international trade epistemic communities linked transnationally but lodged within key developing countries may have influenced developing countries' governments by promoting the benefits of trade liberalization as being in their best interests, therefore moving their policy approaches to embrace more open and outward oriented liberal trade policies by full Uruguay Round participation.

The discussion in the next three sections is a sketch of these approaches which I plan to compare and evaluate in this research study, forming the basis for the comparative analysis in the chapters to follow.

1.4.1 Economic Reforms

The 1970s Oil Crisis followed by the 1982 Recession promoted a swift change in many governments' policies (specifically the structural adjustment programs [SAPs][8] of the

[8] **Structural Adjustment Programs (SAPs)**: programs designed to help rebuild developing countries by reforming their exports and imports though trade liberalization, establishing financial sector reforms, encouraging foreign investments, abolishing the permit-licensing system, lowering tariffs and taxes, and encouraging more open economies. These programs were typically imposed as part of agreements with International Financial Institutions (IFIs) for debt refinancing by developing countries.

1980s) that anchored a push to liberalize trade and open up markets as a consequence of external pressures. Developing countries themselves lacked the political and economic structures necessary to cope with the fallout of these seminal events (Wade 1990:8-33). Consequently, with the direct participation of their governments and relying on the concepts and prescriptions of liberal trade theory, developing countries (notably Brazil, India and to a lesser degree Kenya – as discussed in Chapter 2) began to reform their state-dominated and/or led economies' domestic trade policies in an attempt to liberalize their economies and become more open and integrated into the global trade regime (Whalley (III), 1989:17-18). It can be said that historical circumstances have shaped the way countries have developed their trade policies as a result of their shifting domestic interests, resulting in the incorporation of new issues in the Uruguay Round such as intellectual property rights, trade in services, agricultural trade, textiles & clothing and investment (Winham, 1998: 112).

Winham notes that, "by the early 1980s, it appeared to many that the world economy was performing poorly for developed countries, and contributing to crisis and dislocation" (Winham, 2005: 10). During this time many developing countries underwent a swift transition from what Raul Prébisch called 'inward development' (also known as ISI due to its protectionist orientation) to more export-oriented, liberal trade policies (Pollock, 2006). ISI no longer provided the levels of economic growth or competitiveness necessary for development (as conventionally understood), and as a result, reforms began to occur. The opening of markets through trade liberalization was an attempt to be competitive in the world trading system and not be shut out by their developed country

counterparts. For some emerging and transitioning economies, employing export-led growth strategies proved beneficial in securing their trade positions and increasing their prosperity in the global trade regime, although this was often accompanied by protectionism at home (Wade, 1990).

The one thing that became important to both developed and developing countries was the need to preserve the multilateral trade regime, promoting economic liberalization and cooperation (Lanoszka, 2003-4: 45). In keeping with the shared emphasis on deepening this regime, Winham highlights three reasons for the change in developing countries' attitudes toward the GATT system: 1) 'the outcome of interaction', 2) 'parties engage in an interactive process that can provide incentives to settle independent of the substantive outcome of a negotiation', and 3) 'parties enter negotiations with objectives' (Winham, 1998: 116). The combination of these factors was observed as developing countries embraced a new institutional arrangement as part of the Uruguay Round, including the creation and institutionalization of the WTO and a legally-binding dispute settlement mechanism (DSM)[9]. These were designed to create a more equitable trade regime. Also, the Uruguay Round's '*single undertaking'* empowered developing countries to be part of the system because if they were indifferent by not voting it meant that their consent was

[9] **Dispute Settlement Mechanism (DSM):** this is one of the main pillars of the WTO that was implemented in order to establish equity amongst members within the multilateral trading system. If a dispute arises between two countries, one is able to take their complaint to the dispute settlement panel that will look into the situation and make a decision as to how to move forward. It also addresses if a country is at fault and in violation of the GATT/WTO rules. Prior to the WTO, there was no effective mechanism for settling disputes. This area was particularly important for developing countries in the Uruguay Round in order to allow for greater equity between developed and developing countries trading practices.

implied. Developing countries' demands had to be heard to ensure the completion of the Round (Bhagwati, 1998: 3). Many developing countries underwent a change in ideology, leading to a radical transformation through economic reforms that encouraged fiscal discipline, privatization of industries, decentralization, new industrial policies, research & development and technological innovation. Winham notes that, "one of the most important [changes] was fiscal discipline, which was of no less importance to developing countries than it had been to developed countries in recent years" (Winham, 1998: 126). Mansfield and Milner characterize this time in the 1980s and 1990s to be one of 'regional and economic integration' (Mansfield and Milner, 1997: 164-87).

Anna Lanoszka makes a case that had there not been a change in the political climate, the WTO may have never become a reality. She states that, "the Soviet Union collapsed, the economic model of centrally planned economy was bankrupt, and a growing sense of shared global values began to emerge" (Lanoszka, 2003-4: 45). From a liberal perspective then, one of the major rationales for economic reforms was the failure of ISI as an effective development strategy, leading to a structural crisis in many developing countries due to high levels of protectionism. As a result, many developing countries came to a new understanding that their interests would be best served by embracing liberal trade theory in order to ensure their prosperity. In other words, from this standpoint they came to see the inherent advantages of liberalized trade policies for their growth and development.

1.4.2 External Forces

From this perspective, by the mid-1980s several developing countries began to liberalize their economies to more outward-oriented policies due to external forces and conditionalities (Whalley (III), 1989: 23-24). Kh Menjor Singh notes that, "in most cases, taking advantage of the extreme vulnerability of these countries that arose out of their debt and development crisis, adoption of such a strategy was imposed upon them by the International Monetary Fund (IMF) and World Bank. Between the launching of the Uruguay Round in 1986 and its formal conclusion at the Marrakesh Ministerial Meeting in April 1994 more than 60 developing countries reported unilateral liberalization measures to the GATT; 24 acceded to GATT and 24 others were in the process of doing so" (Singh, 2005: 10). Brazil is an example of a developing country that felt acute pressure from both international financial institutions (IFIs) and the US government to make certain changes due to its relationship and agreements with them. The US exerted bilateral pressure through a bridge loan provided to Brazil by the US Treasury during the international financial crisis and subsequent Recession in 1982 (De Paiva Abreu, 1998: 8). These types of loans from the US came with strict conditions – in this case, that GATT-illegal subsidies be postponed for two years, which was eventually agreed to by Brazil (De Paiva Abreu, 1998: 8).

Could conditions tied to capital transfers be a reason for the change in developing countries' attitudes in the Uruguay Round? Geoffrey Gertz notes that Kenya was one of the first countries to receive a loan from the World Bank in the 1980s, with the condition that its government adopt a more outward-oriented industrial policy and liberalize its

trade (Gertz, 2008: 3). Is this the case among several, or even most, developing countries who received loans from both the World Bank and the IMF during the 1980s and 1990s – the period of structural adjustment? This research identifies and explains specific examples of developing countries that were in fact pressured and/or coerced into economic reform and trade liberalization by international financial institutions (IFIs). This dissertation also attempts to assess how effective and instrumental these external forces were in promoting liberal trade policies. Moreover, this study assesses what the literature has not been able to fully do: whether leading developing countries themselves may have pressured (directly or indirectly) smaller developing countries to liberalize their trade policies during the Uruguay Round.

1.4.3 Epistemic Communities

A third core research question probes the role epistemic communities played in changing the perceptions and ideological attitudes of developing countries' governments and promoting their move towards trade liberalization. This area has not been studied in significant detail with respect to developing countries during the Uruguay Round, including their efforts to liberalize and become more active in the trade regime. Did key individuals educated in a variety of professions adopt similar beliefs regarding the benefits of trade liberalization as a result of the structural limitations of ISI? Were these individuals from developing countries educated and/or socialized in the West and/or in (or by) Western dominated international financial institutions (IFIs)? Did they return to fill crucial government and bureaucratic positions (or displace incumbent office holders) with this new knowledge, resulting in an ideological shift in government policies? It is

stated by Peter M. Haas that, "the logic of epistemic policy coordination is simple. The major dynamics are uncertainty, interpretation, and institutionalization. In international policy coordination, the forms of uncertainty that tend to stimulate the demand for information are those which arise from the strong dependence of states on each other's policy choices for success in obtaining goals and those which involve multiple and only partly estimable consequences of action" (Haas, 1992: 3-4).

Concluding the Uruguay Round rested on high levels of uncertainty simply because there was no guarantee the Round would be concluded if developing countries were unwilling to participate and move towards greater trade liberalization. It was also not known with certainty what the effects of the Round would be, particularly on developing countries that had been at best marginal participants in previous Rounds. Thus, epistemic communities may have been influential – indeed essential – in using their expertise and knowledge to argue for the benefits of trade liberalization in serving developing countries' government interests. This community could have been instrumental in persuading many developing countries to embrace neo-liberal trade policies with the objective of enhancing their economies and becoming more competitive in the trade regime. Andrew Moravcsik notes that, "societal ideas, interests and institutions influence state behaviour by shaping state preferences, that is, the fundamental social purposes underlying the strategic calculations of governments" (Moravcsik, 1997: 513). That being said, a large intellectual community surrounding the GATT during the Uruguay Round, becoming entrenched within key portfolios in developing country governments may have provided considerable influence on developing countries in persuading them of

the benefits of adopting more liberal trade policies. This explanation might constitute an advance over the liberal and dependency accounts as another, complementary explanation for developing countries' transition during that time, providing a deeper and fuller explanation for *why* they decided to embrace liberalized trade. Current literature does not systematically address this possibility, which will be further explored in the dissertation.

1.5 Relationship to Current Knowledge: Conclusions of the Existing Literature

By studying different authors' explanations for the changing nature of developing countries' behaviour in GATT negotiations, it is evident that over time some have become more active than others in the global trade regime and for a variety of reasons. No single explanation is sufficient. The vast majority of literature on the international trade regime has been focused on the behaviour of the traditional (western) major capitalist economic powers. Less has been written on the changing nature of developing countries' attitudes towards the usefulness of the GATT. Furthermore, the literature does not address *why* developing countries as a group decided to liberalize their trade policies, specifically during the Uruguay Round, nor does it explain *why* they developed their own strategies and methods to embrace more outward-oriented trade policies that were perceived to be compatible with their domestic interests.

These issues raised by the literature are probed and analyzed in the remainder of the dissertation, primarily in Chapters 5 and 6. The literature surveyed for this introductory chapter is by no means exhaustive; rather it gives an overview of the current state of knowledge and outlines some of its strengths and limitations. This research will fill key gaps and explain which factors pushed developing countries to embrace outward-oriented liberal economic policies, open markets and trade liberalization. Also of importance is whether the impact of developing countries' domestic trade policies shaped their attitudes on the usefulness of the GATT, specifically in the Uruguay Round, and why they adopted more open trade policies most notably during this time. This research draws on the analytical framework derived from key themes to address the limitations of the literature in an attempt to provide a more robust and complete explanation on *why* developing countries abruptly changed course and supported negotiations during the Uruguay Round and *why* many began to adopt liberal economic policies.

1.6 Conclusions of the Research Study

After examining the core research questions and the three illustrative case studies (India, Brazil and Kenya), it becomes apparent that no one perspective can adequately explain the decision-making process of developing countries as a group; rather, each has variable weight in explaining the decision-making process *within* key developing countries. The collective transformation by developing countries occurred for a variety of reasons including the exhaustion of ISI, the impact of seminal events, the opening of markets and international economic integration. In addition, what occurred amongst developing

countries in the latter stages of the Uruguay Round was a result of South-South '*demonstration effect'*. Led by India and Brazil, other countries began to sign on to the '*single undertaking'* which was required to complete the Round. This collective transformation was a result of a combination of the three central theoretical explanations – economic reforms, external pressures, and epistemic communities – which ultimately promoted the benefits of preserving and expanding the multilateral trade regime. Based on this, developing countries instigated and justified their decision-making process, ultimately resulting in the creation and institutionalization of the WTO.

1.7 Organization & Direction of the Research Study

The dissertation is laid out to provide a critical account and explanation for the change in developing countries' behaviour most notably during the Uruguay Round. Chapter One provides an introduction and outlines the purpose of the research study. It outlines three core research questions as well as a brief historical background of the GATT from 1947 to 1994. Additionally, it provides a brief literature review of the existing material on developing countries in the GATT. Chapter Two explains the methodological approach used in the study and why a historical, qualitative approach was chosen. It also outlines the three theoretical approaches employed in the research study as well as the three illustrative case studies (India, Brazil and Kenya) and their significance. Chapter Three provides a chronological account of developing countries' participation in the early GATT Rounds leading up to the GATT Ministerial Meeting in 1982 followed by the launch of the Uruguay Round in 1986. This demonstrates the increase in developing countries' membership and participation over time as well as how it led to significant

challenges in a trade regime that had previously been a forum primarily for developed economies. Chapter Four outlines the GATT Ministerial Meeting in 1982 as well as the Uruguay Round. It discusses why, during the time period of 1986 to 1994, developing countries became increasingly active in the GATT and the reasons for their movement towards trade liberalization. It also examines the new areas in negotiations of trade in services, intellectual property and investment along with previous issues including agriculture and textiles & clothing. Chapter Five looks at the three theoretical approaches that are applied in the study to address the core research questions. These include liberal trade theory, dependency theory and epistemic communities, associated with constructivism. Chapter Six examines each of the case study countries individually and explains their move towards trade liberalization. It provides an explanation for their transition and the reasons that economic reforms occurred when they did. Finally, Chapter Seven provides a conclusion to the research study and summarizes the main findings in addressing the core research questions. This approach provides the most satisfactory structure for evaluating this transformation and aims to offer a more complete and persuasive account of *why* developing countries moved towards trade liberalization during the 1980s and 1990s.

Chapter 2: Methodology

2.1 Methodology in Current Literature & its Limitations

To uncover developing countries' changing role in GATT/WTO negotiations many scholars' research methods employ qualitative analysis with either a non-comparative or comparative approach. Certain scholars use a non-comparative approach to examine trade and the interaction of actors that participated in a specific Round, such as Gilbert Winham's 1986 work on the Tokyo Round and Anna Lanoszka's article on developing countries during the Uruguay Round. Other scholars, including John Whalley, Andrew Hurrell and Amrita Narlikar, examine specific countries using a comparative format to show why they moved away from ISI as an industrial strategy during the 1980s through the 1990s and to discuss the events that impacted domestic policy interests. These events promoted a change in ideology and policy approach from structuralism to more liberal trade policies. For example, Whalley looks at five countries (Brazil, India, Argentina, Chile and Korea) and their experiences during the Uruguay Round while Hurrell and Narlikar focus on a comparison of Brazil and India's rising influence through economic reforms. However, Whalley's work was published in the middle of the Uruguay Round, and therefore cannot provide an authoritative account of the changes wrought by it. Others, including Sheila Page, Debroy & Chakraborty, Constantine Michalopoulos and Robert Hudec follow a more general approach, examining developing countries as a group and their transition from ISI to outward oriented policies. They cite numerous countries throughout their analysis rather than being case specific.

Both the non-comparative and comparative approaches have proven useful but have not provided a full account of the change in developing countries' attitudes towards the GATT specifically, and the international trade regime more broadly, during the Uruguay Round. Single case analysis neither effectively draws out similarities or differences, nor tests broader theoretical propositions about developing country approaches. Authors who have used comparison do not fully explain why the countries they focus on were selected to confirm the answers to their research questions. The consequences are studies which are not extensive enough in scale and scope to effectively test their arguments.

2.2 Research Approach

A single study is required that accounts for seminal events, histories of specific developing countries, economic reforms, external pressures and/or the role of epistemic communities, all of which may have influenced the various assumptions and methods employed during the transformation phase. To do so, this research provides a historical account and explanation of the changing attitudes of developing countries in the GATT Uruguay Round.

Throughout this analysis a qualitative and comparative historical research design is employed to examine the change in developing countries' attitudes, from (some) having little interest in participating in Uruguay Round negotiations to strongly supporting and actively participating in them. The reasons for this structural and ideological transition, most notably from 1986 to 1994, are also investigated.

2.3 Qualitative Method

As noted by John Creswell, qualitative research is "an inquiry process of understanding based on distinct methodological traditions of inquiry that explore a social or human problem. The research builds a complex, holistic picture, analyzes words, reports detailed views of informants, and conducts the study in a natural setting" (Creswell, 1998: 15). By using this approach, the researcher acknowledges that perceptions and analyses (of the global trade regime in this case) can be biased and therefore must recognize elements of objectivity and/or subjectivity. This is because there are multiple actors that create a complex system requiring extensive interpretation and analysis to provide a deep understanding of its changing nature over time. Sharan Merriam iterates this point and goes further by saying that meaningful interpretation and description are a result of interaction between participants, focusing on the process, not the end (Merriam, 1988). The qualitative method is used in this study to explain *why* developing countries made major economic reforms to liberalize their economies which ultimately resulted in their increased prominence in the process of negotiations and in the WTO that emerged from the negotiations.

2.4 Case Studies

Case studies are illustrative units used to explain various trends, key points and developments in a particular area. They have explanatory power in understanding patterns of change with respect to this study topic and related research questions. A multiple case analysis focusing on a cross-section of countries from the global South allows for greater triangulation of data. This more accurately shows similarities and

differences, helping to answer the research questions and in doing so providing a more textured and definitive interpretation of developing countries' changing orientation toward the international trade regime. Furthermore, every causal effect would not pertain to each country. Therefore, the examination of more cases identifies a broader range of explanatory factors, leading to a more authoritative determination of whether one or a combination of them offers the best explanation for developing country decision-making.

Three countries, each from a different continent of the global South, are used as illustrative case studies to illuminate the transition to more liberally oriented trade policies. Not all countries could be effectively studied but these cases have been selected since each of them underwent a dramatic shift from ISI during the 1980s and 1990s, specifically during the Uruguay Round. As previously discussed, the case study countries are: India, Brazil, and Kenya. Even though each embraced different paths and processes to more open and liberal trade policies two of these countries were particularly prominent in negotiations, notably India and Brazil. Kenya, on the other hand, was not influential during these years. One key question addressed is whether the role of India and Brazil encouraged other developing countries to follow their lead through a demonstration effect; that is, feeling compelled to follow suit based on the actions of a close trading partner, ally or political leader. The impact of seminal events, domestic responses to the failure of ISI, external forces, and epistemic communities is also explored to determine *why* these cases all made this change when they did and *how* it impacted the Uruguay Round negotiations. Not every country could be investigated in the course of this research, but the goal of this study is to move beyond a single-case

analysis such as Winham's study on India (Winham, 1998: 126) and use an expanded cross-section of cases to provide a fuller explanation. The discussion below elaborates on the logic of my case selections.

2.4.1 India

India was one of the major leaders of developing countries in the Uruguay Round; however, beginning in the 1950s it had employed the 'Nehru-Mahalanobis strategy' which supported ISI (Prakash, 1995:149-165). This strategy included, "diversification of the economy, generation of growth through the public sector, increase savings, focus on research and development and education, and 'socialist patterns of society'" (Prahash, 1995: 128). Winham notes that this strategy proved successful in industrializing their economy in the short term but ultimately led to trade deficits and low productivity (Winham, 1998: 128). The resulting isolation from the global economy led to low growth rates. Deficits continued to rise in the 1980s and the government looked to the IMF for financial assistance. By 1991 India was in a state of economic crisis with no credit to finance its debts and was forced to use gold reserves to meet its obligation for debt-servicing and imports (Winham, 1998: 129).

After elections in that same year, a new government was established leading to economic reform and the 'New Economic Policy' which focused on 'stabilization and budget constraints, deregulation and competition' (Winham, 1998: 129). In less than one year, India moved from a highly protectionist state to one that embraced liberal trade policies.

Amrita Narlikar notes that, "India has achieved unprecedented growth rates...the Indian economy grew by 6% per year from 1980 to 2002....but its success builds on liberalization programmes initiated in the 1980s" (Narliakr 2007: 988). This view is supported by Dani Rodrick and Avrind Subramanian who claim India's success and process of economic liberalization has been a gradual one resulting from reforms that began in 1991 (Rodrick and Subramanian, 2004).

India liberalized its economy despite previously adopting protectionist trade measures. It could be argued that India's ability to develop rapidly was linked to its ability to diversify its economy that was forged at an earlier time through protectionism. This has also allowed them to effectively integrate into the trade regime because of greater institutional capacity at the domestic level. Other developing countries that have weaker institutional capacity have been less successful and have had uneven growth performances (Michalopoulos, 2001: 246). Constantine Michalopoulos argues that, "more advanced and higher-income developing countries with stronger institutional and human capacities have been able to take advantage of opportunities offered by the more liberal international trade environment" (Michalopoulos, 2001: 246). A market of more than a billion people is also a significant factor in this regard. Michalopoulos explains that India is a more advanced and a higher-income developing country with large amounts of human capital (labour); therefore, it has been able to advance more rapidly than those less

developed countries (LDCs)[10] which have weak institutional capacity. He claims that even if other developing countries or LDCs were to liberalize further that does not mean they will advance in a manner comparable to India, since institutional capacity needs to be in place. This poses a challenge for weaker states, most notably many in Africa. (Michalopoulos, 2001: 246-247). Although Michalopoulos makes a case for strong institutional capacity, this study will explore other reasons for India's transition to liberalized trade policies, including external pressures as well as epistemic communities that caused an ideological shift within the government and bureaucracy.

2.4.2 Brazil

Brazil embraced ISI as a strategy from 1960 to the mid-1980s, exporting only a relatively few commodities, including minerals and coffee (Draper & Sally, 2006: 78 in Debroy & Chakraborty, 2006: 78). This led to low interest rates and a period of growth for this relatively autonomous and highly state-dominated country, with little input from business, political parties or societal groups (Hurrell and Narlikar, 2006: 427). However, its ISI strategy began to prove less beneficial domestically following the second oil shock in the 1970s, producing an increase in interest rates and a shift in domestic priorities (Valls Pereira, 2005: 124).

[10] **Least Developed Country (LDC):** According to the United Nations (UN), least developed countries (LDCs) are countries with the lowest Human Development Index ratings as well as the lowest levels of socioeconomic development. In order to be classified as an LDC a country must meet the following three criteria: economic vulnerability, weakness in human resources (health, literacy, education and nutrition) and poverty (United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing Countries, 2013: http://www.un.org/special-rep/ohrlls/ldc/ldc%20criteria.htm).

Brazil's acknowledgement that their previous industrial strategy could not ensure continued economic growth led to its isolation from other economies and its move towards trade liberalization from 1990 to 1994. Catalysts included: the impact of foreign trade issues on domestic policy interests, the lack of knowledge and expertise by negotiators on business relations, the need for experts in business and economics as well as the mobilization of business groups such as the Brazilian Entrepreneurial Coalition (CEB) in 1996 and the Permanent Forum on International Agricultural Negotiations. The goal was to establish links between governments, businesses and organizations (including the IMF and World Bank) and to help with the economic reform process and transition phase (Hurrell and Narlikar, 2006: 427). As Lia Valls Pereira notes, "there was a 'relative consensus' reached around some issues: the link between inflation and public debt; the need for privatization of State-owned enterprises; the need to reform social insurance; and proposals concerning administrative reforms to reduce the number of public sector employees....In 1994, a stabilization plan, *Plano Real*,[11] was implemented, which succeeded in reversing the inflationary bias of the Brazilian economy" (Valls Pereira, 2005: 124).

Although there were lapses and challenges along the way, today Brazil is the world's eighth largest economy and one of the world's largest exporters of sugar, coffee, poultry, tobacco, beef and ethanol. The WTO's *Trade Policy Review* argues that deep cuts in tariff rates, commitments in financial services (such as tax and duty exemptions) and the

[11] ***Plano Real:*** In 1993 and 1994, Minister of Finance Fernando Henrique Cardoso established the Plano Real for the Brazilian Economy in order to establish greater stabilization of its currency by adjusting prices daily to avoid further inflation.

elimination of most of its non-tariff measures have been a direct product of its autonomous trade liberalization process (*Trade Policy Review*: Brazil October, 1996). Economic success has led to many Brazilians joining the middle class. Much of the literature on Brazil does not look at why the country liberalized its trade policy however, focusing instead on the impact it has had on the state. This research examines why Brazilian decision-makers chose to follow and/or lead other developing countries in embracing more liberal trade policies, specifically during the Uruguay Round.

2.4.3 Kenya

Kenya is an example of a country where trade liberalization has not proven to be successful in reducing inequality, poverty and unemployment; nor has it been able to promote sustained economic growth (Read and Parton, 2009: 567). Kenya (like India and Brazil), moved away from ISI and toward liberal economic reforms in exchange for a structural adjustment loan from the World Bank in 1980. It accepted this loan due to a balance of payments crisis that began in 1970-71 after the first oil shock. After gaining independence from Britain in 1963, it embraced the ISI strategy it inherited from its colonial power but was pressured to liberalize and pursue more outward oriented trade policies. This included a decrease in tariffs, relaxing controls on imports and export promotion (Gertz, 2008: 2). This first attempt to liberalize its economy was short lived since few reforms were actually implemented.

A second attempt at economic reform occurred in 1982 when Kenya required more funds to sustain its economy. This time it turned to the IMF for assistance which it was granted with several conditions, including trade liberalization and tariff reductions. Again, this resulted in only marginal changes, including the liberalization of some tariffs and import controls. Gertz notes that despite its attempts at trade liberalization in the 1980s, "the government only followed through on policy reforms when it was compelled to do so by outside pressures, and was quick to abandon liberalization in the face of other economic priorities" (Gertz, 2008: 3).

Later, in the second half of the 1980s, a third attempt at reform got underway due to external pressure from donors and "shifting import restrictions from quotas to tariffs, and subsequently decreasing tariff levels" (Gertz, 2008: 3). Import licensing liberalization began in the 1980s and by 1991 import licenses were only used for health and security concerns (Whalley (III), 1989: 11; Gertz, 2008: 3). Another notable reform came about in relaxing foreign exchange restrictions in the late 1980s and early 1990s. Prior to this the government of Kenya maintained strict controls but then introduced tradable 'Foreign Exchange Bearer Certificates' in 1991 (Gertz, 2008: 4). Other reforms included the introduction of the manufacturing-under-bond (MUB) program in 1988, involving export promotion strategies and export processing zones (EPZ) in 1990 to attract new export manufacturing firms (Gertz, 2008: 4).

The sustained benefits of trade liberalization were not as apparent, however, as in the cases of India and Brazil. Greater study as to why they did not materialize is necessary, including the study of cultural and institutional conditions (as argued by Glen Atkinson). Both Atkinson and Gertz support the notion that a 'one-size-fits-all' approach to liberalization does not guarantee growth and sustained economic development. Rather, Gertz suggests, "tailoring liberalization to specific conditions or their country's circumstances and paying attention to the pacing and sequence of reforms" is a more desirable approach (Gertz, 2008: 15). This research study examines where the process of liberalization for Kenya became problematic, and if a lack of expertise, technology, research and/or development could be a probable explanation. Most importantly, determining why this country chose to follow suit with others of the South in embracing liberal trade policies during the Uruguay Round of negotiations is an important element in addressing the core research questions outlined in this study, not least because Kenya's circumstances more closely resembled those of dozens of other developing countries, particularly (though not only) in Africa, than did those of major regional economies such as India and Brazil.

2.5 Data Sources

An historical approach was used throughout this process to collect, organize and analyze relevant material. In collecting historical data there are four methods employed. These include primary data, secondary sources, running records[12] and recollections[13]. For the

[12] **Running Records**: Private organizations or non-profit organizations maintain documents on an issue, topic or event.
[13] **Recollections**: Diaries, autobiographies and memoirs are examples of recollection sources.

purpose of this research design, primary and secondary sources were surveyed. Comprehensively researching books, journals and other literature goes beyond existing accounts and primary sources[14] are used to the fullest extent possible. This consisted of surveying literature and profiles of developing countries in WTO Secretariat material including the *Trade Policy Review* journal and minutes from GATT Rounds and Ministerial Meetings. This literature collected information on various countries and provided historical information on their trade policy issues. It also helps to address why some were more active than others during the Round, due to factors which may include specific world events, economic reforms, external pressures and/or the role of epistemic communities. Some journals can be historical in focus but others can be a timely source because they tend to reflect what is happening at a given point and address events that are time specific. Journals also offer different interpretive approaches that can be compared and evaluated against the evidence. As well, some have had 'special issues' on developing countries and trade (e.g. *International Organization* and *World Trade Review*). Similarly, the *World Trade Report* published by the WTO looks at various trade trends and policy issues in the multilateral trade system. It was surveyed to provide background information on the move towards trade liberalization and the increased level of involvement by developing countries in the various trade Rounds, specifically the Uruguay Round. Secondary sources, which contain material that has already been interpreted, analyzed, generalized and presented, was also used to incorporate literature by other authors on the history of global trade, generating a broader picture and larger cross-section of data.

[14] **Primary Sources**: An original document, providing the original source of information. An example would be direct minutes from a meeting, interview or an original document from a given situation in time.

2.6 Interviews

Personal interviews were extremely useful to verify and elaborate on data collected from primary and secondary sources. Individuals working in the field provided key insights into the dramatic shift in developing countries' attitudes towards the GATT. Types of interviewees included: WTO personnel, trade negotiators from the case study countries selected for this study, government officials, academics, and practitioners working at various organizations including the IMF and World Bank, law firms, and not-for-profit nongovernmental organizations. Obtaining interviews from individuals outside of the case study governments was also important. These informants offered an alternative point of view and supported the triangulation of information obtained from other sources. The influence and impact of epistemic communities on developing countries' interests and policy choices has not previously been analyzed by scholars studying the Uruguay Round and persons directly involved in the process were able to provide insight concerning the plausibility of this explanation. One of the committee members for this dissertation, Dr. Gilbert Winham, has had extensive experience with GATT/WTO personnel and referrals to various individuals were particularly useful to this study.

Interviews were conducted by phone, email, Skype, and in-person with individuals that addressed the nexus between developing countries and trade negotiations. The original goal was to conduct face-to-face interviews with individuals in Geneva that were located where trade negotiations take place. However, this proved to be unnecessary since the majority of the interviewees are now located elsewhere. Skype and phone interviews proved more effective. Interviews followed a semi-structured set of questions, to allow

for new insights offered by interviewees and to address issues unexplained in the primary and secondary sources surveyed. Additional questions specific to the interviewee and case or topic were presented to round out each discussion and the information supplied. Almost all of the interviews were between sixty and ninety minutes in length and included individuals from various fields: academia, practitioners, government personnel and GATT negotiators. A limitation that could have posed a challenge was an interviewee's reluctance to sign a consent form or agree to their name being published. This was not an issue, however, as consent from all participants was received. During the interview, notes were taken to capture the material discussed. The information gathered during the interview was logged and further summarized into a Microsoft Word document. Ensuring all material was summarized and catalogued kept the research findings organized and easy to locate during the writing phase of the dissertation.

2.7 Limitations of Data Sources

The primary limitation anticipated during the research phase was the ability to identify interviewees who were present during the Uruguay Round since it began over twenty years ago. Many individuals no longer hold positions in the same governments or are retired, relocated or deceased. However, Professor Debra Steger[15] in the Faculty of Law at the University of Ottawa provided contacts for many useful and knowledgeable individuals that were in fact negotiators in the Uruguay Round. These individuals were

[15] **Professor Debra Steger** served as the Senior Negotiator for Canada on Dispute Settlement issues and the establishment of the WTO. She was also Principal Council to the Government of Canada for all the Uruguay Round agreements. Currently she is a Professor in the Faculty of Law at the University of Ottawa.

directly involved in the decision-making processes during the Round. Once those interviews were conducted, many individuals directed me to additional persons they thought would be of value to the study. This led to a 'snowball effect' resulting in more potential interviewees from word-of-mouth conversations. As well, Skype was used extensively to access individuals who previously would have been beyond reach.

Limitations were also anticipated from the primary and secondary sources surveyed when researching domestic trade policy information from certain developing countries and their government websites. This turned out not to be an issue since trade department structures did publish literature on a particular portfolio as do developed countries and all of the websites could be translated into English for information sharing purposes. The websites surveyed in this research study were comparably extensive and insightful for more advanced developing countries (i.e. India and Brazil) which had greater technological capacity to do so. Other LDCs, including Kenya, had websites that were not as informative because the material was not laid out in an easily comprehensible manner and not even necessarily in chronological order. None of the potential limitations threatened the ability to research and collect data and all data sources proved valuable in addressing the core research questions. This made data collection relatively straightforward and amenable for comparative analysis.

One tool used in qualitative data collection is the researcher themselves. Without specific parameters, as would be the case in a quantitative study, it is imperative that a qualitative

researcher act as the 'instrument', being able to gauge which sources are useful and which do not add value to the study (Law et al., 1998). In determining the appropriate data to collect, knowledge and personal experience were used to apply Gilbert Garraghan's six inquiries for critically assessing literature and sources: 1) the date of the publication; 2) place where the publication was produced; 3) author of the publication; 4) pre-existing material used for the publication; 5) form of original production; and 6) value and evidence of the content of the literature in the publication (Garraghan, 1946).

2.8 Data Management

Leading scholars in the social sciences, including Theda Skocpol and Max Weber, have employed a historical comparative approach using a chronological framework to demonstrate processes over time and draw comparisons from and for the past, present and future. This framework also allows the researcher to fill gaps to ensure that the 'whole' picture is being produced; to organize the information and thereby determine the sequence of events and change - precipitating trends by developing countries from 1986 to 1994. A discussion of developing countries' attitudes toward the GATT in the post-war period was outlined in the study, but the focus remained centred on the Uruguay Round. Assessing historical developments and trends was critical in showing how many developing countries changed from having little interest in participating in the Round to quite suddenly supporting negotiations and why they concomitantly moved from ISI to more open and liberal economic policies. Seminal events were included as triggers for change and development. These show where and how countries' domestic situations,

political climate and therefore global trade policies were related to major world happenings at a given point, including the 1970s oil crisis, the 1980s Recession and the collapse of Communism in the Soviet Union. Additionally, the failures of ISI and domestic responses to it were investigated as an instigator for change, along with external pressures to liberalize, the impact of epistemic communities, ideological shifts and/or how these factors combined together. This method addressed these specific explanations which kept research findings organized and facilitated the searching and collation of data during the analysis and writing phase of the dissertation.

2.9 Data Analysis

Comparative analysis aids in explaining how the present and future are impacted by the past and provides important explanatory power (Law et al., 1998). This type of analysis dissected and reflected on the data gathered to examine the past and present situation of each of the selected case studies while comparing their development strategies both for economic reform and trade liberalization. The comparative analysis of India, Brazil, and Kenya illuminated this remarkable and dramatic transformation through an analysis of a cross-section of the global South, their shifting attitudes in the multilateral trade regime and increased influence in negotiations. Employing an inductive approach helped to develop the themes, categories and patterns from the research. As noted by Michael Patton, "inductive analysis means that the patterns, themes, and categories of analysis come from the data; they emerge out of the data rather than being imposed on them prior to data collection" (Patton, 1980: 306). Recursive abstraction of data was also employed whereby data was analyzed and then subsequent data was collected based on the analysis

which in turn was further summarized (Hatch, 1995: 127). This demonstrated flexibility in the methodological process, involving a return to data collection and enriching the resulting research output. The risk to this type of method is that it can be seen as too far removed from the original data since it is summarized a few times; however, this was resolved by keeping records of the original summaries and the rationale for further summarization. As Elliott Eisner suggests, "the thematic structures derived inductively from the material…can provide the conceptual hubs around which the story can be told…the stories told around these thematic situations can then be used as material for a summary account of the story as a whole" (Eisner, 1991: 191). Accordingly, following thematic analysis, a narrative analysis drew together the themes for each case in order to provide the historical account. As noted by Miles and Huberman, "the 'stories told around these thematic accounts' then provided the material for the cross-case analysis: the 'account of the story as a whole'. The ultimate aim was to draw the themes together to develop a narrative, a story: to 'marry' concept approaches to story approaches" (Miles and Huberman, 1994: 208).

2.10 Trustworthiness of Data

Maintaining the trustworthiness of the study is critical for qualitative researchers as iterated by Norman Denzin and Yvonna Lincoln (Denzin & Lincoln, 2003). As noted by Merriam, "one of the assumptions underlying qualitative research is that reality is holistic, multidimensional, and ever-changing; it is not a single, fixed, objective phenomenon waiting to be discovered, observed, and measured as in quantitative research" (Merriam, 1998: 202). Methodological triangulation, cross-case analysis and

bias control were employed to ascertain whether the research findings were as sound and as unbiased as possible.

Methodological triangulation is explained by Denzin as using more than one source for data collection through documents, observations, questionnaires, and interviews (Denzin, 1978). For the purpose of this research, the collection of data came from primary sources, secondary sources and interviews. Multiple types of methodologies and theoretical perspectives were examined to help minimize the possibility of distorted research and biases introduced by the authors of the material. As noted by Nan Lin, the confidence of the findings is increased when a greater range of methods are employed to outline the complexity of issues that can be contrasted and compared and ensure the trustworthiness of the data in the study (Lin et al., 1976).

Cross-Case Analysis was used to examine data on similar topics from different sites. Merriam notes that, "cross case analysis can lead to categories, themes, or typologies that conceptualize the data from all the cases; or it can result in building substantive theory offering an integrated framework covering multiple cases" (Merriam, 1998: 195). For example, when looking at the failures of ISI, instead of looking at only one country, three countries that moved away from this industrial strategy to more outward-oriented trade policies during the same time period were examined. The research on each was then compared, thus verifying the findings as well as the differences in the processes which accounted for this dramatic transformation.

Bias Control is always required when human subjects are involved in the analysis phase and brings the challenge of remaining as unbiased as possible during research, analysis and writing. Charles Busha and Stephen Harter explain three considerations when using the historical approach: 1) the biases of the researcher/historian and the slant of the bias in the information; 2) 'historical episodes' can be impacted by many factors; and 3) multiple points of view should be examined rather than focusing on one singular view point (Busha and Harter, 1980). This research employed these criteria when considering different views and interpretations of material by authors. The challenge for this type of study was to assess competing explanatory claims and, on the basis of the evidence accumulated, assess which explanation(s) were compelling. Using a variety of sources aided in moderating this reality and developed the clearest picture possible to address the central research questions.

2.11 Theoretical Approaches and the Core Research Questions

As noted above, three theoretical approaches were employed as potential explanations for *why* developing countries underwent economic reforms during the Uruguay Round and provide a rationale for their change in behaviour towards the GATT: liberal trade theory, dependency theory and constructivism. Realism was considered as a theoretical approach because of its focus on the role of states acting in their own self-interest when they want to address new issues. This was evident in the Uruguay Round in the behaviour of the US and EEC through their insistence on including the new issues of intellectual property, services and investment in the negotiations. This was to serve economic and business

interests within their own societies, and thereby the interests of the capitalist class (reflecting the salience of Marxist ideas). However, this approach was ultimately not employed because its focus does not take adequate account of the role of ideas, norms, and institutions, as captured by the liberal and constructivist approaches in particular.

2.11.1 Liberal Trade Theory and Economic Reforms

Liberal trade theory was explored in this dissertation to explain the reasons for developing countries' domestic policy choices in the mid-1980s and early 1990s and their move towards trade liberalization. Many began to undergo economic reforms as a result of the exhaustion of ISI strategies employed for the decades following the Second World War, which were no longer able to sustain long-term economic growth. The main assumptions of liberal trade theory focus on minimizing the role of the state and government intervention in the global economy. It looks to deregulation of the financial sector, reducing (and/or eliminating) tariff barriers and privatising state enterprises which is presumed to lead to foreign investment and competition (Baylis, Smith and Owens, 2008: 583). This theory provides a potential explanation for the various economic reforms during the 1980s and early 1990s and offers an account of how the exchange of information had become essential when building trust and relationships between trade partners.

Following the 1982 Recession, as a result of the two oil shocks in the 1970s and the onset of more integrated global economies, many countries underwent a series of unilateral

economic reforms. The populist and nationalistic policies of the 1960s and 1970s, and the era of protectionism were no longer able to sustain economic growth over the long-term. This led to a shift in ideological thinking and a decreasing role of the state, and a reorientation towards more market-oriented economies. Countries began to consider alternatives to cope with the evolving global economy because they were experiencing poor economic performance, a debt crisis and hyperinflation. They found success (according to this perspective) when they began to employ the theory of liberal trade in order to produce sustained economic growth and shift in the direction of export-oriented trade policies. For the more advanced developing countries this resulted in greater domestic competition, improved resource allocation, new and improved technologies and movement towards economies of scale. In doing so, deregulation and privatization had significant impacts on many economies, apparently helping reverse the slow-growth that was experienced with ISI. As noted with the illustrative case studies, a gradual path to trade liberalization was embraced most notably during those decades by India and Brazil; however, Kenya was still severely underdeveloped with a lack of resources and technical capacity which hampered its growth rate and economic development.

2.11.2 Dependency Theory and External Forces

Dependency theory seeks to explain the core-periphery relationship whereby the core represents industrialized countries' development and how it occurs at the expense of the developing countries constituting the periphery. The interaction between these two aspects of the world political economy develops into an integrally unequal relationship.

Jorge Larrain notes that, "the exploitation of the less developed countries consists in the transfer of a part of their economic surplus to the developed world"; therefore they become dependent upon the core for goods and resources required in production (Larrain, 1989: 115). This approach focuses on the asymmetrical relationship between the Global North and Global South that resembles a neo-colonial relationship (Sens and Stoett, 2002:416). From this perspective, developing countries are dependent on the industrialized economies for capital as well as financial resources and technology.

Over time, as a result of the unbalanced relationship in the capitalist system and private interests at work, developing countries in the periphery became highly indebted to the core. Terms of trade began to decline in various commodity exports and developing countries moved towards ISI in the 1950s through the 1970s as an alternative industrial strategy to promote inward economic development in an effort to protect their economies from foreign competition. This approach, advocated by structuralist scholars such as Raul Prebisch, eventually became an exhausted industrial strategy that could no longer generate sufficient levels of economic growth, efficiency or foreign investment. As a result, many developing countries turned to the IMF and WB for loans which came with strict conditions and external pressures by IFIs, the international community and private interests in the capitalist system. Accordingly, dependency theory provides a basis for examining whether external forces were marshalled and used by international financial institutions (including the World Bank and IMF) to impose conditionalities which further intertwined developing countries in inequitable relations with developed countries in the capitalist system.

Several developing countries, especially the least developed economies, were heavily reliant upon governments in the North and IFIs for financial aid. In many cases the strict conditionalities that were imposed furthered the hierarchical relationship between developed and developing countries. Countries like Kenya were particularly vulnerable during the 1980s and 1990s with dramatically different levels of economic development in relation to the larger and stronger emerging economies (including India and Brazil). Its financial system was extremely unstable since it had only recently become independent from Britain and suffered from very limited educated human resources in relation to the demands of economic policy making and management. While India and Brazil also received loans from the IMF and WB, they had less conditions impressed upon them because their ability to repay the associated IFI was far greater due to their level of economic progress and diversification.

From the dependency perspective, external forces, in the form of coercion by both IFIs and developed economies, were a mechanism that kept developing countries reliant on them for both greater market access and financial resources such as loans. They had little to bargain with and initiated economic reforms in exchange for financial resources, technology and market access. The imposition of conditionalities maintained the unequal relationships and created a cycle of dependency for many developing economies which resulted in trade concessions and economic reforms under structural adjustment programs to avoid being left out of the multilateral trade regime and to obtain essential external finance. This was distinctly evident when developing countries made concessions allowing trade in services, intellectual property and investment to be included in trade

negotiations in exchange for reforms in agriculture and the phasing out of the Multifibre Arrangement. This became the *'Inequitable Grand Bargain'* of the Uruguay Round, demonstrating the extent of the role that the premise of dependency theory would have in the interactions of developed and developing countries in the trade regime.

2.11.3 Constructivism and Epistemic Communities

During the 1980s and 1990s there was a change in thinking that occurred amongst both developed and developing economies as a consequence of pressures associated with integrating international markets and a change in perception of the global trade regime. Constructivists explain the concept of 'epistemic communities' (knowledge-based policy activists and experts of transnational communities) and their influence on trade negotiators (Baylis, Smith and Owens, 2008: 580). They note that the world had become more and more complex with an increasing number of agents and ideas which were beyond the capability of governments alone to fully engage. Thus policy makers turned to epistemic communities for credible expertise since they were highly specialized in areas that governments required. Peter M. Haas states,

> epistemic communities are one possible provider of this sort of information and advice. As demands for such information arise, networks or communities of specialists capable of producing and providing the information emerge and proliferate. The members of a prevailing community become strong actors at the national and transnational level as decision makers solicit their information and delegate responsibility to them (Haas, 1992: 4).

As actors that formulate ideas, Haas states that epistemic communities have been known as, "the cognitive handlers of constructivist analysis of politics and ideas…invoked by

constructivist scholars to focus attention on the process by which states formulate interests and reconcile differences of interest" (Haas, 2001: 11579). Ideas are central in examining social constructs, meaning epistemic communities look at how actors' interests and identities are constructed by the structure, in this case of the GATT. Of importance here is how the structure can constrain or change the interactions of the actors. As a result of the actors' interaction, the structure can either be transformed or reproduced by the actors themselves (Baylis, Owens and Smith, 2008: 578). Haas further notes,

> members of transnational epistemic communities can influence state interests either by directly identifying them for decision makers or by illuminating the salient dimensions of an issue from which the decision makers may then deduce their interests. The decision makers in one state may, in turn, influence the interests and behaviour of other states, thereby increasing the likelihood of convergent state behaviour and international policy coordination, informed by the causal beliefs and policy preferences of the epistemic community. Similarly, epistemic communities may contribute to the creation and maintenance of social institutions that guide international behaviour. As a consequence of the continued influence of these institutions, established patterns of cooperation in a given issue-area may persist even though systemic power concentrations may no longer be sufficient to compel countries to coordinate their behaviour (Haas, 1992: 4).

By the time of the Uruguay Round, a significant change in ideological thinking had come about within the global trade regime. As the world economy and associated negotiations became increasingly complex and beyond the capacity of governments to control on their own, they turned to those who had the respective knowledge they required thus promoting their ability to make informed decisions in the face of deep uncertainty. Individuals in the trade epistemic community are from areas which include: the business community, economists, trade lawyers, practitioners and academics. Technocrats associated with international financial institutions during the 1980s and 1990s began to

infiltrate policy elites in developing countries thereby promoting the benefits of trade liberalization and a more open and integrated global trade regime. While the notion of epistemic communities is not a new concept, the particular relevance of a trade epistemic community was becoming increasingly evident during the Uruguay Round. This was most apparent in the case of India where key policy makers had been socialized within IFIs under a liberal framework and then returned to fill vacant government positions with a new mindset that focused more on the pursuit of liberal trade policies and other liberalizing reforms. Some of these individuals also became negotiators themselves in the GATT and new ideas began to circulate amongst this group. In essence for India, the negotiators themselves were a part of the trade epistemic community during the Uruguay Round. While this dynamic is also plausible for Brazil, a separate research study would be necessary to delve into the influence that the epistemic community had on policy and decision makers there.

This study found that developing countries did involve members of an epistemic community that promoted the benefits of more open and integrated economies. Governments called upon them to assist with the identification of policy options especially with respect to trade negotiations. Ambassadors were selected who were part of this community with specialized expertise and knowledge that was required to effectively participate in negotiations. In this role they were able to influence certain developing countries earlier than others because they were not all at the same level of economic development. Some had relatively uneducated and uninformed negotiating teams or possibly no negotiating team at all. Brazil and India were impacted

substantially by this community due to their diplomatic officials, Ambassadors to the GATT and associated intellectuals having received higher levels of education from the West, under the influence of the liberal framework. They also had greater resources, increased technical capacity and top rate negotiators who served for years in Geneva. By comparison, the quality of Kenya's participation was not close to that of India or Brazil as it lacked what these other countries had already established: a strong and educated negotiation team as well as greater technical capacity and financial resources.

An issue that arose in this study in regard to the methodology was in the ability to draw a straight line between the cause and effect of this relationship. As discussed, it was found that countries employed members of the trade epistemic community who demonstrated the advantages of liberalizing trade. We can also say that since the conclusion of the Uruguay Round rested on intense levels of uncertainty, in due course the knowledge and expertise of the epistemic community did have an influence on the power-politics mentality of the Quad (US, EEC, Japan and Canada) that persisted for decades following the Second World War (i.e. the Quad using their political power to dominate the trade regime). Interviewees commented that the behavioural change was a result of the negotiators having been educated in the West and believing the benefits of more liberal trade policies. However, the difficulty lay in providing evidence to say that specific 'ideas' of this community caused specific effects on the decisions of their respective governments. To be sure, a new era of relationships began to emerge and concessions were made to make certain that the multilateral trade regime would expand to deal with new issues, ideas and norms. By the knowledge they provided and the positions they

held the epistemic community ensured that throughout this process their views on the advantages of liberalizing trade would be considered by negotiators, delegations, governments and policy makers from both developed and developing countries alike.

2.12 Conclusion on Methodology

The methodological approach employed in this study captured the change in dynamics occurring in the Uruguay Round of GATT negotiations, which at that time were the most ambitious to have taken place since the establishment of the GATT in 1947. The qualitative and comparative historical approach allowed for an assessment over time of the three illustrative case studies drawn from different regions of the global South. This established trends and comparisons to explain *why* some developing countries at very different levels of economic development were more active in trade negotiations than others. Moreover, it was able to put the core research premises (economic reforms, external forces, and a trade epistemic community) into the perspectives of liberal trade theory, dependency theory and constructivism. This enabled me to deduce why specifically during the Uruguay Round, many developing countries took their own distinctive trajectory towards economic reforms and trade liberalization and others began to follow-suit as a result of a 'demonstration effect' by more advanced developing countries, moving away from the protectionist policies employed under the ISI model and toward the presumed economic benefits of a free-market economy with a reduction in both regulation and government intervention. The evidence will show that no single theoretical approach or concept could provide a comprehensive account of the

‘conversion’ of developing countries to liberalized trade; thus, the methodology used was able to capture the varying dynamics involved and translate them into a sound multi-dimensional conclusion.

Chapter 3: Developing Countries in Early GATT Rounds

In order to understand the nature and extent of the changes that took place in the course of the Uruguay Round, it is necessary to establish more precisely the role played by developing countries in the GATT prior to this momentous Round. Suggesting that all developing countries as a group were not active in the GATT during this earlier period is untrue. Developing countries' role in the global trade regime has varied over time. Some developing countries, including both India and Brazil, were heavily involved in the establishment and creation of the GATT in 1947. Table 3.1 shows how the size of various delegations compared. When examined against industrialized economies, developing countries' markets were very small in 1947. Furthermore, others remained under colonial rule and had decisions made for them by their respective imperial powers until they gained independence. Of the illustrative case studies this category of countries includes Kenya.

Table 3.1 Size of Contracting Party Delegations during the First Round of GATT Negotiations (1947)

Contracting Party	Size of Delegation	Contracting Party	Size of Delegation
USA	128	Brazil	31
UK	107	South Africa	23
Australia	61	New Zealand	20
Netherlands	46	Chile	10
France	43	Cuba	17
Czechoslovakia	36	Norway	11
India	36	Lebanon	3
Belgium-Luxembourg	34	Syria	3
Canada	31		

Source: (Hudec, 1990: 54-55)

Many developing countries and the LDCs simply lacked the technical and institutional capacity[16] to participate in early GATT Rounds. Even by the Kennedy (1964-1967) and Tokyo Rounds (1973-1979) many smaller developing countries still lacked resources and continued to have small, ill-equipped delegations as a result of their only having recently gained independence and having limited means. Mr. Roderick Abbott[17] commented that, "as time passed and developing countries' trade volumes grew to a certain level, they became more active in negotiations because they had more at stake" (Abbott. Skype Interview. 29 May 2012). This was partly the result of new trade issues being introduced and becoming increasingly important to developing countries' interests, as opposed to the Rounds solely focusing on reducing the high tariffs that had followed World War II amongst industrialised economies. Some of these new issues included: agriculture, textiles and clothing, tropical products and services.

To provide the historical context of the change in developing countries' behaviour from 1947 to 1986, this chapter will explore the early GATT Rounds up to the Uruguay Round and show how the experiences and involvement of different developing countries has varied considerably. Not all developing countries were at similar levels of economic development and they need to be carefully disaggregated in order to help explain their transformation towards trade liberalization and the participation in the GATT.

[16] **Institutional Capacity**: refers to a country's ability to develop infrastructure to manage power supplies, telecommunications, strengthen technological capacity, establish a banking and financial system and develop skills to effectively participate and negotiate in international trade. Additionally, it must be capable of developing and implementing trade policies as well as establishing strong regulatory regimes in order to deal with the volatility of markets (Michalopoulos, 2001: 90-91).

[17] **Mr. Roderick Abbott** was the former Senior EEC Negotiator on market access during the Uruguay Round.

3.1 The Havana Charter and the International Trade Organization (ITO)

After the Second World War, many of the countries that negotiated the Bretton Woods Agreement in 1944, leading to the creation of the IMF and World Bank,[18] were fearful of a return to the catastrophic international trade and finance experiences during the inter-war period (Lacarte Muró, 2005: Disc 1; Srinivasan, 1999: 1047). This period was known for its high levels of protectionism, specifically in the US under the Smoot-Hawley Tariff Act of 1930 where imports and exports were substantially reduced, by more than half. Other trading partners with the US similarly reduced trade which resulted in an international disaster. Ambassador Julio Lacarte Muró[19] notes that the interwar period was characterized by a Great Depression, high tariffs, preferential systems and heavy bilateralism. There was a widely shared understanding that a return to such policies needed to be avoided (Lacarte Muró, 2005: Disc 1). Trade issues were not part of the Bretton Woods conference but there was a train of thought amongst the negotiating countries about the need for some type of International Trade Organization (ITO) which would act as a sister organization on trade (Lacarte Muró, 2005: Disc 1).

Following the Bretton Woods conference, a year later the US put forth *Proposals for the Expansion of World Trade and Employment* and sent them around the world for other countries to review. This was an attempt to promote the reduction of barriers to trade,

[18] **Bretton Woods System**: Following the Second World War, this monetary system was established to govern the relations between the industrialized economies. This group of countries established the IMF and World Bank (initially known as the International Bank for Reconstruction and development [IBRD]). Under this system, exchange rates were tied by independent countries to the US dollar until this arrangement was terminated on 15 August 1971.

[19] **Ambassador Julio Lacarte Muró** was the former Ambassador of Uruguay to the GATT during the Uruguay Round and one of the creators of the GATT in 1947.

including the reduction of tariffs (Srinivasan, 1998: 9). At the time the proposals were published on 6 December 1945, the US invited fifteen countries to participate in negotiations. These included four developing countries – specifically India (which then included what today are Bangladesh and Pakistan), Brazil, Cuba and China. As noted by Rorden Wilkinson[20] and Carlos Pérez del Castillo, developing countries were in fact present at the negotiations but some were more prominent and assertive than others (Wilkinson, Rorden. Skype Interview. 13 July 2012 and Pérez del Castillo, 2009: 5-6). Discussions took place at the United Nations during the first meeting of the Economic and Social Council (ECOSOC) in 1946 where the US introduced the proposals expressing a need for an international conference on trade and employment. This was adopted unanimously and a Preparatory Committee was appointed by ECOSOC which included the US, Lebanon, Chile, and Norway. Prior to meeting in Havana in 1947, the US proposed a Charter for an ITO which was presented to the Preparatory Committee for review (Srinivasan, 1998: 9).

During the Preparatory Committee meetings on establishing an ITO, developing countries, specifically India, came to view the potential organization as serving the interests of the developed economies. Brazil brought forth its own proposal for a new trade organization and presented a 'Proposed Charter'. Faizel Ismail notes that,

[20] **Professor Rorden Wilkinson** is a professor of International Political Economy at the University of Manchester, UK specializing in international trade.

> the Brazilian Charter agreed with the US proposal on the most favoured nation (MFN)[21] principle by stating that this should be adhered to unconditionally only by countries in the advanced stage of development. They both also called for a ban on quantitative restrictions.[22] However the US proposal called for a broad exemption on the ban for any agricultural product…The Brazilian proposal also called for the recognition of the problems faced by less developed countries as well as the need for special measures to assist these countries (Ismail, 2008: 56).

Ultimately, the Brazilian proposal was not accepted but it demonstrated their early role in expressing developing countries' demands.

One area where developing countries were successful in changing the Proposed Charter negotiations was in the voting methods. By consensus they were able to steer negotiations away from adopting a weighted voting system. This was the method used by the IMF and was supported by both the US and UK. However, worried that the secondary status of developing countries would be institutionalized, they opposed this type of voting system. As a result, this method of weighted voting was not adopted in the ITO negotiations, which opted instead for the equal weighting of all country votes (Ismail, 2008: 56).

[21] **Most Favoured Nation (MFN):** Article I of the GATT states that, "any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately to the like product originating in or destined for the territories of all other Contracting Parties" (GATT, Article 1).

[22] **Quantitative Restrictions (QRs)**: This is a protectionist type of restriction in which physical limits were applied for a specific period on the number of imports allowed into a country. This was evident in the area of textiles & clothing as well as in agriculture. Quantitative restrictions were most difficult for developing countries and acted as a barrier to trade, challenging the growth of their domestic economies.

By the end of the Ministerial Meeting in 1947, developing countries in general had proposed hundreds of amendments. Vice-chairman of the US delegation Clair Wilcox noted that, "some eight-hundred amendments were presented [at the final Havana Conference], among them as many as two hundred would have destroyed the very foundations of the enterprise. Some of the proposals advanced in the name of economic development have to be seen to be believed" (Hudec, 1987: 22). Many amendments and proposals were put forth by developing countries but the most common involved the transfer of resources. Their main concern was ensuring they were not bound to the legal obligations of the Charter as were more advanced industrialized economies with greater resources and stronger negotiating power. Developing countries wanted to have the ability to control foreign investment, to protect their infant industries and to receive new tariff preferences that had been negotiated with other developing and developed economies. Additionally, they wanted to take advantage of the tariff concessions of developed countries but not have to provide the same tariff concessions in return (Hudec, 1987: 22).

This marked the beginning of developing countries seeking 'special and differential' treatment since they were economically disadvantaged relative to their developed country counterparts. Under the rules, protecting infant industries was not permitted. Developing countries engaged in this practice (as indeed had many developed countries before them); therefore, the rules of the GATT would undermine their domestic economies and their comparative advantages in certain sectors, particularly agriculture. They did not want to have to make their own tariff concessions and they became known as 'free-riders'

amongst the industrialized economies, thus benefiting from concessions made by other countries under the MFN principle in the GATT (Hudec, 1987: 22). As Robert Hudec states, "they wanted similarly wide freedom to control foreign investment; and they wanted developed countries to accept the cartel-type discipline of commodity agreements[23] in order to sustain 'remunerative' prices for developing country commodity exports" (Hudec, 1987: 22).

After intense negotiations, the Charter was distorted due to the numerous amendments that were put forth. The ITO failed because the US Congress did not accept it twice and therefore the Charter was never ratified (Lacarte Muró, 2005: Disc 1). As noted by Rorden Wilkinson and James Scott, "negotiations saw the Charter altered in ways that reduced its usefulness to the leading industrial states and its lead architect-the US-in particular" (Wilkinson and Scott, 2008: 485 & Wilkinson, Rorden. Skype Interview. 13 July 2012). Another issue with the Charter was that protective measures could be used for the purposes of development or reconstruction by the Contracting Parties in specific branches of agriculture or industry, which would violate legal obligations equally applied to all Contracting Parties (Michalopoulos, 2000: 3). Overall, challenges associated with ratifying the Charter outweighed the anticipated benefits, resulting in its demise.

[23] **Commodity Agreements**: "are international agreements designed to stabilize commodity prices in the interest of producers and consumers. They can include mechanisms to influence market prices by adjusting export quotas and production when market prices reach certain trigger price levels. They sometimes employ buffer stocks which release stocks of commodities onto the market when prices rise to a certain level and build them up when they fall" (Reuters, 2013: http://glossary.reuters.com/index.php?title=Commodity_Agreement).

Originally designed prior to the ITO's failure, the GATT was then resurrected. It eventually became a trade agreement between all Contracting Parties that lasted for nearly fifty years (Hudec, 1987: 24). On 21 November 1947 the GATT officially came into being at the United Nations Conference on Trade and Employment, on the basis of the Protocol of Provisional Application to deal with trade issues, even though it did not have a fully functioning, well-defined rules-based system or an effective dispute settlement mechanism (Adhikari & Athukorala, 2002: 1). The GATT continues to this day in the form of the WTO. Table 3.2 outlines the nine Rounds of GATT/WTO negotiations that have occurred since its inception.

Table 3.2 Trade Negotiation Rounds under the GATT and WTO

1947	Geneva, Switzerland
1949	Annecy, France
1950-1951	Torquay, United Kingdom
1956	Geneva, Switzerland
1960-1961	The Dillon Round (Geneva)
1964-1967	The Kennedy Round (Geneva)
1973-1979	The Tokyo Round (Geneva)
1986-1994	The Uruguay Round (Geneva)
2001 on	The Doha Development Agenda (Geneva)

Source: (Wilkinson, 2006: 48)

3.2 Developing Countries in early GATT Rounds

The three core principles of the GATT were initially applied equally to all signatories. The *first* is that all protection had to be in the form of tariffs. It was agreed by the Contracting Parties that tariffs could be used by governments to ensure that foreign competition did not undermine their domestic economies even as a result of lower and

competitive pricing. In the pre-war years, non-tariff barriers to trade had become common and eliminating them was accepted by governments; specifically, measures limiting the quantity of imports were agreed to be unacceptable (though in practice their use was continued). The *second* principle was that periodic negotiations would occur between governments to discuss the gradual limiting of tariff levels. Finally, the *third* core principle was the MFN principle, enshrined in Article I of the GATT, which ensured that all countries treat other countries as they would their most-favoured nation in terms of trade relations (Hudec, 1987: 16). This was to ensure equality amongst all Contracting Parties and that any advantage given to one applied to all GATT signatories (Tussie, 1987: 13). As stated in Article I of the GATT,

> any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately to the like product originating in or destined for the territories of all other Contracting Parties (GATT, Article 1).

The other significant point about the GATT was its voting system. As noted by Diana Tussie, "in contrast to the IMF and the World Bank where a system of weighted voting operates, in the GATT each country is entitled one vote" (Tussie, 1987: 14). This was carried over from what was proposed by developing countries in the ITO Charter since they were strictly opposed to the weighed voting system supported by the US and UK. Moreover, in terms of new members acceding to the GATT, one vote per country was the method used, with no possibility of a veto. A two-thirds majority vote was the requirement and was the preferred method, rather than unanimity. Unanimity could potentially (if not likely) lead to a long process since all parties would have to agree and this would be difficult due to an increasing number of countries participating in the

GATT with vast and diverse economic and political interests. It would also cause countries to compete with another to try to win support of the membership because if a country did not have an interest in another's economy it could vote against its accession. The purpose of the GATT was to create an open liberal trading system, which was the basis for the provisions set out in the agreement (Tussie, 1987: 15).

The GATT, unlike the IMF or World Bank, did not have international standing as it was not an international organization. The significance of the GATT is that, rather than being a treaty among sovereign states, it was a multilateral agreement among Contracting Parties (Jackson, 1989; & Adhikari & Athukorala, 2002: 1). As can be seen from in Table 3.3, over time developing countries' membership did increase. The case study countries acceded to the GATT as follows: Brazil – 30 July 1948, India – 8 July 1948, and Kenya – 5 February 1964. Accession rates varied over time mostly as a result of when countries gained independence from former imperial powers.

Table 3.3 Countries acceding to the GATT by Date up to 1994

Decade	Signatories
1940s	Australia 1 January 1948, Belgium 1 January 1948, Canada 1 January 1948, Cuba 1 January 1948, France 1 January 1948, Luxembourg 1 January 1948, Netherlands 1 January 1948, United Kingdom 1 January 1948, United States of America 1 January 1948, South Africa 13 June 1948, ***India 8 July 1948***, Norway 10 July 1948, Zimbabwe (Southern Rhodesia) 11 July 1948, Myanmar (Burma) 29 July 1948, Sri Lanka (Ceylon) 29 July 1948, ***Brazil 30 July 1948***, New Zealand 30 July 1948, Pakistan 30 July 1948, Chile 16 March 1949
1950s	Haiti 1 January 1950, Indonesia 24 February 1950, Greece 1 March 1950, Sweden 30 April 1950, Dominican Republic 19 May 1950, Finland 25 May 1950, Denmark 28 May 1950, Nicaragua 28 May 1950, Italy 30 May 1950, Germany 1 October 1951, Peru 7 October 1951, Turkey 17 October 1951, Austria 19 October 1951, Uruguay 6 December 1953, Japan 10 September 1955, Ghana 17 October 1957, Malaysia 24 October 1957
1960s	Nigeria 18 November 1960, Sierra Leone 19 May 1961, Tanzania 9 December 1961, Portugal 6May 1962, Israel 5 July 1962, Trinidad and Tobago 23 October 1962, Burkina Faso 3 May 1963, Cameroon 3 May 1963, Central African Republic 3 May 1963, Chad 12 July 1963, Congo 3May 1963, Cyprus 15 July 1963, Benin 12 September 1963, Gabon 3 May 1963, Kuwait 3 May 1963, Spain 29 August 1963, Senegal 27 September 1963, Madagascar 30 September 1963, Mauritania 30 September 1963, Uganda 23 October 1962, Côte d'Ivoire 31 December 1963, Jamaica 31 December 1963, Niger 31 December 1963, ***Kenya 5 February 1964***, Malawi 28 August 1964, Togo 20 March 1964, Malta 17 November 1964, The Gambia 22 February 1965, Burundi 13 March 1965, Rwanda 1 January 1966, Guyana 5 July 1966, Switzerland 1 August 1966, Yugoslavia 25 August 1966, Barbados 15 February 1967, South Korea 14 April 1967, Argentina 11 October 1967, Poland 18 October 1967, Ireland 22 December 1967, Iceland 21 April 1968
1970s	Egypt 9 May 1970, Mauritius 2 September 1970, Zaire (Democratic Republic of Congo) 11 September 1971, Romania 14 November 1971, Bangladesh 16 December 1972, Singapore 20 August 1973, Hungary 9 September 1973, Suriname 22 March 1978, Philippines 27 December 1979
1980s	Colombia 3 October 1981, Zambia 10 February 1982, Thailand 20 November 1982, Maldives 19 April 1983, Belize 7 October 1983, Hong Kong 23 April 1986, Mexico 24 August 1986, Antigua and Barbuda 30 March 1987, Morocco 17 June 1987, Botswana 28 August 1987, Lesotho 8 January 1988
1990s	Tunisia 29 August 1990, Venezuela 31 August 1990, Bolivia 8 September 1990, Costa Rica 24 November 1990, El Salvador 22 May 1991, Macao 11 January 1991, Guatemala 10 October 1991, Mozambique 27 July 1992, Namibia 15 September 1992, Swaziland 8 February 1993, Mali 11 January 1993, Saint Lucia 13 April 1993, Czech Republic 15 April 1993, Slovak Republic 15 April 1993, Dominica 20 April 1993, Saint Vincent and the Grenadines 18 May 1993, Fiji 16 November 1993, Brunei Darussalam 9 December 1993, Bahrain 13 December 1993, Paraguay 6 January 1994, Grenada 9 February 1994, United Arab Emirates 8 March 1994, Guinea Bissau 17 March 1994, Saint Kitts and Nevis 24 March 1994, Liechtenstein 29 March 1994, Qatar 7 April 1994, Angola 8 April 1994, Honduras 10 April 1994, Slovenia 30 October 1994, Guinea 8 December 1994, Djibouti 16 December 1994, Papua New Guinea 16 December 1994, Solomon Islands 28 December 1994

Source: (Wilkinson, 2006: 480)

Some developing countries were more active and others marginal players in trade negotiations. Noteworthy is that countries did not have to be Contracting Parties to be

observers in GATT negotiations since some were in the process of accession. They were not, however, able to vote during the Rounds. Developing countries were present and did assert demands in some cases, but lingering colonialism meant developed countries would speak on behalf of their developing country counterparts until they gained independence or were grandfathered in by their colonial leaders. (Ismail, 2008: 52). This applied to Kenya as it was not until December of 1963 that they became independent from the British, acceding to the GATT in 1964 during the Kennedy Round. Faizel Ismail notes that, "developing nations have continued to assert their demands for increased market access for products of export interest, and have advanced their special needs and interests. This was achieved notwithstanding their export pessimism, and political weakness as they emerged from the ravages of colonialism, in the early period of the GATT" (Ismail, 2008: 52). Brazil and India, however, were very active in all of the trade negotiations; as founding Contracting Parties of the GATT they had strong voices in making demands for greater market access. This was most evident in the areas of agriculture and textiles & clothing, even though persistent challenges remained since these issues continued to fall outside of the GATT negotiations.

3.3 The Principal Supplier Rule

The *principal supplier rule,* also known as the 'request-and-offer system',[24] was a major headache for developing countries especially since tariffs were based on manufactured goods. Many developing countries' economies, including those of Brazil and Kenya,

[24] **Request-and-Offer-System**: Countries will put out offers or proposals to another country based on their trade specification and will make a decision based on the best offer. In order to ensure the best offer, both qualitative and quantitative factors are considered.

relied heavily on agriculture. India depended heavily upon textiles while others depended on raw materials which were already duty-free. Both agriculture and textiles were two areas left outside of the GATT (Gallagher. Skype Interview. 4 July 2012). Professor Arvind Panagariya[25] stated that, "in the early GATT Rounds, the *principal supplier rule* had a negative impact on developing countries due to fact that they had a significantly smaller market size which put them at a disadvantage thus excluding them from the bilateral negotiations" (Panagariya, Phone Interview. 21 May 2012). Furthermore, Faizel Ismail noted that, "in the early Rounds of the GATT developing countries were excluded from participation at the insistence of the US and EEC on the *principal supplier rule*, the exclusion of internal taxes and quotas that effectively excluded tropical products from negotiations, and reciprocity" (Ismail, 2008: 53). This system was a form of bilateral trade between two countries based on a product-by-product consideration. In order to participate in it, trading partners who were '*principal suppliers*' would negotiate appropriate tariff levels together (Page, 2002: 12). It was not that developing countries did not want to participate in the early GATT Rounds. Rather, they were physically unable to do so as a consequence of the rules and practices that were developed. They could not compete with the main participants due to the fact that they were not *principal suppliers* nor could they make adequate concessions with the three economically dominant powers of the US, the EEC and Japan.

[25] **Professor Arvind Panagariya** is a Professor of economics and a Jagdish Bhagwati Professor in Indian Political Economy at Columbia University. He is also a non-resident and senior fellow at the Brookings Institution in the US. He has advised the World Bank, IMF, WTO, and UNCTAD in various capacities.

Prior to the GATT, in the ITO Charter, a formula for reducing tariffs was proposed. Under the GATT, however, the US Congress would not accept an across-the-board tariff cutting formula. This system was replaced at the insistence of the US with its traditional method of "reciprocal, bilateral bargaining over specific tariff lines" and the principal supplier rule was upheld (Wilkinson and Scott, 2008: 486). Unsurprisingly, this was problematic for developing countries since they were not principal suppliers of anything and this led, in effect, to another barrier to participation in trade negotiations. As Harry Johnson noted,

> [t]he real trouble with the GATT [is] not the institution of bargaining for tariff reductions, but the techniques of bargaining and especially the procedure of bargaining between dominant players on a basis of bilateral balancing of balance-of-payments effects. This technique [belongs] to the 1930s; if bargaining could be computerized, it could be made truly multilateral, on a basis of over-all balancing of balance-of-payments effects…this would enable the small countries to aggregate individually small concessions in the bargaining process (Johnson, 1968: 368).

Developing countries wanted to negotiate better access for industries which were of importance to them, but these were on the decline in the industrial economies; therefore, negotiations did not include those items (Johnson, 1968: 367). These structural constraints imposed on developing countries by the dominant powers around their commercial interests in early GATT Rounds[26] caused further barriers to participation in trade negotiations (Winters, 1990: 1291).

There was a purpose for using the principal supplier rule: its application on the basis of MFN would ultimately create a domino effect, eventually benefiting non-principal

[26] Geneva, 1947; Annecy, 1949; Torquay, 1950; and Geneva 1956.

suppliers who were previously marginalized (UNESC, 1946c: 7). This did not prove beneficial to developing countries because the trade liberalization that did take place seemed to be more in the interest of industrialized economies. For the industrialized economies, increasing the volume of trade was increasingly important in order to expand trade of capital goods, manufacturers, and semi-manufacturers. However, areas of trade not included in the GATT (agriculture and textiles & clothing) were primary industries in many developing and less developed countries which made it difficult for them to participate in negotiations themselves (Brown, 1950: 15; 22-28; Hudec, 1987: 57). This essentially meant that developing countries were side-lined to the periphery during negotiations. Moreover, the GATT was never designed or structured to be a promoter of economic development in developing economies. As a result of the range of goods being negotiated, they were unable to make concessions through the principle of reciprocity (Wilkinson and Scott, 2008: 487). As growing tensions mounted during the first four Rounds of Tariff Negotiations, developing countries began to push back and make further demands for market access and a greater understanding of their special needs. Through time, trade continued to expand and some of the more economically advanced Contracting Parties came to accept some of the challenges experienced by developing countries. This ultimately led to the Review Session of the GATT in 1955.

3.4 The Principle of Reciprocity

The *principle of reciprocity* posed another serious issue for many developing countries. Making concessions would put them at a further disadvantage because of the small size

of their domestic markets plus the fact that they were heavily reliant on certain sectors of trade which remained outside of the GATT negotiations. Engaging in reciprocal tariff negotiations was not in the interests of developing countries, though it was one of the founding principles of the GATT and the US insisted on it because it would help them maintain their comparative advantage. The US wanted to have other countries open their markets to US-manufactured goods thus allowing their already large market to continue to thrive (Wilkinson and Scott, 2008: 484-485).

Resistance to this *principle of reciprocity* mounted among developing countries, specifically led by India, since it would limit their bargaining power to make concessions due to their relatively smaller domestic market size. Furthermore, during the early phases of industrialization, they wanted the ability to protect infant industries from foreign investment and competition while remaining strong supporters of import-substitution (UNCTE, 1976c: 50-52; UNCTE, 1946d; UNCTE 1946e: 20; Wilkinson and Scott, 2008: 485). There also was the problem of not having a method of assessment for calculation of the appropriate level of tariff reduction even if sufficient cuts had been made. This inevitably resulted in the use of 'power politics' amongst the Contracting Parties during negotiations (UNCTE 1946f: 66-67; UNCTE, 1946c: 49-52; UNCTE, 1946). Industrialized economies such as the US used this situation to their benefit to ensure that they would maintain their comparative advantage (Wilkinson and Scott, 2008: 486).

3.5 The Focus on Tariffs in Early GATT Rounds

During the first four Rounds of trade negotiations, including: I) Geneva, II) Annecy, III) Torquay, and IV) Geneva, the focus was primarily on the reductions of tariffs, which compounded the difficulties of participation for most developing countries caused by the principle of reciprocity and the principal supplier rule. Exporting tropical products for some developing countries posed a significant challenge. Rather than the importing country imposing tariffs, they applied internal taxes. These internal taxes were generally high and could be more than one-hundred percent (GATT, 1961c: 129). In the area of sugar for example, where protection was extremely high, internal taxes neared 500%. (Wilkinson & Scott, 2008: 487). This made it difficult for developing countries to trade in an equitable and competitive environment. Roderick Abbott notes, for example, that Brazil was in competition with Florida to export oranges. High internal taxes by the US were a significant trade barrier coupled with the issue of Brazil not being a principal supplier (Abbott. Skype Interview. 29 May 2012). The major problem for developing countries was that internal taxes could not be reduced because they were not part of developed economies' discussions. In order to ensure developing countries achieved their balance-of-payments[27] (where all assets and liabilities of the country sum to zero) this issue, with quotas restricting their exports, prevented them from being part of the early Rounds. Over time these restrictions were to be removed once improvement was recognized in the balance-of-payments through a gradual move toward more balanced

[27] **Balance-of-Payments**: a system in which all monetary transactions are recorded for every country in the world which includes all of their imports and exports. These could be in goods and services or other areas such as financial transfers. In order to have a balance-of-payments situation occur, a country cannot have a surplus or a deficit and all accounts must sum to zero (Sloman, 2004: 516, 517, 555-559).

domestic budgets. However, this did not occur, and many products exported from developing countries continued to be bound by quotas (Wilkinson & Scott, 2008: 488).

3.6 The Review Session of 1955

By 1953 the GATT had taken on a much greater role in facilitating trade negotiations than originally anticipated. During the time between 1954 and 1955 the Contracting Parties decided that the GATT needed to be thoroughly reviewed since the proposed ITO Charter had failed. As noted by Robert Hudec, "the Contracting Parties tried once again to create a formal international organization this time the 'Organization for Trade Cooperation' (OTC), but once again the organization's charter was rejected by the US Congress" (Hudec, 1987: 33). Not all Contracting Parties agreed with this review since many were satisfied with the GATT's general framework and operation, particularly the industrialized economies (GATT, 1953a: 18-19). Developing countries, particularly Brazil and Chile, were dissatisfied with the resolution's wording to undertake the review in the first place since it continued to avoid dealing with access issues for their primary industries (textiles & clothing and agriculture) (Wilkinson, and Scott, 2008: 488-489).

Compromises on legal policy towards developing countries in the GATT-ITO were negotiated during the Review Session. One area where developing countries continued to make demands was for the protection of their infant industries from foreign investment and competition. Here, they continued to fight for greater legal freedom and pushed for

not having to make reciprocal tariff concessions with industrialized economies (Hudec, 1987: 33).

Three changes were made to the original GATT-ITO rules during the Review Session of 1954-1955. The first was greater infant industry protection, which was agreed on by the Contracting Parties in Article XVIII (Governmental Assistance to Economic Development and Reconstruction). During the post-war era, for the purposes of reconstruction and economic development, raising bound tariffs was permitted. The only countries allowed to use Article XVIII were developing countries and it was in fact used by India. The objective of the GATT was to promote international trade; if greater protective measures were imposed to support infant industries then it would not deviate from GATT provisions and therefore this Article was permitted as an effective and appropriate policy measure (Hudec, 1987:33). In the Article was a provision which strictly stated that using these measures should be done in a way that does not harm or hinder other countries or the applicant. Of particular note was that in order to utilize this measure, approval had to be granted by the other signatories. This measure was retained from the previous negotiations but the veto was removed (Hudec, 1987: 33).

The second change that occurred dealt with situations where there was a serious issue in ensuring a sustainable balance-of-payments situation: requirements when using quantitative restrictions to limit imports for developing countries were lessened. In Article XVIII(B), developing countries were given a separate provision by the

Contracting Parties. Restrictions on balance-of-payments could be applied if a program designed for a developing country became inadequate for the country in question because of insufficient monetary reserves. In many cases restrictions ended up being applied because further development resources were almost always required.

Finally, the *principle of reciprocity* was relaxed in the newly added Article XXVIII(*bis*). This took into account the needs of LDCs when reciprocity was calculated. It also asked the Contracting Parties to understand, "the needs of less developed countries for a more flexible use of tariff protection to assist their economic development and the special needs of these countries to maintain tariffs for revenue purposes" (GATT Article XXVIII(*bis*)(3)(b). The legal relations between developed and developing countries did not change dramatically. It was the principles that changed, recognizing that the needs of developing countries were different from industrialized economies and that legal freedom in the areas noted above would be more beneficial to developing countries as a whole. Nonetheless, the changes made during this Review Session were not substantive enough to enhance developing countries' interests due to the dominance of the industrial economies; however, developing countries were still very active in asserting that their demands and issues be part of the negotiations.

3.7 The Haberler Report 1958

By 1957, there had been a return to high levels of agricultural protection, unsatisfactory commodity trade levels and a lack of inward investment among developing countries,

making it difficult for them to participate in negotiations. In November that year, during the GATT Ministerial Meeting, it was noted that there needed to be an, "expert examination of past and current international trade trends and their implications with special reference to…the general state and prospects of international trade…[and] the failure of the trade of less developed countries to develop (as) rapidly as that of industrialized countries." (GATT, 1958b: 18). The result of the Ministerial Meeting was The Trends on International Trade, also known as the 1958 Haberler Report with four experts appointed to the panel by the GATT. These were Gottfried von Haberler, James Meade, Jan Tinbergen, and Oswaldo Campos. The report was named after the Chair of the expert panel, Gottfried von Haberler. This report outlined an 'Action Programme' and established the Committee III to review major issues for less developed countries as well as barriers to trade they faced from industrialized economies (Srinivasan, 1998: 23). These items focused specifically on addressing the needs of developing and less developed countries and understanding the limitations on their reciprocal bargaining with industrialized economies. As noted by Sidney Golt, these items,

> involved standstill provisions on new tariff or non-tariff measures on products of particular interest to developing countries; the elimination of outstanding quantitative restrictions on such imports; duty free entry for tropical products; elimination of tariff barriers to exports of semi-processed products; and progressive reduction of fiscal charges and revenue duties on products of special interest (Golt, 1978: 7).

Furthermore, the Action Programme called immediate attention to less developed countries and the need to diversify their economies, thereby increasing their capacity for export earnings internationally. A method for reporting on the progress and development of LDCs was also recommended (Golt, 1978: 7-8). This recommendation received a

positive response from developed countries initially but little materialized for LDCs and other developing countries in the years to come. Close to thirty years later, significant problems still existed in the areas of tariff escalation, major tariffs on tropical products, internal taxes, as well as significant quantitative restrictions (Srinivasan, 1998: 23).

On the basis of the Haberler Report of 1958, the Declaration on the Promotion of Trade of Less-Developed Countries was adopted by the Contracting Parties. As noted by Martin Kohr from the Third World Network, in a large range of products including tea, cotton products, jute products, coffee, manufactured products and leather goods, developing countries experienced high tariffs, as recognized by the Committee III Report. The result was constrained consumption because of levies and domestic taxes (Khor, 2001: 30). The Committee III noted seven areas that required attention by Contracting Parties:

> speedy removal of those quantitative restrictions which affect the export trade of less-developed countries; special attention to tariff reductions of direct and primary benefit to less-developed countries; remove, or considerable reduction of fiscal duties in developed countries; improved access for developing countries in purchases made by State agencies; preferences in market access for developing countries; limitation of subsides on production or export of primary products; and careful observance of GATT or UN mandated limitations on disposal of commodity surpluses or strategic stocks (Ismail, 2008: 59-60).

Due to a lack of institutional capacity among many developing and less-developed countries, improving their marketing and production methods through technical assistance aimed at expanding and diversifying trade was also part of the Declaration (Ismail, 2008: 60).

3.8 Membership Growth in the 1960s

Developing country membership began to change and grow in the 1960s. Prior to this decade only two additional developing countries acceded to the GATT: Malaysia and Ghana. This decade became significant because decolonization accelerated and several developing countries began to take more of an interest in the GATT and made provisional contracts. At the start of this time period the membership was 21 developed countries and 16 developing ones for a total of 37, with the developed economies holding the majority (Hudec, 1987: 31; GATT, 1960: 99-100). By the end of this decade the membership of developing countries' had risen sharply to 36. Tariff concessions on commercial goods were negotiated by seven developing countries which gained them their accession into the GATT. New members included: Spain, Portugal, Argentina, the United Arab Republic, Israel, Yugoslavia and Korea. Special procedures for newly independent territories also allowed entry for former colonies, primarily of Britain and France, including Caribbean and African states (Hudec, 1987: 31).

3.9 The Dillon Round (1960-1961)

Although there was a sharp increase in developing countries' membership in the GATT, collectively they were unhappy with the lack of action on the items listed by Committee III in the Action Programme produced in the Haberler Report of 1958. The frustration of developing countries was evident but did not impede their willingness to push their demands during negotiations. Leading up to the Dillon Round – the fifth Round of GATT negotiations - increasing demands came from developing countries, led by Brazil

and India, to include internal taxes[28] in the negotiations as per the recommendation put forth by the Committee. Both the EEC and the US remained strictly opposed to this recommendation and refused to include internal taxes in the negotiations (GATT, 1959; GATT, 1960: 108-109). For agricultural exporting countries, the results of the Round were particularly disappointing due to increasing non-tariff barriers (NTBs)[29] to trade, including subsidies used by industrialized economies and thus increased protectionism. This, coupled with the principal supplier rule, reciprocity, and the exclusion of agriculture and textiles from the GATT negotiations, remained some of the most challenging and frustrating areas for all of these exporters (Ismail, 2008: 60). Protection by industrial nations loomed in certain trade areas, most importantly agriculture, and the country-by-country; commodity-by-commodity negotiations were proving to be a major hurdle (Wilkinson and Scott, 2008: 494).

3.10 The Creation of UNCTAD

By the 1960s, and despite their growing numbers, developing countries felt increasingly isolated from the GATT due to the structural constraints that made it difficult for them to reciprocate on concessions. As noted by the Ambassador of India, K.B. Lall,

> the developing countries of course [have] had no bargaining power, politically or economically. The rule of reciprocity has required them to give a matching concession, but clearly they were not in a position to give any. While over the last fifteen years, tariffs on industrial products of interest to industrial nations

[28] **Internal Taxes**: these types of taxes are not inflicted on imports or exports. In contrast, an external tax is that which is imposed as a duty to raise revenue.
[29] **Non-Tariff Barriers** (NTBs): are not in the form of a regular tariff or tax but still restrict imports causing a barrier to trade. These can come, for example, in the forms of countervailing duties and anti-dumping measures.

> have been gradually brought down, those products of interest to developing countries have remained at a high level (Lall, 1964: 174-179).

These compounding problems for developing countries resulted in the establishment of UNCTAD in 1964 to address and manage some of the trade concerns between developed and developing nations. As noted by Pérez del Castillo, "UNCTAD's creation was certainly crucial in promoting the idea of the urgent need to incorporate in GATT rules, provisions that would take into account the developmental needs of developing countries. Raul Prébisch, first Secretary General of the organization, basing his case on the developing countries dependence on commodities and the problems related to their deteriorating terms of trade, provided a solid intellectual framework for the establishment of a just and fairer international trading system" (Pérez del Castillo, 2009: 6).

UNCTAD has three primary functions:

"1) it functions as a *forum for intergovernmental deliberations***,** supported by discussions with experts and exchanges of experience, aimed at *consensus building*;

2) it undertakes *research, policy analysis and data collection* for the debates of government representatives and experts;

3) it provides *technical assistance* tailored to the specific requirements of developing countries, with special attention to the needs of the least developed countries and of economies in transition. When appropriate, UNCTAD cooperates with other organizations and donor countries in the delivery of technical assistance" (UNCTAD, www.unctad.org).

UNCTAD is a parallel organization to the GATT/WTO but is more of a 'think tank' since it does not have any ability to make hard law. Rather, it produces soft law and acts as a discussion forum (Lacarte Muró, Julio. Skype Interview, 14 May 2012). Ambassador Mario Matus Baeza[30] commented that this intergovernmental organization was used by developing countries to deal with trade related issues they felt were not being adequately addressed in the Bretton Woods Institutions. Also referred to as the 'enemy of the GATT,' UNCTAD was, he further suggested, a way for developing countries to position themselves between socialism and capitalism (Matus Baeza. Skype Interview. 29 June 2012). Some developing countries were very active in UNCTAD, particularly Brazil and India. Ambassador Luiz Felipe Lampreia[31] of Brazil states that Brazil and India placed many hopes in UNCTAD for promoting and advancing their economic interests and trade issues (Lampreia. Skype Interview. 21 May 2012). One of its achievements was the proposal it put forth to create the New International Economic Order (NIEO) in the 1970s and 1980s (Ford, 2002: 122). This 'new order' was formulated and promoted by developing countries with the objective of replacing the Bretton Woods System, and with the goals of increasing assistance, reducing barriers to trade, and developing more equitable terms of trade and reducing tariffs.

Negotiations were underway in the 1963 GATT Ministerial Meeting at the same time negotiations were taking place to establish UNCTAD in Geneva, Switzerland (which

[30] **Ambassador Mario Matus Baeza** is currently the Ambassador and Permanent Representative of Chile to the WTO From 1994 to 1998 he served as Minister (commercial) of Chile in Washington, D.C. During the Uruguay Round (1987-1991) he was a delegate to the GATT and later Trade Advisor to Chile's Undersecretary of Foreign Affairs (1992-1993).

[31] **Ambassador Luiz Felipe Lampreia** was the Ambassador of Brazil to the GATT during the Uruguay Round.

developing countries felt better represented their interests). As a response to the creation of UNCTAD and its first meeting in 1964, Contracting Parties began to discuss adding a section to the GATT that specifically focused on developing countries, known as Part IV: Trade and Development. Part IV was a special set of provisions for developing countries that promoted their trade and development (Bhagwati and Ruggie, 1984: 202). As noted by Diana Tussie, "the core innovation of Part IV is contained in Article XXXVI which specifies that 'developed countries do not expect reciprocity for commitments in trade negotiations to remove tariff and other barriers to trade of the least developed contracting parties'" (Tussie, 1987: 28-29). Additionally, it was agreed that internal taxes would no longer be imposed by the industrial economies and greater emphasis on reducing high tariffs would be made a priority in the provisions for developing and LDC economies. This addition to the GATT provided developing and LDCs special and differential treatment from their more advanced industrial counterparts. Part IV was a response to the creation of UNCTAD by the Contracting Parties. Under this provision, a ten year waiver on tariff and other preferences was granted to developing countries. This exempted them from invoking the MFN principle. Later, this waiver became known as the Generalized System of Preferences (GSP) which was included in the Tokyo Round under the Enabling Clause (to be addressed below) (Bhagwati and Ruggie, 1984: 202; Srinivasan, 1998: 24). Negotiations on Part IV during the GATT Ministerial led to the launch of the Kennedy Round in 1964 and came into effect amongst the Contracting Parties on 8 February 1965.

3.11 The Kennedy Round (1964-1967)

When the Kennedy Round was launched in 1964, many developing countries were hopeful that it would produce more positive results with the inclusion of Part IV. Ultimately, the results of the Kennedy Round were little different from any of the previous negotiations. Similarly, talks to make UNCTAD a permanent organization in 1964 proved to carry little weight since it did not have the same ability to enforce hard laws as did the GATT (Hudec, 1987: 58). This made UNCTAD's threat to the GATT increasingly minimal. Consequently, areas that were promised to be on the agenda for discussion did not materialize, including textiles & clothing, agriculture and tropical products.

In 1962, the US Congress passed the Trade Expansion Act under the Kennedy Administration giving more authority on negotiating tariff cuts to the President (Evans, 1971: 141-159). Formula-based negotiations were the outcome. This allowed the President to cut tariffs that were currently in place by 50% over a five year time period and eliminate existing tariffs that were 5% or less (Wilkinson and Scott, 2008: 497). A linear type of tariff reduction such as this used a hybrid approach that was based on a bilateral/plurilateral bargaining formula set out for tariff negotiations. By default, it would include products of interest to developing county exporters. In the end, as pointed out by Gilbert Winham, negotiations played out more on a bilateral and/or plurilateral basis to create meaningful concessions amongst the principal suppliers of the individual products (Winham, 1986: 62-67). As stated by John Evans,

> [the] most serious loss of potential benefits to less developed countries resulted from the demands of industrialized countries for 'reciprocity' from their developed partners. Too often, a developed country achieved the desired balance by the withdrawal of a previous offer concerning a product which another developed country was the principal supplier of – a process which secondary suppliers, whether developed or not, were in no position to prevent (Evans, 1968: 90).

Therefore, developing countries did not benefit as much from these types of negotiations. In the area of cotton textile products for example, there was only a 22 percent tariff reduction by the EEC and 18 percent by the US, while in manufactured goods, developed countries managed to negotiate a nearly 35 percent reduction on individual products. Additionally, the EEC and US insisted that the Long Term Agreement (LTA) dealing with the textiles sector be renewed by developing countries. Under this agreement, which was set to expire in October 1967, quotas were placed on the large developing country textile exporters, making tariff cuts irrelevant in this sector because of the quotas (Evans, 1971: 231-232). If developing countries refused to renew the LTA on cotton textiles, developed countries threatened near the conclusion of the Round to return to the previous high tariff levels (Preeg, 1970: 108).

Although the results of the Kennedy Round did not prove to be in the interest of developing countries, they did in fact participate in the difficult task of reducing tariffs. Twenty-three countries participated in the Round, fourteen of whom were developing countries.[32] This Round, although disappointing for developing countries in terms of obtaining greater market access, did include new areas besides its primary focus on

[32] Argentina, Brazil, Chile, Dominican Republic, India, Israel, Jamaica, Republic of Korea, Malawi, Peru, Spain, Trinidad and Tobago, Turkey, and Yugoslavia (GATT, 1968: 6-7).

tariffs. To this end, it developed one measure to deal with NTBs through the creation of an anti-dumping (AD)[33] code. This was established in a side agreement which became known as the 1967 Anti-Dumping code (note that later, during the Tokyo Round in 1979, a second AD code was established due to legal and constitutional problems in the US). On the whole, only modest achievements resulted from negotiations, which made developing countries reluctant to enter into the Tokyo Round negotiations beginning in 1973 (Jackson, 1989: 54).

3.12 The Tokyo Round (1973-1979)

Following the failure of negotiations for many developing countries in the Kennedy Round, they entered the Tokyo Round with trepidation. However, this Round of multilateral trade negotiations began to look seriously at other issues relating to non-tariff barriers (NTB) and move away from a strict focus on the issue of reducing tariffs. Voluntary Export Restraints (VERs)[34] were one of the most significant NTBs to the products of developing economies, especially when applied on industrial and semi-industrial products. These severely restricted their domestic economies pushing them to participate heavily in these discussions to the best of their technical and institutional capacity. During the Tokyo Round there were between 800 and 850 NTBs in place in

[33] **Anti-Dumping:** meaning against dumping. Dumping is a process where countries export commodities at a lower price than would normally be charged in the home country. This devalues their economies and harms their competition within various sectors. This is most notable for developing countries; particularly in agriculture, where industrialized economies employ the process of 'dumping' their excess agricultural commodities into developing countries' markets which inevitably hurts domestic farmers.

[34] **Voluntary Export Restraints (VERs)**: These are restrictions imposed by government during a specific period of time on the quantity of commodities it will allow into the country. These have been applied in, for example, steel, footwear, textiles and clothing as well as automobiles.

areas including but not limited to cotton textiles, electric batteries, paint brushes, chinaware, aluminum foil, watercolours in tubes, and paint brushes (Meier, 1980: 241).

Two draft texts were proposed for developing a multilateral agreement on quantitative restrictions by the assigned committee (GATT, 1974b). One of these proposals was put forth by Brazil and the Group of Three created in 1971 consisting of a Chair of the Council, the Chair of the Contracting Parties and the Chair of the Committee on Trade and Development (GATT, 1971b:3). The proposal called for voluntary export restraints (VERs) and QRs to be gradually reduced and then eliminated. The US proposal was the second one put forth and noted that any illegal QRs that were not totally eliminated by their respective country before the beginning of the Tokyo Round should be fined. Following the proposals, further negotiations on QRs took place in the Tokyo Round itself, though the 'request-and-offer system' remained in place during the Round due to a disagreement on the terminology presented by the US on the distinction between legal and illegal QRs (Winham, 1986: 114-115).

In terms of any tariff reductions on textiles and clothing, the Multi-Fibre Arrangement (MFA) was extended by the industrialized economies. As noted by Wilkinson and Scott, "the US, fearful of getting Congressional approval for the Round, made it even more restrictive than before, slowing the quota growth rate from 6% to the rate of domestic expansions, which was approximately 1-3% a year. The EEC required the largest developing country exporters to reduce their textiles and clothing exports below the 1976

level, dictating cuts of 9% for Hong Kong, 7% for Korea, and 25% for Taiwan" (Wilkinson and Scott, 2008: 500).

One of the most important NTBs for developing countries was in the area of safeguards.[35] Brazil and Nigeria led the developing countries on this topic but the EEC made significant demands that unilateral safeguards could be applied to individual countries. The demand resulted in talks breaking down due to a lack of support by developing countries (Meier, 1980: 253). This proved an issue because any developing country Contracting Party that was raising tariffs for economic development purposes under Article XVIII had to have approval of other signatories to do so. By the conclusion of the Tokyo Round, no agreement on safeguards was established and developing countries' exports continued to be limited by industrial economies even thought this violated legal obligations set out in the GATT. As Gilbert Winham notes, even though many developing countries' proposals were dismissed they remained active in the negotiation process in areas of interest to them, including countervailing duties (CVD),[36] subsidies and customs valuation (Winham, 1986: 168-169).

[35] **Safeguards:** these are used to protect specific industries from foreign competition and used as a form of restraint in the GATT/WTO. For example, restricting the amount of textiles imported into a country for a period of time to protect its domestic industries to avoid injury or loss. Other forms of safeguard include: subsidies and dumping.

[36] **Countervailing Duties (CVD):** these duties help to neutralize the negative impacts of subsidies to certain commodities which distort trade. Trade import duties are imposed by the importing country to ensure that its domestic industry is not be harmed from export subsidies by the foreign country. This is outlined in detail in the GATT Article VI in the GATT Agreement on Subsidies and Countervailing Measures.

Health and safety regulations were an area where developing countries did not demand exemptions or request special and differential treatment. They also did not want imports from their markets to be subjected to less strict regulations or be excluded from the ones imposed on the developed economies (GATT, 1974a:13). Their major concern was that they lacked the technical capacity and assistance to be able to comply with international regulations due to a lack of educational and financial expertise (GATT, 1974a: 13-14). For example, as developing countries still under colonial rule gained independence they were left without their own group of individuals strongly educated in trade-related issues who could negotiate and subsequently implement those items agreed upon in negotiations. As a result, developing countries did not make demands in all areas but in some, like health and safety regulations, they required assistance to enable them to comply.

3.13 The Tokyo Round 'Codes'

During the Tokyo Round, nine codes[37] were negotiated in the areas of non-tariff barriers (NTBs) to trade (Steger. Personal Interview. 13 April 2012). As noted by Terry Collins-Williams,[38] "the codes were more in the interests of developed countries since they had laws in those areas and as result, developing countries really did not participate in those negotiations. The dynamic agenda formation and detailed negotiations on the codes took place in the Quad, consisting of the US, EEC, Canada and Japan and all the rules were

[37] **Tokyo Codes**: 1) subsidies and countervailing measures, 2) technical barriers to trade, 3) import licensing procedures, 4) government procurement, 5) customs valuation, 5) anti-dumping, 6) bovine meat arrangement, 7) international dairy arrangement, and 9) trade in civil aircraft (WTO, www.wto.org).

[38] **Mr. Terry-Collins Williams** served as the Deputy Canadian Ambassador to the GATT during the Uruguay Round.

driven by these four players" (Collins-Williams. Personal Interview. 12 April 2012). Once the rules were negotiated, the outcome was then communicated to the other Contracting Parties. This 'pyramidal process,' as it was termed by Gilbert Winham, demonstrates the power of the dominant players in the trade regime at that time (Winham, 1986: 174-175).

This process effectively excluded developing countries in areas that were not as relevant or impactful on them. They were, however, interested in the anti-dumping code because, with respect to agricultural products, dumping severely undermined their domestic agricultural producers. In this area developing countries were large producers; therefore, the anti-dumping code gave them more favourable consideration so that this practice would not harm their economies. This practice would make food importing more cost effective. Ambassador Fernando de Mateo[39] notes that, "in the Tokyo Round, anti-dumping rules were different than those applied to developed countries and were different for a vast number of developing countries" (De Mateo. Telephone Interview. 13 July 2012). Subsequently, developing countries agreed to the regulations and signed on to the code. One significant point about the Tokyo Round is that it was not a Round for which all items had to be ratified, including the codes. This was different from the Single Undertaking where all had to agree, as was the case in the Uruguay Round. John Jackson states that, "the 'code' obligates only those nations which sign and ratify them…in

[39] **Ambassador Fernando de Mateo** is currently Mexico's Permanent Representative to the WTO and during the Uruguay Round served as the Chief Negotiator on trade in services.

theory, GATT parties which do not sign the agreement are not bound by them, and no provision of a 'code' can alter their GATT rights" (Jackson, 1989: 56).

Since developing countries were not participants in the negotiation of codes, they did not sign or ratify them. Rorden Wilkinson commented that, "the participation by developing countries appears like a 'smoke and mirrors' approach. There is a lot distortion in stories about developing countries in the GATT and this is often written for a specific purpose (to present developing countries as free-riders and/or hapless and helpless). This was not actually the case. Many were very active; also, many were not because they did not have the resources. In the end of the Tokyo Round, many developing countries did not sign the agreements and some of the codes and therefore it looks like they were not actively participating but in fact they were but they just did not sign to Agreements" (Wilkinson. Skype Interview. 13 July 2012). Most importantly, Wilkinson's assessment significantly qualifies the proposition that developing countries' participation in the liberal trade regime did an 'about-face' in the Uruguay Round. They did participate in these previous Rounds; however their interests and concerns were not generally addressed during them.

3.14 The Generalized System of Preferences (GSP) & the Enabling Clause

As noted previously, many developing countries' influence on discussions during the GATT Rounds was limited due to their lack of economic and political strength. Therefore, a ten-year waiver was negotiated as Part IV of the GATT exempting them from invoking the MFN principle on tariffs and other preferences. In the Tokyo Round

this became known as the GSP under the Enabling Clause. Mr. John Weekes[40] commented that, "during the Tokyo Round, the Enabling Clause was introduced largely by developing countries because ISI was still prominent in several of them and they wanted to continue to protect infant industries from competition since they did not see the move to liberalization [as being] in their economic or political interests" (Weekes. Personal Interview. 12 April 2012).

Developing countries had negotiated that they would be given 'differential and more favourable treatment' in the GATT. As noted by Robert Hudec, "the Enabling Clause gave permanent legal authorization for; a) GSP preferences, b) preferences in trade between developing countries, c) 'more favourable' treatment for developing countries in the GATT rules dealing with non-tariff barriers, and d) specially favourable treatment for least-developed countries" (Hudec, 1987: 75). However, as Professor Kevin Gallagher[41] notes, there were only about twenty to thirty goods listed under the GSP (Gallagher, Personal Interview). Each individual developed economy chose which developing countries they would favour as well as the commodities they chose to trade with them. Additionally, developed countries were given the choice as to which countries they deemed developing and there were no set rules on how long a preference would continue. As noted by Ambassador de Mateo, "the GSP was not a legally binding relationship and the developed county could pull out at any point" (de Mateo. Phone Interview. 13 July 2012). As Pérez del Castillo stated, "the Enabling Clause also introduced the notion of

[40] **Mr. John Weekes** served as Canada's Ambassador to the GATT during the Uruguay Round.
[41] **Professor Kevin Gallagher** is an Associate Professor of International Relations at Boston University, Massachusetts, US and a Research Associate at the Global Development and Environment Institute (GDAE) at Tufts University in Medford, Massachusetts, US.

graduation, which recognized for the first time the differences among developing countries. They were expected to make further concessions as and when their development and trade situation improved. Also the recognition of the LDCs was a clear hint of the problem of heterogeneity within the groups" (Pérez del Castillo, 2009:7).

In 1979 the GSP, through the Enabling Clause, was institutionalized under the GATT by the Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries.

3.15 The Results of the Tokyo Round

The conclusion of the Tokyo Round had varying results for developing countries. With vast and growing differences in levels of development, wealth and domestic experiences, some developing countries were more active in the Tokyo Round, including India and Brazil, while others countries, like Kenya, played less of a role in making demands and concessions. India and Brazil were economically and politically more advanced at that time and were marginally able to advance their interests by demonstrating their opposition resulting in longer negotiations. Furthermore, they had stronger institutional capacity with a more structured bureaucracy, greater financial resources, deeper expertise and larger delegations that were more sophisticated in their familiarity with negotiations.

Conversely, this was not the case for many developing countries, including Kenya. This country had a small domestic market and only recently had become decolonized and independent in 1963. As noted by Dr. Daniel Don Nanjira,[42] Kenya had been colonized by the British and upon independence wanted to be self-sufficient in establishing themselves through economic and political development. This included areas such as fostering a banking system, developing infrastructure and expanding trade relations. However, due to a lack of education and expertise in these areas it was difficult for Kenyans to know how to develop a governance structure, remove corruption within the political elite and manage the country in general. Subsequently, this made it difficult for them to actively participate in the GATT. It took them several years to rebuild the country and become active in the Rounds of trade negotiations. By the time of the Uruguay Round, Kenya continued to play a marginal role. Even today it remains an LDC and some negotiators still represent several countries in Africa by negotiating on their behalf. This was the case for Professor Daniel Don Nanjira who negotiated on behalf of Kenya as well as a few other non-identified surrounding African nations (Don Nanjira. Phone Interview. 10 May 2012).

Import-substitution also posed a challenge to developing countries' participation in the Tokyo Round since several developing countries continued to embrace this industrial policy. Consequently, many decided to opt out of the GATT. This allowed them to reap the benefits of the GSP and maintain their status of inferiority (as described by

[42] **Dr. Daniel Don Nanjira** was the former Ambassador and Permanent Representative of Kenya to the GATT during the Uruguay Round.

Srinivasan) where they were granted special and differential treatment (Srinivasan, 1998: 27). However, many other developing countries were beginning to liberalize in the late 1970s, which led to an increase in membership during the Tokyo Round as noted in Table 3.4.

Table 3.4 GATT Rounds, Scope/ Mandate & Membership

PERIOD	ROUNDS	SCOPE/MANDATE	MEMBERS
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960-1961	Geneva (Dillon Round)	Tariffs	26
1964-1967	Geneva (Kennedy Round)	Tariffs and Anti-Dumping	60 [43]
1973-1979	Geneva (Tokyo Round)	Tariffs, NTMs, Rules, Services, Intellectual Property	102
1986-1994	Uruguay Round	Tariffs, NTMs, Rules, Services, Intellectual Property, Dispute Settlement, Textiles, Agriculture, WTO establishment	123

Source: (Osakwe, 2001: 394)

Although the frustration of developing countries continued, membership significantly increased in the 1970s and several more advanced developing countries were very active in promoting demands in areas of common interest, e.g.: market access, agriculture, and textiles and clothing. It would therefore be a mistake to generalize and typologize developing countries as a homogenous group in their levels of participation in GATT

[43] During the Kennedy Round, more than sixty countries participated in the negotiations. Sixty-six nations were in attendance for the opening ceremonies in Geneva on 4 May 1964 (WTO, http://www.wto.org/english/thewto_e/minist_e/min98_e/slide_e/slide_list.htm).

negotiations. Not much new materialized in the Tokyo Round, similar to previous Rounds, but a shift in this situation was beginning to occur. ISI was losing support as a viable industrial strategy for economic development since it was not providing sustained growth in an increasingly interdependent world economy. Seminal events, including the two oil shocks, led to a global recession. As well, the integration of international economies began to gather momentum. The 1980s ushered in a period of far-reaching economic reforms for many developing countries, and it was in this context that trade liberalization led more of them to actively participate in GATT negotiations.

3.16 Conclusion on the Early GATT Rounds

The research for this thesis has identified several reasons why developing countries' had not undergone economic reforms sooner. Firstly, not all developing countries were independent by the time the GATT was established in 1947. They were reliant on their respective imperial powers to speak on their behalf regarding trade. This was true in the case of Kenya, for example; however, India and Brazil had already become independent and had larger domestic economies. These two countries were active in negotiations right from the inception of the GATT through to the Uruguay Round.[44] Secondly, most developing countries in the early GATT trade rounds were not principal suppliers of any commodities besides agricultural goods (which were left out of GATT negotiations by the developed economies who did not want it included). Therefore, it was not that they did not want to participate but rather that they were structurally and procedurally unable

[44] India had only just become independent from Britain under the Indians Independence Act on 18 July 1947 and was one of the original Contracting Parties of the GATT.

to. Developed countries that dominated the GATT continually demonstrated that they had little sensitivity to or willingness to compromise on issues of concern to developing countries. Thirdly, most of the early GATT Rounds focused on tariff negotiations. This impacted the developed economies because they were more heavily based on manufactured goods, whereas most developing economies were primarily based on agriculture and other primary products. Fourthly, developing countries were proponents of the special and differential treatment premise that was formally implemented in the GATT with the Enabling Clause during the Tokyo Round Negotiations from 1973 to 1979. Developing countries realized during the Uruguay Round that using this premise became disadvantageous to their economies since developed economies could refuse to trade with them. Fifthly, many developing countries had small economies and administrative structures, thereby lacking the technical capacity to participate. In many cases one person would negotiate for numerous small developing countries and often they were uneducated on how to negotiate, formulate and implement trade policies. Furthermore, the disjunction between various government departments hampered discussions domestically making it difficult for the person negotiating in Geneva. In several cases, countries did not even have delegations in Geneva. Lacking technical capacity and a sophisticated negotiating team due to limited resources made it almost impossible for them to have a strong voice in negotiations.

The totality of these reasons explains why developing countries did not actively participate until the Uruguay Round due to the structural limitations of the GATT that prevented them from doing so for several decades. However, after careful research and

analysis there is another significant point that developing countries' actions demonstrated during the years prior to the Uruguay Round: the historical lead up to the so-called 'sea-change' of this Round has at times been wrongly stated that developing countries were inactive participants in the GATT or for that matter uninterested in participating in its negotiations spanning from the decades following the Second World War until the 1980s. In actuality, developing countries were always participants in the GATT and were relatively inactive primarily because the earlier Rounds were either indifferent or even antithetical to their interests. This level of activity was a result of the structural limitations that were in place making it next to impossible for them to have influence in negotiations. This is certainly not to suggest that they were not present or did not make demands, but rather that the asymmetrical power structure of the GATT towards developed economies kept them to the side. It was not until the Uruguay Round that the global trade regime was substantially challenged as a result of the inclusion of new trade areas that the GATT was unable to address. Developing countries' interests could no longer be silenced if the single undertaking of the Uruguay Round was to be achieved.

Chapter 4: The Uruguay Round (1986 to 1994)

This chapter provides a comprehensive analysis of the major issues in the Uruguay Round negotiations as well as the opportunities and challenges they posed for developing countries. It begins by looking at the GATT Ministerial of 1982 and the opposition raised by developing countries, most notably India and Brazil, leading up to the launching of the Round in Punte del Este, Uruguay. It also provides a historical account of developing countries' pursuit of trade liberalization and reform, including their involvement in key topic areas of the negotiations and important segments of the Round including the Montreal Mid-term Review, the Dunkel Draft and the Blair House Accord. The final section provides remarks about the Round's outcome and the change in attitude towards the GATT that developing countries realized allowing for the Round's completion through a 'single undertaking' by all Contracting Parties.

By the 1980s major economic reforms had begun as a method for many developing countries to overcome the institutional crisis caused by protectionist trade policies employed in previous decades. To do so they moved towards free market economies and away from more statist approaches. The international integration of economies was influencing domestic trade policies and there was a shared perception of a growing need amongst both the developed and developing economies to preserve a multilateral trading system rather than one based on bilateralism. To avoid the dangers of protectionism and reverting to former policies a new Round of negotiations with a strong agenda to liberalize world trade was set in place. Additionally, by the 1980s three principal new

issues emerged that could not be adequately dealt with under the current GATT structure: intellectual property, trade in services and investment (Lacarte Muró, 2005: Disc 2).

Originally, developing countries (notably India and Brazil) were strictly opposed to a new Round of multilateral negotiations, since they felt that the longstanding issues of agriculture and textiles & clothing had not been satisfactorily addressed during the Tokyo Round. Therefore, they did not want new items added to expand the negotiation agenda (Lacarte Muró, 2005: Disc 2). While these concerns were important, the Round did proceed as planned but not without significant resistance. This chapter focuses on the role of developing countries in the Uruguay Round, particularly their increased participation and their impact on negotiations. The Round had a far more extensive agenda than previous Rounds and included the two primary issues remaining from earlier Rounds along with three new issues - Trade-Related aspects on Investment Measures (TRIMS), Trade-Related aspects on Intellectual Property Rights (TRIPS) and the General Agreement on Trade in Services (GATS). These ultimately led to a decade of contentious and intense discussions which was characteristic throughout the Uruguay Round, right to its final days.

It was not until a sufficient Agreement on Agriculture with a series of reforms was established with the US and EEC that India and Brazil eventually agreed to the 'single undertaking'. It became known as the 'North-South Grand Bargain', as titled by Professor Sylvia Ostry (Ostry, 2000: 1). This then led to the conclusion of the Round

through a strong 'demonstration effect' by developing countries that feared further isolation from the global trade regime if they continued to oppose the industrialized economies and did not submit to the contents of the Round itself. In essence, their opposition to the Uruguay Round does not suggest that developing countries were not active in its early days. Their opposition was in fact a form of participation that was best realized by stymying negotiations until progress was made that addressed their interests.

4.1 GATT Ministerial Meeting 1982

By the early 1980s many countries were experiencing increasingly negative economic impacts stemming from the changing global economy, the collapse of the centrally planned economy of the Soviet Union and its satellite states (which had already started to happen, even though the East Bloc was still firmly in place) and the impact of the oil shocks and subsequent Recession. Also, structural deficiencies in the GATT meant it could no longer address new issues including services, intellectual property and investment. This prompted a proposal to be put forth by the US in 1982 to launch a new Round. A Preparatory Committee was assigned to negotiate which issues would be included in the Ministerial Meeting; however, many developing countries were not pleased with the outcome. Most notable were Brazil and India, who were strongly opposed to the inclusion of the new issues (as listed above). The developing countries formed the G-24[45] group in hopes of weakening the US proposal because they believed

[45] **G-24**: Argentina, Bangladesh, Brazil, Burma, Cameroon, Columbia, Cote d'Ivoire, Cuba, Cyprus, Egypt, Ghana, India, Jamaica, Nicaragua, Nigeria, Pakistan, Peru, Romania, Sri Lanka, Tanzania, Trinidad and Tobago, Uruguay, Yugoslavia, and Zaire.

that previous issues, including textiles & clothing and agriculture, had not been adequately dealt with in the Tokyo Round. Developing countries stated that,

> There is little evidence to show that [a new Round] would reduce or eliminate the basic asymmetry in trade relations between developed and developing countries. There are however, indications that these negotiations would go far beyond the charter of GATT and divert attention to new themes alien to the jurisdictional competence of the General Agreement (GATT, 1985:3).

Weekes commented, "this led to a lot of resistance in the lead up to the Uruguay Round even though a series of efforts were made after 1982 to push for a new Round, mainly driven by the US with other developed countries as well as some developing countries which were linked. This made it difficult to establish agreements due to previous verdicts to launch the Round" (Weekes. Personal Interview. 12 April 2012).

Mounting opposition resulted in the threat by the US of entering into bilateral agreements similar to the one between Canada and the US under its Free Trade Agreement. Under Section 301 of the Trade Act of 1974 the US began to pressure the governments of various developing economies. It threatened that if they would not support its proposal to launch a new round of negotiations it would put in place unilateral import restrictions. This would severely and negatively impact developing countries, including India and Brazil (Wilkinson and Scott, 2008: 503).

The US and EEC were also embroiled in their own 'subsidy war' mainly concerning agricultural exports. Heavy subsidies on grain exports were introduced by the EEC in the

1970s and in 1985 the US put into place a countervailing program. This left developing country grain exporters in the middle with a decreasing market share as subsidies rose drastically (Preeg, 1995:95). The tension surrounding a new Round for both developing and developed economies as well as the strained relationship between the US and EEC made for a ministerial meeting which lasted nearly four years before the launch of the Round in Punta del Este, Uruguay. This was, in part, due to a number of exporting countries that became interested in the fundamental reform of agriculture, as noted by Michael Gifford[46] (Gifford. Phone Interview. 17 April 2012).

Gilbert Winham notes that the entire pre-negotiation process,

> succeeded in the end because of the widely held perception that failure to begin a new negotiation would have harmful consequences for the GATT regime and for the prospects for continued liberalization of international trade. Thus, crisis avoidance was an important motivation during both the early pre-negotiation period and the Punta-del-Este session. However, once the momentum in favour of a new negotiation had developed, the main motivation behind each delegation's activities became even more sharply focused as fear of being isolated and blamed for the failure of the special session. For example, most of the G-10 developing countries abandoned their head-line opposition to a services negotiation during the Punta-del-Este session, until only India and an increasingly uncertain Brazil were left. In the end, India found it impolitic to be isolated and it acquiesced…The actions of these countries, as well as others that withdrew amendments to the draft declaration, point up that even in a consensual regime majority rule still exercise a profound influence over political behaviour. What is avoided in consensual regimes are narrow votes to break deadlocks, which means that action is more difficult to achieve than in democratic regimes which operate on the basis of formal majority rule. However, the special session demonstrated that the will of a large majority can be ultimately persuasive in a consensual organization even in the face of a powerful and determined minority (Winham, 1989: 64-65).

[46] **Michael Gifford** was the former Canadian negotiator on agriculture during the Uruguay Round.

Mr. Jan Woznowski[47] said, "what ended up happening in order for the Round to occur were two side Meetings that were held parallel [to], but outside of, the Ministerial Meeting in the Efta building in Geneva" (Woznowski. Phone Interview. 12 July 2012). These meetings took place between the Ambassador of Chile and the Ambassador of Switzerland. He calls them the "Coffee and Milk Meetings" due to the major commodities of these two countries. He notes that the Uruguay Round was possible because countries broke into these two groups. In the Coffee group there was a collective opposition by developing countries, most notably from India and Brazil. At this point, however, developing countries had become quite desperate and in need of a new Round of negotiations to deal with the issues of agriculture and textiles & clothing that developed economies had previously left off the agenda. Consequently, developed and developing countries met to sort out an agreement. In the Milk group, the Ambassador of Switzerland told developing countries that if they did not join and participate then they would be left outside of the GATT. With that in mind, developing countries were fearful of not being included. The process was quite coercive, with the threat of exclusion being held over the collective heads of developing country governments. If they did not join, developing countries would have to apply to become a member in the newly created institution which would be one of the outcomes through an accession process (Woznowski. Phone Interview. 12 July 2012).

[47] **Jan Woznowski** served as Director of the Rules Division for the GATT and the WTO from 1991 until 2008. In the Uruguay Round, he served as Secretary of the Negotiating Group on Subsidies and Countervailing Measures and as Coordinator for the Rules area.

Even with the need for a new Round to ensure the future of the multilateral trading system, developing countries, especially India and Brazil, insisted that intellectual property and services should not be included on the agenda. Eventually, they cautiously agreed to their inclusion, in exchange for the inclusion of textiles and agriculture, the phasing out of the Multi-Fibre Arrangement and improved market access for textiles and clothing. This also led to the reduction of the G-24 to the G-10 after many developing countries' behaviour changed fearing future exclusion from the multilateral trade regime, a potentially devastating situation for their economies. This demonstrated that developing countries were active in negotiations and had some leverage at least in putting their agendas forward. As noted in a Ford Foundation Report,

> the success that developing countries had in influencing the launch of the Round demonstrated both to themselves and to the developed countries that, contrary to previous opinion, they could indeed exercise leverage in GATT agenda-writing negotiations. While the possibilities for further effective participation were still perhaps not fully defined, developing countries were sufficiently encouraged by these results to join actively in the next phases of the negotiation (Whalley, 1990: 40).

Finally, after four years of negotiating at the Ministerial Meeting the new Round began on 20 September 1986. This was the first time that a GATT negotiation took place in a developing country, as a result of former Ambassador of Uruguay to the GATT, Julio Lacarte Muró, putting forth a recommendation. Ambassador Lacarte Muró commented on the impetus behind the Ministerial Meeting where it was decided that the next Round be held in Punta del Este, Uruguay and explains why this location was chosen. He noted that,

> there was discussion as to whether the launching of the Round would take place in Brussels or in Canada. However, there was this confrontation between North

America and Europe. One night I was at a dinner at the Chilean Mission and a colleague of ours said why didn't I purpose the Round be held in Punte del Este. I said, I don't think why we should. We already have two strong candidates. Our colleague said, 'well you might think about it.' And so I began to reflect, and I realized that because North America and Western Europe were at 'logger heads' as it were, that maybe a third way out might be a good idea. So, after some reflection, I suggested that we have an alternative possibility.

So I presented this idea that never had a GATT Round been launched in a developing country and wasn't it time we should do so? And…little-by-little we began to take up votes from both developed and developing countries. At the beginning, not very many, but I think little-by-little people began to think one way out without causing conflict of having to choose between North American and Europe was going to make someone unhappy. In the end, after some careful thought we finally got our support. One crucial instant was the Scandinavian countries that spoke through a Swedish representative who made a balanced statement. The Swedish representative said, 'Canada was a great spot and so was Punte del Este in Uruguay, but maybe we should think of going further in the field.' This was a very discrete way of supporting us and after that statement support began to come in – everyone was satisfied. This led to the launching of the Uruguay Round in 1986 in Punta del Este, Uruguay followed by the Midterm Review in 1988 in Montreal and finally Brussels, where the Round was supposed to conclude (Lacarte Muró, 2005: Disc 2).

4.2 Prominent Areas of Negotiations

This was the most ambitious trade Round since the GATT's inception in 1947. New areas had been added beyond those of tariffs with the diversity of traded goods beginning to expand especially in the new areas of investment, intellectual property and services. Dealing with various issues in several categories allowed for greater discussions (and trade-offs) within the negotiations themselves. There were three Trade Negotiation Committees (TNCs) that were established in the Uruguay Round. These committees set the structure of the negotiations for the Round. They were: the Surveillance Body, the Group of Negotiations on Services, and the Group of Negotiations on Goods (GNG).

Within the GNG, fourteen other groups were established, each with a group Chair. These groups are shown in Table 4.1.

Table 4.1 Negotiation Groups and Chairs in the GNG

Negotiating Group	Chair
Tariffs	N/A
Non-Tariff Measures	N/A
Natural Resource-Based Products • Metals and Minerals • Fishery and Forestry Products	Mr. Lindsay Duthie (Australia)
Textiles and Clothing	N/A
Agriculture • Working Group on Sanitary and Phytosanitary Regulations & Barriers	Mr. Aart de Zeeuw (Netherlands)
Tropical Products	Mr. Paul Leong Khee Seong (Malaysia) Vice Chairman: Mr. Siaka Coulibaly (Côte d'Ivoire)
GATT Articles	Mr. John Weekes (Canada)
MTN Agreements and Arrangements	Dr. Chulsu Kim (Republic of Korea)
Safeguards	Mr. George A Maciel (Brazil)
Subsidies and Countervailing Measures	Mr. Michael D. Cartland (Hong Kong)
Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods	Mr. Lars. E. R. Anell (Sweden)
Trade-Related Investment Measures	Mr. Tomohiko Kobayashi (Japan)
Dispute Settlement	Mr. Julio Lacarte-Muró (Uruguay)
Functioning of the GATT System	Mr. Julio Lacarte-Muró (Uruguay)

Source: (Bhagwati, 1991: 141-142)

As noted, there were several areas where developing countries had serious issues and reservations. High on the agenda was establishing a rules-based institution that minimized the power politics that had hampered trade relations between developed and

developing countries since the Second World War. As noted by Mr. Andrew Stoler,[48] "the most important issues for developing countries in the Uruguay Round negotiations were: 1) ensuring that the new system prevented unilateral trade actions by the US (Section 301), 2) ending the system of [protection for] textiles & clothing, 3) avoiding the possibility of cross-retaliation between goods, services and intellectual property rights, and 4) for some, like the Latin Americans, meaningful reforms in agriculture" (Stoler. Email Interview. 20 June 2012).

Three new topics were added to the GATT for this Round: investment, intellectual property rights and services. These became the most contentious issues and proved difficult during negotiations. Carlos Fortin[49] commented that,

> in terms of investment, developed countries wanted to liberalise the movement of capital globally; developing countries wanted to retain the ability to set conditions for allowing in foreign investors and to exclude them from certain areas. Services and intellectual property were make-or-break objectives for developed countries. Eventually, compromises were reached that allowed those two to go ahead with major concessions: in services, the "positive list" approach; in TRIPS, national implementation and the right of governments to decide on exhaustion of rights. Investment did not go through, except for a limited agreement on trade-related investment measures (TRIMS) applicable to both foreign and domestic investors. Finally for services, developed countries were very keen on having an agreement. They argued that services accounted for two thirds of global GDP and its international trade was growing rapidly; they wanted access to the services markets of the rest of the world. Most developing countries were worried that liberalising trade in services would mean that foreign companies could dominate their public utilities sectors, which are politically sensitive (Fortin. Email Interview. 17 August 2012).

[48] **Andrew Stoler** was the principal US negotiator for a wide range of WTO Agreements. Some include: the Trade Policy Review Mechanism, the Marrakesh Agreement establishing the WTO and other institutional issues, including aspects of the final text of the Dispute Settlement Understanding. He served as the US Deputy Head of the Mission for several years during the Uruguay Round.

[49] **Mr. Carlos Fortin** is a research associate at the Institute of Development Studies at the University of Sussex, UK and served as the Deputy Secretary-general of UNCTAD from 1990-2005.

4.3 The Ability to Negotiate and Find Consensus

Prior to the Uruguay Round, most developing countries refused reciprocal bargaining[50]; during the Round, however, they began to use this method in negotiations because by its beginning, the US was insistent that all developing countries use it to participate. (Panagariya, 2008: 278-279). Previously, developing countries opted out of reciprocal bargaining and relied upon their special provision under Part IV of the GATT on 'Trade and Development.' As discussed in the previous chapter, this section provided a waiver granting them 'special and differential treatment' under the General System of Preferences (GSP) which was further developed in the Tokyo Round under the Enabling Clause permitting them partial trade preferences in their trade relations with the developed economies (Panagariya, 2008: 278). However, this method was challenged by the US leading up to the Uruguay Round, insisting that reciprocal bargaining be used by all countries and then introducing new issues to the agenda**.**

At that time, the US proposed that both trade in services and intellectual property rights be added to the Uruguay Round agenda. These issues were very important to both them and the EEC. The US wanted to ensure that patents and trademarks were enforced and copyright laws were applicable in all countries of the GATT. India and Brazil were adamantly opposed to this. India was also not yet prepared to deal with the inclusion of services as it feared this step would open the door to foreign investment. However, by the time the Uruguay Round was launched, trade in services was put on the agenda but on

[50] **Reciprocal Bargaining:** "is the principle that nations must extend to others trade benefits that are equivalent to those extended, with equivalence usually determined by negotiation" (Moon, 2000: 258). This was a give-and-take approach in negotiations.

a distinctively different negotiating path. This was an area where countries could opt-out and not sign the agreement, which was separate from the 'single undertaking' approach for the remaining issues on the agenda. All other areas had to be accepted or rejected in their entirety, some of which included the MFA, agriculture and intellectual property rights (Panagariya, 2008: 278-279).

The 'single undertaking' method that was employed made the Uruguay Round different from other previous rounds. As noted by Anna Lanoszka, it was critical to the outcome of the Uruguay Round. Lanoszka commented that, "different interpretations of initial expectations about the outcome of negotiations led to many conflicts and some surprise developments, like the one concerning the principle of single undertaking. Although at the beginning of the Uruguay Round negotiating parties accepted the premise of single undertaking with respect to trade in goods, very few of them would initially consider that it could entail the establishment of a comprehensive and unified legal WTO framework on all issues for all countries. However, this would be its eventual role in the new organization" (Lanoszka, 2009: 52-53).

The most crucial event for the single undertaking approach was the Dunkel Final Act by the Director-General, Arthur Dunkel, extending the approach to all areas of negotiations in December 1991 after years of lengthy and conflictual negotiations. The text of the Dunkel Draft highlighted where significant advancement had been made in negotiations and where progress was still needed (Lanoszka, 2009: 53). Therefore, the Dunkel Final Act was not considered finalized or complete until all parties agreed through the single

undertaking of the Uruguay Round. The importance of this approach was to ensure that negotiations led to greater predictability in the GATT trade regime as well as unity amongst the Contracting Parties (Lanoszka, 2009: 53). Furthermore, as Lanoszka points out, it was to ensure that the GATT/WTO would be, "universal, effective and transparent" (Lanoszka, 2009: 53).

Under this approach, all countries had to accept the entire package via negative consensus.[51] This allowed a level of equality within the system which had not been previously embraced. As noted by Pérez del Castillo, "the single undertaking was a very important issue since it protected developing countries from losing ground in all the issues negotiated separately, instead of obtaining a balanced global result. Creation of the WTO and its new dispute settlement mechanism was crucial for developing countries because it provided a new structure with more certainty and possibility to solve trade related conflicts with major trading partners with effective and binding decisions" (Pérez, del Castillo. Email Interview. 9 August 2012). As pointed out by Carlos Fortin, "the DSM question was also nuanced; the move toward a more judicial approach was welcome, but at first there was insistence on a commitment by developed countries not to use unilateral measures that circumvented GATT Rules, a point not accepted by developed countries and later abandoned by developing countries. The question of the creation of a new institution only came up late in the process and developing countries by and large supported the idea" (Fortin. Email Interview. 17 August 2012). The only

[51] **Negative Consensus:** a process by which countries do not directly vote per se, rather they do not demonstrate any opposition to the outcomes of negotiations.

exceptions to the Uruguay Round's single undertaking approach, where consensus was not required, were in a set of four plurilateral agreements: government procurement, civil aircraft, bovine meat and dairy products (WTO, http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm10_e.htm).

4.4 Montreal Mid-Term Review of 1988

At the mid-term review held in 1988 there was pressure from developing countries to secure reforms and an agreement on agriculture. The Cairns Group, an issue-specific interest body comprising of both developed and developing countries accounting for over 25% of the world's global trade in agricultural products, pushed this issue forward during the Uruguay Round (Cairns Group, http://cairnsgroup.org/Pages/Introduction.aspx) and Higgott and Cooper, 1990). The members of this group of nineteen countries were and remain: Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand and Uruguay. It was originally established in 1986 in an attempt to deal with the issue of distorting trade subsidies in agriculture. Their goal was to liberalize agricultural trade and obtain improved market access while eliminating trade distorting export subsidies in the amber box[52] of domestic support. As their vision statement notes, the Group has had three objectives: "deep cuts to all tariffs (including tariff peaks) and removal of tariff escalation, the elimination of all trade-distorting domestic subsidies and

[52] See Amber Box in Appendix I, pp. 261.

the elimination of export subsidies, and clear rules to prevent circumvention of export subsidy commitments" (Cairns Group, http://cairnsgroup.org/Pages/Introduction.aspx).

During the mid-term review session, countries led by Argentina, Brazil, Chile and others especially from Latin America, told the US and EEC that unless an agreement on agriculture was reached they would not agree to a deal (Gifford. Phone Interview. 17 April 2012). Gifford commented, "as always developed countries, particularly the Quad, wanted to leave agriculture off the table. This time Latin America said that there would be no deal on the 'new issues' they wanted addressed unless agriculture was addressed. Not only was it the Cairns group that was pressing the US and the EEC this time but also heavily the Latin American countries" (Gifford. Phone Interview. 17 April 2012).

As a result of the infighting between the developed and developing countries and opposition by the Cairns group and Latin America, Weekes pointed out that, "during the negotiations, both Latin America and the Cairns group, led by Brazil at this point, walked out of negotiations. Negotiations at an impasse included: intellectual property, textiles & clothing and services. Two years later in Brussels, where the Uruguay Round was supposed to come to close, discussions collapsed again. This caused considerable tension and the Director-General of the GATT, Arthur Dunkel, stepped in since these negotiations items were now beyond the scope of the GATT" (Weekes. Personal Interview. 12 April 2012).

4.5 Informal Meetings and The Dunkel Draft of 1991

The Uruguay Round was intended to be wrapped up and signed off by the Contracting Parties before December 1990. This did not occur since issues had not been resolved to the fullest extent possible; therefore, all parties would not form a consensus under the principle of the single undertaking. As a result, Arthur Dunkel[53] decided to hold informal meetings between invited countries. Some occurred in the Green Room (so-called because they took place in a room in the GATT building that was in fact green in colour) and some at his personal home in Geneva. As noted by Anwarul Hoda[54], "nothing can be accomplished in negotiations without informal meetings among small numbers of representatives. In many cases negotiations are held in concentric circles, with the smallest group in the beginning and with the largest at the end. Uruguay Round was no different. Some of the informal talks were held in the Green Room" (Hoda. Email Interview. 27 August 2012).

Similarly, Fortin notes that, "informal meetings and contacts played a major role in the Uruguay Round. In fact, the usual way in which difficult issues were dealt with was through meetings of interested delegations, whether bilateral or group, either to agree on joint negotiating positions or to negotiate with countries/groups holding opposite views.

[53] **Arthur Dunkel**, a Swiss national, was educated at the Graduate Institute of International Studies in Geneva and was the Director-General of the GATT in the Uruguay Round.

[54] **Anwarul Hoda**: During the period 1974-81 and again 1985-93, he worked in the Government of India in the Ministry of Commerce and the last post he held was Special Secretary in the Ministry. Throughout this period his main responsibility was multilateral trade negotiations under the auspices of the GATT. He was the Chief Policy Coordinator in the Government of India during the Uruguay Round (1986-93). In 1993 he was appointed as Deputy Director General for the Interim Commission for the International Trade Organization (ICITO)/GATT and in 1995 he assumed the position of Deputy Director General, World Trade Organization

The Green Room meetings, which were started in 1980 by Arthur Dunkel, were called by the Director-General himself, and would involve the main trading countries and other countries interested in a given issue, usually some twenty in all. Attendance would be by invitation only. Agreements reached there would then be submitted to the rest of the membership for consideration; they were usually endorsed. The format was extensively used during the Uruguay Round" (Fortin. Email Interview. 17 August 2012).

As stated, while Dunkel hosted informal meetings in the Green Room in Geneva, he also had dinners at his home. Weekes noted that,

> he hosted dinners at his home and during the Uruguay Round they occurred about once every six weeks, one a month, or every two or three months. Twenty to thirty people would be invited to his enormous table but only the heads of the delegations were privy to such an invitation. During one of the dinners, the head of the US delegation was unable to attend and Dunkel refused to have the second-in-command attend as he noted that there would be no substitutions for these discussions. For the dinner topics, he had selected those that would be addressed in an attempt to breed comradery so people would get to know one another better. One question that he asked was, 'how do you house results for services and property? The answer was to create Councils which now report to the General Council.' Having established a group identity among these elites helped to establish agreements. The role of informal meetings was crucial and a major part of negotiations; where it was a place to exchange ideas which could ultimately change perceptions (Weekes. Personal Interview. 12 April 2012).

Weekes was invited to one of the dinners as he was the Canadian Ambassador at the time of the Uruguay Round. Additionally, he commented that one of the reasons that the Doha Round may have failed is because Director-General Pascal Lamy did not hold similar informal meetings. While informal meetings were crucial for the negotiations, it is important to note that they were a disadvantage to developing countries without

negotiating teams in Geneva, who missed out on opportunities to attend or were not able to afford it.

The results of these informal meetings during 1990 and 1991 resulted in the "Dunkel Draft Final Act of 1991" (15 December 1991) which outlined the draft of the first final legal document. This was developed by negotiation officials as well as the Director-General and was presented in Geneva in 1991. With only one exception, it fulfilled the original Punta-del-Este mandate. As noted by the now WTO, "it did not contain the participating countries' lists of commitments for cutting import duties and opening their services markets. The draft became the basis of the final agreement" (WTO, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact5_e.htm).

4.6 The Blair House Accord

In the years following 1990, the US and EEC met in Washington to discuss their differences over agriculture, subsidies and market access. Both parties were very firm in their positions. In 1992, however, they were able to work out an agreement which was outlined in the Blair House Accord. John Curtis[55] commented that, "by 1992, when the US and EEC signed the Blair House Accord, it was a signal to the rest of the world that the jig was up. It was time to sort out topics yet to be resolved and conclude the Uruguay Round negotiations. All offers given needed to be finalized so all parties could be in agreement. In helping to bring about consensus, the Quad showed significant influence

[55] **Mr. John Curtis** was the former Canadian negotiator for the agreement on Trade-Related Investment Measures (TRIMS) and also an expert on intellectual property.

on developing countries by putting pressure on them to reach an agreement" (Curtis. Personal Interview. 13 April 2012).

4.7 Five Key Negotiation Areas and the Resulting Uruguay Round Agreements

4.7.1 Textiles & Clothing

Intended to be a short term fix, the Multi-Fibre Arrangement (MFA) was established in 1974 and was to allow for the adjustment of import quotas by developed countries which did not, in most cases, hold a comparative advantage in the production and exportation of textile products. This is mainly because labour costs were considerably lower in developing countries. Although it did provide some form of market access to developed economies' markets, this agreement was proving harmful to developing countries who were exporters of textiles and clothing. Notable exceptions to this negative impact were LDCs that, as former European colonies, traded with the EEC under the Lomé Convention[56] with provisions that restrictions on African, Caribbean, and Pacific (ACP) countries' textile imports did not occur.

Following the creation and institutionalization of the WTO in 1995, the MFA was to be phased out over a ten-year period. For developing countries this was intended to be a

[56] **Lomé Convention**: first negotiated in 1976 (and again four more times until 1999) between the European Economic Community (EEC) and the African, Caribbean and Pacific (ACP) Group of States which outlined two main objectives. First, it sought to allow most mineral and agricultural exports to enter the EEC duty free. Based on a quota system, beef and sugar exports from ACP states were granted preferential access from the ACP Group of States. Second, the agreement outlined the EEC commitments to aid in investment in ACP countries.

considerable benefit. As noted by Ambassador Luzius Wasescha,[57] "phasing-out the MFA was a very important deal for developing countries. They agreed to the single undertaking so long as the MFA was done away with. Additionally, it impacted another negotiation which was the inclusion of discussions surrounding intellectual property. This was a trade-off between the developed and developing economies and a major deal of the Uruguay Round" (Wasescha. Phone Interview. 22 May 2012). However, T.N. Srinivasan highlights that under the MFA, textiles and clothing had quotas imposed that were negotiated bilaterally between two countries. This was in direct violation of the GATT principle of non-use of quantitative restrictions and non-discrimination. He further states that,

> phasing out a violation of GATT principles cannot possibly be viewed as a concession of developing countries to which they have to respond by granting their own concessions, even if one accepted the mercantilist illogic of GATT negotiations. Second, even if the phase out is heavily back-loaded, products accounting for as much as forty-nine percent of the value of 1990 imports could still be under quota restrictions as of 31 December 2004, just before the phase-out. Third, after the phase-out, quotas by the industrial countries; would still retain significant tariff barriers on their imports of textiles and apparel (Srinivasan, 2002: 28-29; UNCTAD, 1991; Trade and Development Report, 1999).

The outcome was thus hard to interpret as a 'win' for all developing countries. For example, countries which did not produce textiles and clothing did not realize the considerable benefits that removing associated quantitative restrictions were designed to achieve. Also, trade distortions still exist in this area today. As noted by Patrick Love and Ralph Lattimore, "countries that cannot use quotas to protect national industries may use tariffs instead, and the tariffs levied on textiles and clothing by some Organization for Economic Cooperation and Development (OECD) countries remain relatively high"

[57] **Ambassador Luzius Wasescha** is currently Switzerland's Permanent Representative to the WTO.

(Love and Lattimore, 2009: 4). This is still a significant barrier to trade for many developing countries who export textiles and clothing.

4.7.2 Agriculture

Of all the issues addressed during the Uruguay Round negotiations, reforms to trade in the agricultural sector were the most challenging for developing countries. As noted by Robert Hudec, for the majority of developing countries and LDCs, the agriculture sector accounts for the bulk of their production and is a significant employer of a substantial majority of their poor citizens (Hudec, 1987: 108). A primary consideration for developing countries is therefore maintaining a comparative advantage in this sector. However, high levels of subsidization by developed countries to their domestic farmers' severely hurts developing countries' exports due to a lack of market access (Hudec, 1987: 108). The issue had not been adequately dealt with in previous Rounds and, for that matter, had been left outside of the GATT. Historically, agriculture has been a contentious issue. The issues with agriculture date back to the 1950s when Professor Gottfried Haberler and his Panel of Experts were commissioned to review the GATT. The Haberler Report of 1958 recommended that direct supplementary payments replace price support but, nearly thirty years later reforms to this area of trade remained uncompleted. Leading up to the Uruguay Round, developed countries were still less interested in dealing with this issue since their producers benefited from high levels of protection and subsidization.

During the Uruguay Round, the Agreement on Agriculture (AoA) was negotiated to come into force as an international treaty 1 January 2005. It is comprised of three pillars:

Pillar One was on the topic of 'domestic support' which was outlined in three 'boxes': Amber, Blue and Green (see Appendix I). Each of the three types of boxes was designed to classify different types of subsidies impacting trade and production. The *amber box* had trade distortions, the *blue box* had minimal distortions and the *green box* had no distortions. The most important issue was in paragraph 1 of the AoA. In terms of the change to domestic support, farm subsidies would be reduced by 13.3% in developing countries and 20% in developed countries. Over a six-year time period, agricultural export subsidies were to be reduced by 36%. Sandiford notes, this was "below the base period of 1986-1990 and the quantity of subsidized exports must be cut by 221 per cent" (Sandiford, 1994: 5). In regard to agricultural imports, non-tariff measures were to be replaced by tariffs over a six year period for developed countries. Conversely, in developing countries these tariffs on agricultural imports would be reduced by only 24%. It was expected that food-importing countries would benefit least from these changes since they would be disadvantaged by price increases caused by the import tariffs. However, countries in the Cairns Group were likely to prosper (Sandiford, 1994: 5).

Pillar Two focused on the need for improved and increased market access. The goal was to reduce both tariff barriers and non-tariff barriers to trade. As noted by Hudec, "states were permitted some flexibility in terms of the reductions in protection on specific products. The requirement of average tariff reductions equal to 36% of the original tariff

allowed for significant protection to be retained in particular products. The Uruguay Round Agreement on Agriculture specified a 20% reduction in domestic support, but this global reduction allows the maintenance of high levels of support on specific commodities…The Agreement on Agriculture contained the "green box" of exempt support instruments, defined as those with no, or minimal, trade distortion effects or effects on production" (Hudec, 1987: 108-109).

Finally, Pillar Three dealt with developed countries and their reduction in export subsidies. This did not apply to developing countries since they were granted special and differential treatment, only having to reduce export subsidies to 24%. As noted by Hudec, LDCs are exempt from all requirements (Hudec, 1987: 109). Even though this issue was addressed in detail in the Uruguay Round, many distortions continue as export subsidies remain a significant challenge to developing countries' struggling and financially volatile economies. This is most evident in the area of agricultural subsidies that developed economies provide to their domestic farmers. These may allow their farmers to sell their products at a far lower cost which may in turn make it less expensive for developing countries to import these agricultural goods rather than producing their own for use and export at a higher cost. This ultimately undermines this part of their domestic economies where they traditionally held a comparative advantage. Jennifer Clapp noted that,

> the high levels of agricultural protectionism in the OECD countries had especially harmful effects in the Global South. Years of excessive subsidies and other forms of protection drove down commodity prices for basic staples like rice, maize, and wheat, out-competing local production in developing countries, threatening local livelihoods and harming export income. Many developing countries, including most of Africa became net food importers by the 1980s (Clapp, 2006: 5-6).

4.7.3 Trade-Related Investment Measures (TRIMS)

TRIMs apply to foreign investors and industrial policy that forms domestic regulations on investments. These agreements further enable international firms to operate in the global market as a result of the restrictions placed on domestic firms' preferences. The outcome of the Uruguay Round on TRIMS is provided in one of the shortest documents, as pointed out by Matus Baeza who was on the Committee for TRIMS. "At the time of developing a new institutional framework, there was no clear appetite to include investments as a whole. For developing countries foreign investment provides aid into their countries as well as industry. However, Europe and France and many other developed countries did not want to concede sovereignty in the areas of TRIMS. This began to change though as the Uruguay Round progressed" (Matus Baeza. Skype Interview. 29 June 2012). Fortin commented that, in terms of investment,

> developed countries wanted to liberalise the movement of capital globally; developing countries wanted to retain the ability to set conditions for allowing in foreign investors and to exclude them from certain areas. Services and intellectual property were make-or-break objectives for developed countries. Eventually, compromises were reached that allowed those two to go ahead with major concessions: in services, the "positive list" approach; in TRIPS, national implementation and the right of governments to decide on exhaustion of rights. Investment did not go through, except for a limited agreement on trade-related investment measures (TRIMS) applicable to both foreign and domestic investors (Fortin. Email Interview. 17 August 2012).

For developed countries, all non-conforming TRIMS items were required to be eliminated within two years of the agreement's implementation. This was extended to five years for developing countries and seven years for LDCs (WTO, http://www.wto.org/english/docs_e/legal_e/ursum_e.htm#eAgreement). Although these prescriptive timelines were put in place it was difficult to apply to 'all' developing

countries and LDCs. A case-by-case analysis was better suited to deal with the interests and needs of different countries since many were at vastly dissimilar levels of economic development. A one size fits all approach to TRIMS would not prove effective so a way to deviate from specific articles was also implemented. The Agreement noted that a developing country Member shall be free to deviate temporarily from the provisions of Article 2 [of the GATT] under given conditions (GATT, TRIMS Agreement, 1994: 140, http://www.wto.org/english/docs_e/legal_e/18-trims.pdf).

4.7.4 Trade-Related Aspects of Intellectual Property Rights (TRIPS)

TRIPs were one of the most difficult areas in the negotiations. India was strictly opposed to its inclusion until the later years of the Round. It was not until the 1990s that developing countries began to realize the potentially positive resolution this could provide to protect legal rights and procedures which previously did not exist in an international context. For example, in the case of India this would protect the intellectual property associated with their Bollywood movie industry from being copied similar to the protections experienced by Hollywood in the USA. Sylvia Ostry points out that, "the TRIPS agreement is the most radical example of the shift in policy to positive regulation of both substantive policy and legal procedures and hence institutions" (Ostry, 2000: 18). Prior to the TRIPS agreement, there were no international laws on patents, copyrights or licensing and therefore, developed economies wanted to ensure that their products, such as pharmaceuticals, could not be copied. Topics included in this most comprehensive agreement on intellectual property to date were: patents, trademarks, industrial designs, performers' rights, microchip layout designs, trade secrets, and geographical indications

(Sandiford, 1994: 5). The agreement was heavily supported by developed countries including the US, the EEC and Japan.

Developing countries were particularly opposed to this agreement, fearing it would hinder technological development because within their local systems they would import technology from abroad during their industrialization period. Also of concern was the likelihood that major corporations would acquire most of the world's patents, increasing both licensing fees and royalties. Competition would be restricted and would increase the price of many products under the new rules. Prices of products could grow beyond the cost to produce them as a result of increased profits and monopoly revenues. This would allow for rents to accrue (Khor, 2000: 26-27). Khor notes that this would be most evident in the case of computer software (Khor, 2000: 27).

In almost all developing countries many products were still exempt from patent laws, including those related to medicines and other essential products as well as agriculture. With the new TRIPS agreement, all products would be subject to universal rules in items that fall under intellectual property. This would likely and radically increase prices in the area of pharmaceuticals for example. India is a major pharmaceutical producer and makes these products much less expensively than developed country producers. This is one of the major reasons it was opposed to including intellectual property in the Uruguay Round. Panagariya notes that, "including intellectual property in the Uruguay Round was a major concern for India and a major concern for developing countries in general. Under TRIPS this would ensure product patents would protect various sectors, including

pharmaceuticals, and India would no longer be allowed to be the cheapest producer in the world" (Panagariya. Phone Interview. 21 May 2012). The US was insistent on inclusion of intellectual property provisions in the Agreement because they also produced pharmaceuticals and did not want what they regarded as 'unfair' competition with India as it would undermine its manufacturing sector of these products.

As noted by Khor, another issue for India is in the area of seeds used by farmers. In India, there is a traditional practice where seeds are saved by farmers annually and the ones that are not used can be used next season. Under the new rules, however, this would become a banned practice and the company's patent rights would be protected, resulting in Indians having to purchase seeds annually, therefore significantly increasing their costs (Khor, 2000: 27).

In the end, after intense negotiations, the most significant 'grand bargain' within individual negotiations was made in the area of TRIPS. India, along with all other developing countries, agreed to the intellectual property agreement in exchange for reforms made to agriculture and phasing out the Multi-Fibre Arrangement by 2005. Wasescha commented that, "this was the most significant compromise of the entire Uruguay Round. The trade-off between TRIPs and the phasing-out of the MFA in the final days of the Uruguay Round ensured the multilateral trade regime remained" (Wasescha. Phone Interview. 22 May 2012). It was a substantial outcome to have the issues finally included that had previously been left off the agenda in trade negotiations, including agriculture and textiles & clothing. In reality, however, the commitments made then have yet to be fully realized to this day. Significant trade distortions remain in place

and have only been re-categorized or classified under a new name. Formerly in the shape of quantitative restrictions on imported textiles and clothing commodities, barriers now take the form of import tariffs. This continues to act as an obstacle to trade for those developing countries which are directly impacted by the commodities involved. While they considered this a 'bargain' at the time, it did not materialize into the 'equitable' one which was promised to developing countries.

4.7.5 General Agreement on Trade in Services (GATS)

The General Agreement on Trade in Services resulted from Uruguay Round negotiations and came into effect between all signatories of the GATT in 1995. At the time, developing countries were opposed to this new area being included for a specific reason. Curtis commented that, "developing countries did not want services included in the GATT because they are regulated in their economies and cannot be free trade" (Curtis, Personal Interview. 13 April 2012). Furthermore, Ambassador John Gero[58] notes that, "developing countries also did not want services included because they did not want regulation or control over their distribution services," and that "India was strictly opposed to services being included due to copyright laws since they had the second largest movie industry in the world and were opposed to patents because of emerging drug companies. Plus they did not have to have their distribution services included" (Gero. Phone Interview. 10 May 2012). In terms of developing countries' banking industries, Lampreia noted that, "developing countries were worried that the liberalization of services would exploit their banking industry and had a defensive attitude towards an international presence" (Lampreia. Skype Interview. 21 May 2012).

[58] **Ambassador John Gero:** Canada's current Ambassador and Permanent Representative to the WTO.

Services were an area in which developing countries experienced significant pressure to liberalize but there were potential uncertainties and difficulties that they could experience by adopting a trade in services agreement. As such, they were concerned that it would harm the day-to-day business activities of their local enterprises due to intensified foreign competition. They also felt that a corporation could come to dominate certain service sectors making developing countries less competitive once these corporations were situated within their market (Khor, 2000. 26). Chakravarthi Raghavan, Chief Editor of the South-North Development Monitor (SUNS), notes that the cost associated with liberalizing trade in services and the measured benefits are not able to be assessed due to a lack of accurate and complete data (Raghavan, 2002). Furthermore, one of the main concerns for developing countries was being internally uncompetitive with the larger global economies with vast amounts of service exports.

Leading the opposition, India eventually relaxed its approach and gradually came to accept the liberalization of foreign investment, as did other developing countries. Panagariya stated that, "in the case of India, they legalized foreign investment and allowed for an international commercial presence. The US agreed to temporary work visas for 65,000 persons; however, there was a fear that individuals would not be able to pay the fees of two to three thousand dollars" (Panagariya. Phone Interview. 21 May 2012).

There was an advantage for developing countries in the GATS that emerged through technological changes. Cross-border trade-in-services by electronic delivery would prove

beneficial to them, even though they were unaware of it at the time of the negotiations. This is particularly obvious in India where there are numerous call centres that have been outsourced by businesses in developed countries, creating jobs and leading to greater economic development. Developing countries' exports in this area will increase even if other barriers to trade are not removed since there are few restrictions imposed on this type of service (Hudec, 1987: 110).

The fact that some services are infrastructural is an ambiguous area for developing countries. This is evident with financial services and telecommunications, where local industries could be challenged by competitive foreign-service providers (Hudec, 1987: 110). This was a grey area that could become an issue for developing countries as further liberalization continued and was particularly important to the US as they brought heavy pressure to bear upon developing countries in negotiations. As noted by Collins-Williams, "the US were adamant that this new issue be included so the US-based financial services and international insurance companies could expand their markets" (Collins-Williams. Personal Interview. 12 April 2012).

However, developing countries realized shortly after the Uruguay Round that they were becoming increasingly competitive in this sector. This was especially true in terms of international call centres that had been outsourced to many developing countries in the early 1990s and 2000s. As noted by Andzelika Kuznar,

> low and middle income economies are competitive in services. Together they account for 70% of adjusted services and many of them achieve very high rates of revealed comparative advantage in certain sub-sectors. They are particularly competitive in labour-intensive activities, such as transport, tourism, construction,

> but due to technological advances in communication and computer related industries they increasingly participated in more sophisticated service trade, benefiting from highly skilled, well-educated and still cost-competitive labour (software programming, business, professional and financial services) (Kuznar, 2004: 15).

After a tough round of negotiations, developing countries changed their position in exchange for phasing out the MFA and reforms in agriculture. At the time they (and other parties) did not have a thorough understanding of some of the potential benefits of increasing their trade volumes in this new area. Abbott commented that, "at the time of the Uruguay Round for example, India was unaware and did not take on board how interesting the liberalization of trade in services would be for their economy. Now they are looking at the offshore provision of services, increasing the movement of persons and expanding their international trade. Today, India ranks number five in terms of world trade in services and is developing a growing education system" (Abbott. Skype Interview. 29 May 2012).

4.8 Uruguay Round Participation by India, Brazil and Kenya

In terms of levels of participation during the Uruguay Round many developing countries were very active in negotiations, most notably Brazil and India. As pointed out by Fortin,

> Brazil and India were extremely active and quite influential in the negotiations leading to the launching of the Uruguay Round in 1987 and throughout the Round itself. Kenya was much less active and had essentially negligible influence. All three took part in a meeting in New Delhi in March 1990 in which 18 developing countries agreed to coordinate positions in the Round. Brazil and India took a comprehensive view and were interested and participated in all issues in the Uruguay Round. If one were to single out some special themes of interest to them, they could be services, intellectual property, investment, agriculture. Their overall substantive approach was a cautious one, pointing to the potential drawbacks of

> unilateral liberalisation and stressing the need to emphasise development as an objective of the Uruguay Round; in terms of negotiating strategies, they went for collective action, trying to mobilise other developing countries around common themes and interests. The so-called Group of Ten that they animated was instrumental in reaching the final compromise approach to the services agreement. Kenya joined the Group of Ten and was active in discussions about the retaining of preferences for former colonies; again without very much influence. India and Brazil were also influential in introducing changes to TRIPS in favour of developing countries' efforts at acquiring technology. It was said at the time that the negotiations on TRIPS were essentially a US-EEC vs. Brazil-India affair (Fortin. Email Interview. 17 August 2012).

Delegations in Geneva were very different in terms of strength in negotiation teams as well as influence in negotiations. For example, Fortin notes that when he was in the South Centre Organization,[59] several discussions took place with both the Indian and Brazilian negotiators in 1988. This carried forth into the 1990s when Fortin moved to UNCTAD and his advisory role to developing countries on trade-related issues continued (Fortin. Email Interview. 17 August 2012). However, since the Indian and Brazilian delegations were already highly trained and educated, they did not specifically require technical advice from UNCTAD or anyone else at that time. As Fortin noted, "their teams were highly knowledgeable, clear-minded and experienced in negotiations" (Fortin. Email Interview. 17 August 2012). However, Fortin remarked that this was not the case for many other developing countries, including Kenya, as few interactions

[59] The **South Centre Organization** is an intergovernmental policy think tank of developing countries headquartered in Geneva, Switzerland. It holds Observer Status with the United Nations and also other international development agencies in order to both encourage and enhance South-South cooperation, collaboration and foster greater relationships between the South and North in areas of economics, politics, security and sovereignty.

occurred with their negotiators. The involvement in discussions of smaller, recently independent developing countries as well as LDCs was severely limited, if it occurred at all (Fortin. Email Interview. 17 August 2012).

Looking at the three case studies, depending on their type of market, each had different areas that played significantly into how they participated in negotiations. As noted by Anwarul Hoda,

> in taking a view on the Uruguay Round issues the most important consideration for officials and technocrats was whether the existing legal and economic environment in India allowed changes sought by the developed countries to be made in the country. For instance India resisted the inclusion of services in the negotiations because many of the important services such as public telecommunications, insurance and civil aviation were nationalised, and private and foreign investment in them was not permitted. Unless the domestic policies changed first there could be no question of participation in negotiations on allowing foreign investment in these sub-sectors. The thinking of officials and technocrats was that the initiative for change in the policies had to come from within the country. This is what happened eventually, and this is what made it easier for the country to agree on the Uruguay Round accord (Hoda. Email Interview. 27 August 2012).

Both India and Brazil were initially strictly opposed to and resisted the broadening and scope of the GATT to include intellectual property rights and trade in services. Their commonality on these two issues caused major tensions in negotiations and made discussions long and tedious. For India and Brazil, the negotiations on liberalization of agriculture were of uppermost importance. Hoda commented that, "India supported liberalisation of agriculture by the developed countries but sought flexibility in the trade and support policies of the developing countries. India had a strong interest in the phase out of discriminatory restrictions on textiles and in the negotiations of a safeguard

agreement. Another subject in which India had a strong interest was the negotiation of the rules for balance-of-payments safeguards" (Hoda. Email Interview. 27 August 2012).

In examining the case of Kenya with respect to this study, in none of the three new areas of intellectual property, services or investments did they have a clearly defined or strong position. While more developing countries joined the Uruguay Round, it was still heavily dominated by developed economies and the most advanced developing countries, both with stronger economies and clearly defined interests; more advanced and developed technical capacity and more highly educated negotiators. These countries had already established their trade delegations in Geneva and exuded more bargaining power and influence than the smaller and less developed countries of the global South.

While all negotiation areas played a role in the varying levels of developing countries' participation, so too did the levels of education and experience within the delegation, their technical capacity, access to financial resources to be in Geneva for the Round and the developmental stage of the country. Countries with more robust developing economies and strong negotiating teams, such as India and Brazil, had considerably more weight than, for example, Kenya. That being said, both India and Brazil had several years of experience in negotiating in GATT rounds since 1947. Even in 1947 India had 36 delegates in Geneva and Brazil had 31. By the time of the Uruguay Round in 1986, these individuals were government officials and trade policy experts who had held specialized trade positions for several decades. This was demonstrated by the

interviewees selected for this research study who had extensive backgrounds as negotiators, government officials, academics and practitioners.

With their expanding knowledge base, it took India and Brazil several years of continued negotiations to move beyond their strict opposition to the inclusion of intellectual property rights and trade in services. Later in the Round they ultimately acquiesced on these issues but this was not accomplished without considerable resistance that lasted close to a decade, as noted by Ambassador Luiz Felipe Lampreia, one of the Ambassadors of Brazil to the GATT at this time. In exchange, developing countries gained the addition of agriculture and textiles & clothing to be addressed as agenda items. By the successful conclusion of the Uruguay Round in 1994, 123 countries had settled on the Agreements, with the largest number of developing countries ever to participate in the GATT (Lampreia. Skype Interview. 21 May 2012).

4.9 Concluding the Uruguay Round

The Uruguay Round was the most ambitious Round of multilateral trade negotiations up to 1994, encompassing multiples issues (including three major new areas) and the largest number of countries participating since the Second World War. Moreover, in sharp contrast to previous Rounds where several issues inhibited developing countries' participation (the principal supplier rule, colonialism and underdevelopment), there was a change in the Uruguay Round that led to a substantial increase in membership which was not evident in years prior. In previous Rounds there remained contention between developed and developing countries because the old issues of textiles & clothing and

agriculture had yet to be effectively dealt with but now others were added to the agenda, including investment, intellectual property and services. To these, developing countries (most notably India and Brazil) were initially strictly opposed. From the GATT Ministerial Meeting in 1982 until close to the end of the Uruguay Round in 1994, developing countries' opposition along with disagreements between the US and EEC proved to be significant challenges to concluding the Round, which in the end spanned nearly a decade. Table 4.2 highlights the key dates during the Round.

Table 4.2 Key Dates in the Uruguay Round

Date	Location	Key Occurrence
September 1986	Punta-del-Este	Launch
December 1988	Montreal	Ministerial Mid-Term Review
April 1989	Geneva	Mid-Term Review Completed
December 1990	Brussels	Closing Ministerial Meeting Ends in Deadlock
December 1991	Geneva	First Draft of Final Act Completed
November 1992	Washington	US and EEC achieve Blair House breakthrough on agriculture
July 1993	Tokyo	Quad achieve market access breakthrough at G7 Summit
December 1993	Geneva	Most negotiations end (some market access talks remain)
April 1994	Marrakesh	Agreements signed
January 1995	Geneva	WTO created, agreements take effect

Source: *(WTO, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact5_e.htm)*

Finally, developing countries realized that, if they did not make concessions in certain areas including intellectual property and services, they would be pushed out of the multilateral trade regime, thus hurting their domestic economies and reducing their market access to developed countries. Additionally, the former policies of ISI had faltered and protectionist policies were no longer seen as being able to sustain economic

development. This led to a series of reforms during the 1980s and 1990s which each of the illustrative case studies underwent differently based on their fiscal and political situations. External forces from IFIs and other industrialized economies prompted them to liberalize trade in order to realize its benefit and develop the greater market access they were lacking, which was causing trade deficits. The loan stipulations put on them by the IFIs made developing countries take part in the trade regime. Levels of participation therefore increased and they gained a stronger voice in the Uruguay GATT negotiations.

To be able to take part in negotiations developing countries had to determine the most effective avenue to do so. Kenya was one of many countries which were still in the relatively early stages of development and were inactive in negotiations because of a lack of resources and a poor negotiating team. This was the case for most African countries, which experienced great pressure to correct their balance-of-payments issues. For them, a hope of influencing negotiations meant joining a group of other developing countries under a single negotiator. In Kenya and other African countries one negotiator represented a number of delegations from surrounding countries, especially LDCs, as noted by Daniel Don Nanjira, a retired Foreign Service Officer who served in the Government of Kenya for thirty years (Don Nanjira. Phone Interview. 10 May 2012). Due to a lack of resources many developing countries and LDCs found that working within groups was increasingly useful since it allowed them to collectively make regional commitments that otherwise would not have been possible if working by themselves. Formal groups included: the Cairns Group, the African, Caribbean and Pacific Group of States (ACP), Common Market for Eastern and Southern Africa (COMESA), South African Development Community (SADC), East Africa and West Africa (Ostry, 2002:

25). This cooperativeness became increasing evident in the post-Uruguay years, strengthening their bargaining power and pooling resources in coalitions rather than acting alone.

India and Brazil were extremely active in negotiations and stalled the Round from moving forward in several instances (even initially delaying the launch of the Round to begin in 1986). Both were strictly opposed to the new issues of investment, intellectual property and services being included on the agenda since they wanted the longstanding issues of agriculture and textiles & clothing to be dealt with. Previously, the latter had continued to be left off the agenda. India and Brazil did undergo a series of economic reforms as ISI was no longer a viable policy and because of external pressure by the IMF and World Bank from which they received structural adjustment loans (this will be shown in subsequent Chapters). Nonetheless, the conditions imposed upon them were less strict since they both had the ability to pay their loans back in full and their economies were more stable than those of smaller and less developed economies including Kenya. For example, this was evident in India who was granted a second loan in the 1990s due to completing payment of a previous loan received in the 1980s earlier than the expiration date given. Their stability was derived from their longer period of development since independence and a stronger bureaucracy with higher educated government officials. They were also impacted by the trade epistemic community that promoted the benefits of more open economies; consequently, they later relaxed their opposition to the new areas being included on the agenda of negotiations. The reforms of both countries took different paths due to their domestic circumstances and the

commodities where they held a comparative advantage. Moreover, in negotiations they were more vocal and capable, with their sophisticated and educated negotiating teams in Geneva as well as access to resources that were unavailable to Kenya because of their financial capabilities.

The Uruguay Round was ultimately, as I have phrase it, an '*Inequitable Grand Bargain'* principally between the US-EEC and India-Brazil. The US-EEC coercively persuaded India and Brazil to agree to the inclusion and agreements on investment, intellectual property and services, in exchange for the phasing-out of the MFA and reforms in agriculture. At the time, this 'Grand Bargain' theoretically appeared to be a positive outcome of the Uruguay Round. However, India and Brazil (having foregone ISI), came to realize that they had no choice but to go along with the deal worked out between the US and EEC, with only marginal improvements in their 'issue areas' of agriculture and textiles & clothing. Once India and Brazil came to their conclusion other countries followed suit through a *'demonstration effect'*, finally leading to the conclusion of the Uruguay Round in 1994 (Hoekman, 1993. 1). While the evidence is circumstantial, it is true that India and Brazil were leaders amongst developing countries in the Uruguay Round and once they showed their support it was clear that others began to follow-suit like dominoes. This was an integral part of the process stemming from the influence of an initially small coalition formed by two prominent developing countries, India and Brazil. Amrita Narlikar stated that coalitions were an important component of the Uruguay Round but also noted that larger coalitions in number did not necessarily carry a more proportionate influence in negotiations. This was evident in the relationship that

was formed between India and Brazil. Narlikar makes an important point of how others may then join the group creating what she similarly calls a *'bandwagon effect'* amongst developing countries. She notes that,

> the resulting theory is a theory of coalition formation with special respect to developing countries. It identifies the conditions that a coalition must immediately meet to ensure its survival and effectiveness, suggests ways in which states can choose between the various methods of coalition building to their optimal advantage, indicates when states will be better off joining bandwagons or balances and discusses the utility of different strategies with respect to the phase of the negotiation and the states concerned (Narlikar, 2003: 196).

This *'demonstration effect'* became the major catalyst for developing countries coming on-board with the Uruguay Round negotiations. Through the acceptance of India and Brazil, developing countries of the Global South came to understand that going along with them would be the only hope of completing the Uruguay Round with the 'single undertaking' approach used by the contracting parties. This was demonstrated by the eventual support of the hard-line developing countries during the Round including: Egypt, Yugoslavia, Tanzania and Nigeria (Lacarte Muró, 2005: Disc 2). Several other smaller and least-developed countries trusted their stronger and more advanced developing economies to represent their interests since they lacked strong negotiating influences, as was noted in the case of Kenya in this study. By this time, in the 1990s, continuously resisting these two 'power-houses' would only lead to potential exclusion from future negotiations. It could have also compromised the multilateral trade regime that had at least successfully institutionalized a DSM which led to greater equity within as well as the institutionalization of the WTO.

While on paper, reforms to agriculture were addressed as well as the phasing out of the MFA over a ten year period by 2005 (in exchange for the inclusion of intellectual property, services and investment) not much was gained in practice that really led to positive outcomes for developing countries in the decades to come. Perhaps they understood some of the potential negative implications of completing the Uruguay Round in this way; nonetheless, to be completely isolated from the trade regime would be even more detrimental. This was especially true for the least developed economies which already had their own unfortunate set of domestic circumstances to contend with. The final agreement was signed by 123 countries in Marrakesh, Morocco on 15 April 1994 concluding the Uruguay Round after almost a decade.

Chapter 5: A Change in Ideology:
Developing Countries and the move towards Trade Liberalization

Following the end of the Tokyo Round in 1979, there was a growing trend away from protectionism and towards greater trade liberalization among many developing countries. Much of the movement in economic reforms was through unilateral trade liberalization, an attempt to pass beyond the protectionist and populist macroeconomic policies that were no longer generating sustained economic growth. This chapter will focus on this change in ideology and policy among developing countries. Discussion will include the impact of seminal events and the exhaustion of the ISI model for economic development as the catalysts for major structural changes in the global economy in the early 1980s and 1990s. This will incorporate the inter-subjective norm dynamics of collective ideas which persuaded trade elites that economic reforms were necessary for further development, thus leading to a change in social behaviour that caused the adoption of more open trade policies. To collectively provide a rationale for their transition three theoretical perspectives will be examined - liberal trade theory, dependency theory and constructivism. Sometimes perceived as contradictory, taken together these perspectives in political economy demonstrated greater applicability in explaining the change in ideology amongst developing countries. While it could be argued that other perspectives may be useful, these have been selected to test the three hypotheses in this research study and collectively provide the most authoritative account of the changing behaviour of developing countries in the global trade regime.

5.1 Seminal Events

For developing countries that were oil producers, the oil crises in 1973 and 1979 followed by the 1982 recession, the end of the Cold War, the collapse of communism and the fall of the Berlin Wall in 1989 were factors which contributed to a decline in certain exports. This culminated in the sixty percent price drop in oil exports that resulted in the 1990s. New money was created which led to stagflation of economies with high levels of unemployment and low economic growth. Ambassador Lampreia commented that, "although Brazil was not an oil exporter, it had to import wheat and oil (to supplement their own production) to be able to manufacture rubber for shoes. These oil shocks had international ramifications that were creating a balance of payments crisis for many developing countries regardless if they were an oil producer or not" (Lampreia. Skype Interview. 21 May 2012). For Brazil, the second oil shock in 1979 seriously impacted their balance of payments and prompted an escalation in their nominal interest rates. As noted by Kennedy and Giannetti Da Fonseca, "by 1982, industrial companies were facing problems of recession, inflation, and import restrictions and exports began to fall. Brazil had to negotiate an adjustment program with the IMF and banking community" in order to reverse the negative impacts of the shocks (Kennedy and Giannetti Da Donseca, 1989: 34-35). Abbott commented that, "although these shocks eventually did not prevent launching the Uruguay Round in 1986, they did result in oil prices increasing by three to four times their prices prior to 1973" (Abbott. Skype Interview. 29 May 2012).

The collapse of the Soviet Union and the end of the Cold War in 1991 ultimately led to the fall of communism and the break-up of the eastern bloc of communist and satellite

states. This was a major transformation in the world for many reasons; in the context of this study, it is important that it discredited the centrally planned economies in much of the East Bloc, creating a new world order that was embracing anti-statism *versus* Soviet-state socialism (Wolf, 2005: 132). The discrediting of the Soviet-state model led to a widely-shared acceptance that heavy state intervention did not lead to economic development; rather, it led to closed and protectionist economies en-route to poverty. As Martin Wolf describes,

> meanwhile, the brutality and poverty of the Soviet system had robbed socialism of its intellectual and moral prestige in the west in the 1960s and 1970s. The debt crisis of the early 1980s and chronic stagflation also brought about a revolution in the concepts of macroeconomic policy. The result was a reunification of economic policy, as developing countries adopted regimes similar to those of advanced countries-trade liberalization, relaxation of exchange controls, fiscal stability and low inflation. Developing countries too, increasingly abandoned fixed exchange rates, adopted inflation targets and liberalization of exchange controls. Between 1975 and 1997, the proportion of developing countries with flexible exchange rates rose from 10 per cent to over 50 per cent. The exceptions moved towards currency boards or outright use of another country's currency, usually the dollar, as their own (Wolf, 2005: 132).

The time period since the end of the Cold War has been characterized as the 'legalization of world politics,' where the rule of law became increasingly incorporated into international institutions (Lanoszka, 2003-4: 47). As Goldstein, Kahler, Keohane and Slaughter note, "legalization, a particular form of institutionalization, represents the decisions in different issue-areas to impose international legal constraints on governments" (Goldstein et al., 2000, 285-99). The GATT demonstrated this following the Uruguay Round by becoming the WTO in December 1995. Rules were set in place that obliged members to comply or face the dispute settlement panel, which would decide on legal ramifications (Goldstein et al., 2000: 387 and Lanoszka, 2003-4: 47). Some

rulings were in the form of economic sanctions and some in the form of coercion through trade barriers. While seminal events impacted many developing countries, those affected by the oil shocks of the 1970s felt the negative economic impact more profoundly. Additionally, with the collapse of the Soviet Union and with state planned economies no longer reaping the benefits they once had, many countries began to move towards a global economy that fostered open-trade, technological innovation and specialization of commodities for export.

5.2 The Era of Import Substitution Industrialization (ISI)

Following the end of the Second World War, many developing countries embraced highly protectionist trade policies by employing ISI. Pérez del Castillo commented on ISI stating that,

> ISI itself was an effort to recover growth and assure long term economic development by increasing productivity throughout the economy. Raúl Prébisch used to say, that after the Second World War, all international cooperation efforts (including the creation of the World Bank) were mainly focused on the reconstruction and industrialization of Europe. For these purposes it was essential to have access to raw materials from developing countries. There was little likelihood for the Latin American region to receive any technical or financial assistance for industrialization programmes. Import substitution policies were, at the time, one of the few alternative choices to secure industrialization in the region (Pérez del Castillo. Email Interview. 9 August 2012).

Raúl Prébisch and Hans Singer developed the Singer-Prébisch thesis in the 1950s which was an industrial strategy to protect developing countries' infant industries in their course of economic development. This was of utmost importance to these countries as they were largely dependent on agriculture, mining and other primary products rather than

manufactured goods of greater worth and value added. This undermined developing countries' exports in agricultural goods where they held a comparative advantage; since developed economies subsidized (some heavily) their agricultural sectors, it was cheaper for developing countries to import these goods rather than produce them themselves. For many, their major export commodities were in agriculture, especially African LDCs (in some cases representing 80 percent of their total exports). Heavy subsidization from the industrialized economies led to negative and in some cases devastating impacts on many developing and least-developed countries' economies.

Use of ISI led to the over-valuing of currencies, which in turn made imports cheaper for equipment and also saw tariffs raised and subsidies increased (Yergin and Stainslaw, 2002: 232). Furthermore, agricultural commodity exports became uncompetitive due to sharp increases in price. Nationalism began to take flight, state-owned enterprises started to grow, a tight licensing system was implemented, vital industries such as electricity and agriculture were subsidized, taxation increased and controls and restrictions were placed on specific industries, leading to highly protectionist trade policies and practices (Yergin and Stainslaw, 2002: 232). Many countries embraced this model of economic development where protectionism and regulations were heavily enforced by the state. Under ISI, the main premise was to expand local production of industrial products as a means to minimize dependency on foreign imports by increasing domestic production of goods. This model became very prominent throughout Latin America because the countries of this region were heavily influenced by the Argentine Raul Prébisch who in 1948 became the director of the United Nations Economic Commission for Latin

America (UNECLA). During his time as director he advised policy and decision makers along with politicians (Edwards, 1993: 1358-1359). In 1964 he became the founding secretary-general of UNCTAD.

Under ISI, a country used its own domestic market as its engine for industrialization, but would become marginalized by isolating itself from competition in order to incite growth. This industrial strategy essentially pushed developing countries into the periphery, away from the core/centre of industrialized and emerging economies since they embraced increasing levels of protectionism[60] (Chilcote, 1983: 12). According to Chilcote, the terms of trade were deteriorating for the periphery due to declining exchange earnings. This made development increasingly difficult as international commodity markets became severely distorted (Chilcote, 1983:12). In order to off-set high-cost imports their infrastructure was built for the production of goods as part of the industrialization process. Additionally, under the ISI model of development, governments played a significant role in both public and private enterprises. They managed investment and production, creating a state-dominated system with a state-led economy to manage the relations between core and periphery countries. Import substitution, subsidies and tariffs were methods employed by governments in managing the two-part world system (Chilcote, 1983: 12). Both India and Brazil are key examples of governments that exercised high levels of control over their economy as well as enterprises, licensing and

[60] **Core-Periphery Theory**: This theory is based on economic prosperity in states or regions. In order for the high growth state or region (being the core) to expand and develop it had to dominate the surrounding states or regions of the periphery to ensure its political and economic success. As a result, according to this theory, resources flow from the poor underdeveloped countries into the core wealthy countries disadvantaging the former (Chase-Dunn and Hall, 1997).

tax systems. They played a particularly strong role in establishing and maintaining a central banking system as well as their trade relations and the commodities developed for consumption. Additionally, they ensured that infant industries were protected from foreign competition, primarily through high levels of protectionism in their own economies.

ISI was not a new form of industrial strategy employed by countries. In previous eras, several European countries and settler countries had also pursued variations of ISI to help foster economic development. Countries including Canada, the US and Australia initially embraced import substitution to assist in the development of their internal markets, even though the cost of doing so resulted in high levels of protectionism, taxation and government involvement. A relevant nineteenth century comparison is Canada's pursuit of ISI in the manufacturing sector through the development and adoption of their National Policy. This was established in 1876 and implemented in 1879 during the government of Sir John A. Macdonald to protect the manufacturing sector of the economy. As a result, high tariffs were imposed on imported goods related to manufacturing thereby opposing free trade during that time (Williams, 1979). A contemporary policy example is in Canada and the US where they have employed protectionist trade policies with respect to their agriculture sectors, specifically their dairy and poultry industries, through heavy subsidization of farmers. The goal was to protect family farms from lower priced imports. In today's context, this strategy has drawn increased opposition from liberal policy analysts such as those at the C.D. Howe

Institute[61] who are expressing concern that continuing this practice will harm Canada's ability to gain international market access for other agricultural commodities such as grains and meats (Maclaren, 2010). These methods were only supposed to be employed over the short-term but have become a long-term approach used for decades. While this helped to keep out foreign investment and competition, it is not the most economically efficient choice since importing certain goods is considerably more beneficial in terms of cost and specialization. Recently, Australia started moving away from protectionist trade models by embracing more liberal trade policies in order to have trading opportunities with Europe as well as other developing countries. To do so they are gradually phasing-out agricultural protection by eliminating direct price administration and will expand quotas in agricultural production over a decade (Maclaren, 2010).

Over the longer term the ISI model became inefficient and subsequently the developing countries became dependent on the core for aid due to the high costs associated with protectionism. As noted by Sebastian Edwards, there are two premises to ISI: "(1) secular deterioration in the international price of raw materials and commodities would result, in the absence of industrialization in the LDCs, in an ever-widening gap between rich and poor countries; and (2) in order to industrialize, the smaller countries required

[61] **C.D. Howe Institute**: This not-for-profit organization was founded in Montreal, Quebec in 1958 by strong labour leaders and prominent members of the business community. Its focus was to increase standards of living by establishing strong public and economic policies. In the 1960s its policy initiatives supported Canada's move toward free trade to be competitive internationally. By the 1980s they moved towards building a national presence and the 1990s saw the C.D. Howe Institute take a leadership role and establish itself as a prominent mainstream pro-business think tank in two notable areas: constitutional issues and social policy. From the year 2000 to the present day, the Institute has focused on further policy areas, including: security and economic cooperation in North America, tax competitiveness, monetary policy, financial services and policy development in Canada.

(temporary) assistance in the form of protection to the newly emerging manufacturing sector" (Edwards, 1993: 1358). While this method was useful in the early stages of economic development, by the 1980s it was no longer compatible with an expanding and diversifying global economy. The idea behind protectionism of certain industries was to spur growth and eventually move away from it into a more competitive market-base. Once established, indigenous manufacturing industries would allow countries to produce goods in which they held a comparative advantage. However, many developing countries resisted this change and maintained the ISI approach. Their economies were weakened in comparison with those who could produce the same goods for less, thus, leading to un-competitive and increasingly dated trade policies.

5.3 The Exhaustion of Import Substitution Industrialization (ISI)

ISI was adopted by many developing countries in parallel with the emergence of the GATT and was to be a short-term solution. Nonetheless, this system eventually became inefficient, causing structural indebtedness to the IMF, WB and other donors by many developing economies whose domestic production could not sustain long-term growth. No longer a viable long-term industrial strategy for economy development, it was increasingly abandoned by developing countries. However as Debra Steger points out, it was not ISI's failure specifically but that it had run its course and a new industrial policy was needed to help build trade relations between the developed and developing economies (Steger. Personal Interview. 13 April 2012). The exhaustion of ISI prompted several developing and emerging economies to seek an alternative that would be more

beneficial to their domestic development and long-term sustainability. As noted by Ambassador Julio Lacarte Muró,

> there has been much debate as to whether ISI was good or bad but following the Second World War it was a necessary evil if developing countries were going to industrialize. They needed to do it their own way and use their own domestic markets because they were incapable of competing with the larger ones. Different developing countries followed different paths to economic development-some set up textiles, while others set up steel. ISI was not a failure at the time; it had to be done in order for them to industrialize and diversify. However, eventually internal markets became saturated and they needed to break free into a new market (Lacarte Muró. Skype Interview. 14 May 2012).

When one examines why ISI began to fail it must be taken into account that the world economy was integrating and was influenced by numerous factors, including: convergence of cultures, restructuring of enterprises, the collapse of communism, the end of the Cold War, increasing global wealth, removal of trade barriers, integration of international financial markets, development of worldwide product brands in larger economies and the growing need for a multilateral trade regime (Mansui, Haseen, and Chandel, 2007:12). Carlos Fortin stated that,

> rather than the failures of ISI, I prefer to speak of its exhaustion. In the 1950s-1960s ISI was quite successful. Rates of growth averaged a little short of 4% per year in Latin America and the Indian subcontinent, and double that in South Korea in the 1960s and 1970s. There was building of infrastructure and, despite inefficiencies, of basic industrial plant oriented to the internal market. The exhaustion came about as a result of external bottlenecks due to the inefficiency of exports; also relevant was the onset of globalization in the 1980s, which put a premium on international export competitiveness, and involved a change in the investment strategy of international capital: away from setting up plants in individual developing countries to serve their internal or regional markets, to segmenting production processes and placing the various links in the productive chain in various locations to serve the world markets. Opening up was partly a developing country response to these trends (Fortin. Email Interview. 17 August 2012).

Similarly, Collins-Williams commented that, "by the mid-1980s ISI was not leading to sustained economic development and it was slowly beginning to register with some of the more advanced developing economies such as Brazil and India but to a lesser extent in Kenya" (Collins-Williams. Personal Interview. 12 April 2012).

Professor Debra Steger called developing countries' trade liberalization experiences both 'gradual and evolutionary' (Steger. Personal Interview. 13 April 2012). Many developing countries realized that the ISI strategy had run its course and began unilateral liberalization in the 1980s and 1990s based on their own domestic and international experiences. This shift demonstrated a change in dominant ideology by many developing countries. As noted by Steger, developing countries began to seek alternative trade policies after realizing that ISI was no longer in their self-interest and had become exhausted as a long-term economic development strategy (Steger. Personal Interview. 13 April 2012).

In the review of the three illustrative case studies, India and Brazil began to understand the necessity for economic reforms due to the limitations realized from a continued use of the ISI model. Also, more open economies allowed for greater competiveness as well as the possibility for foreign investment into them. This was not the case for Kenya. It had only gained independence from Britain in the 1960s, causing it to be still relatively underdeveloped by the 1980s with a volatile economy that was still very much in its infant stages of economic development in comparison to other increasingly advanced

economies such as India and Brazil. It was not that Kenya could not liberalize its trade; rather, it was that its government was not yet ready to accept the conditions and terms of trade liberalization at that time. Thus, suggesting that all developing countries moved towards trade liberalization for similar reasons is not a valid statement. Some realized the negative implications of ISI through time, while others were pressured by IFIs in exchange for financial aid to adopt more open trade policies through a series of economic reforms during the 1980s and 1990s.

5.4 Liberal Trade Theory and Economic Reforms

Liberal trade theory is employed by scholars who promote the importance of a free-market economy where both capital and goods are owned by the private sector in contrast to centrally planned or state managed economies. Proponents of this theory include but are not limited to Adam Smith (who wrote 'An Inquiry into the Nature and Causes of the Wealth of Nations, 1776), David Hume and Milton Friedman. They focus on the importance of a capitalist economy which is in direct contrast to the mercantilist system where the government exercises control over foreign trade. This approach is used to explain why many developing countries may have undergone economic reforms by choice and became more active in GATT negotiations in the early 1980s and 1990s. UNCTAD's influence during the 1980s was waning due to growing disenchantment with its policy prescriptions and because it was not an institutionalized organization that could create and enforce trade rules. It was not leading to economic growth so many developing countries began to accept the benefits of open, neo-liberal economies. That is

not to say they embraced laissez-faire free trade, but rather, more open trade and economic liberalism (Preeg, 1995: 20). Welcoming liberalization was proving to be a viable industrial strategy in several industrialized economies as well as a few emerging, developing economies such as Turkey, South Korea and Mexico (Dornbusch, 1992: 77). While each of these countries had a different experience on this path, Turkey underwent a striking increase in its import ratio with a 19.2 percent rise between 1979 and 1989 (Dornbusch, 1992: 77). South Korea's trade liberalization was more selective than Turkey's with a strong emphasis on establishing a highly competitive manufacturing sector (Dornbusch, 1992: 78). Finally, Mexico had been a highly protected country, embracing high tariffs, licenses and quota systems. However, by 1985 it began to liberalize its economy by gradually opening its markets and establishing greater trade relations with the US (Dornbusch, 1992: 79). In each of these three cases, trade liberalization (adopted because of pressure from IFIs and the international community) achieved benefits to economic growth and modernization in order to establish efficient resource allocation and economic stability.

Later in the 1980s and into the 1990s, India and Brazil's increased support for trade liberalization led to a demonstration effect whereby other developing countries started to follow suit and began to embrace more open trade policies, many through state-leadership and government intervention. There was also a need amongst the developed economies to further integrate and open international markets which would benefit them through increased volumes of GDP and global trade. As noted by John Curtis, "this was especially true for the US and EEC who continued to be engrossed in the ongoing

transatlantic trade wars in certain areas such as agriculture and textiles" (Curtis. Personal Interview. 13 April 2012). Proponents of liberal trade theory, including Jagdish Bhagwati, Arvind Panagariya, Anne Krueger, Martin Wolf, and Dani Rodrik, suggest that there are several positive implications of more open and integrated economies which would help to promote sustained economic growth (Parikh, 2007: 3). Countries with growth rates of 3% per year from 1969 to 1999 experienced trade growth at a more rapid rate (Mitra and Panagariya, 2004). These proponents also suggest that stimulating growth within economies is a direct result of how open domestic economies are internationally (Parikh, 2007: 3). According to this viewpoint, economic openness not only increased the well-being of society but also expanded and increased growth at rapid levels for many countries around the world (Bhagwati and Srinivasan, 1993). However, increased trade openness does not lead directly to increased rates of growth. Many factors are at play in terms of how a country develops: levels of debt, political and social circumstances and their ability to attract foreign investment.

In the 1980s, the role of the state began to change and there was a major ideological shift towards anti-statism in many countries, and away from more autarkic policies. Previously employed policies were based on state-led coordination, state-led investment and high quotas and tariffs (Dutt and Rao, 2001, 179-180). Although state leadership in economic development was beneficial for many developing countries in order to protect their infant industries from foreign competition under ISI during the 1950s to 1970s, this policy eventually led to poor economic performance including hyperinflation, overvalued currency exchange rates, and unemployment resulting from the debt crisis (Dornbusch,

1992: 69). In the industrialized economies monetary and fiscal restraint were crucial in the 1980s to realign exchange rates. Following those structural changes, trade barriers were reduced to pave the way for external liberalization of the domestic financial sectors in many economies, including more advanced developing economies (Taylor, 2001: 1). As Lance Taylor explains, "the old policy model has been criticized for failing to promote efficient and competitive industrial production, for creating insufficient employment, and for failing to reduce income inequality" (Taylor, 2001: 2).

By the late 1980s, a coherent policy program known as the Washington Consensus[62] had emerged outlining the types of reforms developing countries should undertake to help promote output growth and economic efficiency (Taylor, 2001: 1). A major tenet of the Consensus was the importance of deregulation in helping to bring about these changes. The Washington Consensus was agreed upon by crucial Washington, D.C. based institutions - the US Treasury Department, the IMF and WB. They devised a set of prescriptions designed to promote the reform process and ensure that developing countries had the assistance they required for their transition, albeit not without the imposing of conditionalities. Table 5.1 outlines the list of policy prescriptions drawn from the works of John Williamson, Frederico Sturzenegger and Mariano Tommasi.

[62] **Washington Consensus**: although not a formal and institutionalized agreement, it was coined by John Williamson in 1989 outlining ten reforms to developing countries that needed assistance with macroeconomic stabilization, economic growth, investment and an expansion of their economies. This was developed by Washington, D.C. institutions which included the US Treasury Department, the IMF and the WB (World Health Organization [WHO], http://www.who.int/trade/glossary/story094/en/).

Table 5.1 The Washington Consensus on Reform

1	Fiscal Discipline
2	Reorientation of Public Expenditures toward Building Human Capital & Infrastructure
3	Tax Reform: Broaden Base and Cut Marginal Rates
4	Financial Liberalization: End Interest Rate Controls, etc.
5	Exchange Rates: Unified and Competitive
6	Trade Liberalization: Reduce Tariffs and Eliminate NTBs
7	Foreign Direct Investment: Welcome
8	Privatization: Do
9	Deregulation: Stop Only for Environmental, Safety or Prudential (Banking) Reasons
10	Property Rights: Secure

Source: (Williamson, 1994 and Sturzenegger and Tommasi, 1998: 3)

Some liberal trade theorists, including Dani Rodrik and Anne Krueger, suggest that in a period of macroeconomic stability a crisis or change in government are reasons that countries will undergo economic reforms (Rodrik, 1992: 88-89; Krueger, 1993, 124). This is noticeable in the case study of India. In the terms of the crisis, for example, they had a relatively high level of political stability, with orderly and democratic elections; however, in the 1980s as a consequence of the debt crisis India overvalued its currency and imposed many restrictions on imports. This resulted in massive fiscal deficits which led to hyperinflation and unemployment (Rodrik, 1992, 88-89). Bernard Weinraub commented that,

> the economic crisis came about because of an overlap of political and economic problems, including India's revolving-door Governments in the last two years, with four Prime Ministers and four finance ministers, which led to virtual economic paralysis. Other factors included the absence of a coherent budget in recent years, a spiraling deficit; rising inflation and India's panicky purchase of oil at $30 a barrel, about $10 higher than today's price, during the Persian Gulf War (Weinraub, 1991).

In order to deal with the crisis, newly elected Prime Minister, P.V. Narasimha, began to implement a series of economic reforms, including trade liberalization, with the

assistance of the then Finance Minister Manmohan Singh. While opposition to reforms existed, it was evident amongst the Rao Government that in order to deal with the crisis red tape needed to be reduced and foreign investment was essential to promote economic development away from political and economic instability.

Roderick Abbott argues further that a change in government is also extremely important in developing countries and can potentially occur on a frequent basis because these countries are more susceptible to either elections or takeovers due to volatile economic and political climates (Abbott. Skype Interview. 29 May 2012). Curtis commented that, "a change in government impacts the elites that run the show. World events plus political system breakdown like the failure of dictatorships in both Latin America and Asia had major political and economic ramifications on the countries at stake" (Curtis. Personal Interview. 13 April 2012). This creates volatility and instability within the state itself (Abbott. Skype Interview. 29 May 2012). Additionally, Anne Krueger points out that not only does a world event plus a political system breakdown have to result in a change in government but it could be that countries are weak economically and politically as well as incapable of decision-making. She goes on to point out that the only time when economic reforms are possible is when the county realizes that "politics as usual" are no longer feasible and changes are needed (Krueger, 1993: 125). As noted by Krueger and Bates,

> [i]n all cases, of course, reforms have been undertaken in circumstance in which economic conditions were deteriorating. There is no recorded instance of the beginning of a reform program at a time when economic growth was satisfactory and when the price level and balance of payments situations were stable. Conditions of economic stagnation (and the recognition that it is likely to

> continue) or continued deterioration are evidently prerequisites for reform efforts (Bates and Krueger, 1993: 454).

Economic and political conditions are major factors in how reforms are undertaken (Sturzenegger and Tommasi, 1998: 16). This was one way that countries could turn around and open their economies. For example, by the time negotiations ended in the mid-1980s allowing a new trade Round to occur, several key governments of developing countries reached this conclusion setting in motion a larger trend. It was in their self-interest to do so, the result of an intellectual conversion about what would best impact their domestic economies. Since the trade epistemic communities had a hand in demonstrating the benefits of liberalizing trade, this conversion was most evident in the cases of leading developing countries like India and Brazil, but less so in Kenya where the community was much less prominent. In the cases of India and Brazil, economic reforms were a necessity as a result of the exhaustion of ISI and the need to establish more open and liberal trade policies to encourage both foreign investment and competition. While they did receive financial aid from the IMF and WB, the conditionalities imposed were not as strict as in the case of Kenya since both of their economies were much larger, and not as volatile or as underdeveloped. However, there was pressure by the international community for them to continue to liberalize their economies and pursue intensified and deepened trade relations with industrialized economies. With fear of being isolated from the trade regime and also as a result of the influence of the trade epistemic community whom they relied on for expertise and knowledge on trade related matters, countries like India and Brazil began to accept reforms and others followed suit through a demonstration effect.

Trade liberalization had proven successful for many developing countries in two key respects-manufacturing growth and attracting foreign direct investments (FDI); this, after the move from ISI to more exported oriented policies. From the late 1970s to the 1980s, over 70 percent of the economic growth was in the manufacturing sector. This was in stark contrast to the situation in the early 1970s, when the manufacturing sector represented only around 20 percent of growth (Akyüz, 2004: 2). Additionally, the cost of populist macroeconomic policies was proving detrimental to many developing countries' economies (Rajapatirana, 2000: 13). A logical choice was to move away from populist policies and toward opening their economies and embracing economic reforms in order to participate in the global trade regime. This was evident for smaller and less developed economies including Kenya that were dependent on core economies for both resources and financial assistance. As Curtis explains, "economic reforms were in fact the victory of the free-market economy. It was the coercion of the Chicago School (Freidmanism)[63] at the peak of the Bush/Clinton Administration. The trade system had stalemated except for regional agreements and the opening of markets began regionally and then moved outward-internationally from the heavy influence of the larger and more advanced industrialized economies" (Curtis. Personal Interview. 13 April 2012). Gallagher further underscored the importance of economic reforms, noting that "*crisis* played a big part in driving trade liberalization, but then other countries began to follow suit, creating a 'bandwagon effect.' As a result, many developing countries began to liberalize their

[63] **Chicago School**: The Chicago School is a group of economists who were in favour of monetarism and rejected the Keynesian ideas that predominated up until the mid-1970s. Under a system of monetarism government heavily regulated the state and the economy. The works of Milton Freidman are associated with the type of system that supported centrally planned banking to ensure that supply and demand were in equilibrium (meaning balanced) Keynesianism, on-the-other-hand, is associated with John Maynard Keynes who advocated for a mixed economy including both the public and private sectors with more emphasis on the latter, while government intervention be kept to a minimum and occur only in times of crisis such as a recession.

policies during the Uruguay Round and after. There was an ideological change in developing countries' economic thinking and once many gained independence they became invigorated and decided to join the GATT" (Gallagher. Skype Interview. 4 July 2012).

More underdeveloped and recently independent countries, such as Kenya, did not have the same opportunities at the time to be more selective in their economic reform processes since they lacked financial resources, technical capacity and trade expertise. Their transitions, while reflecting awareness that the ISI policy model was no longer a viable economic strategy to sustain or advance growth, were more impacted by external forces/pressures. This was in part a result of the indebtedness that ISI had led to and, since they were heavily dependent on the IMF and WB for financial assistance, strict conditionalities were tied to the transfer of aid. In essence, in these weaker and more marginal cases, the IFIs took the lead in their economic reform processes towards trade liberalization through a series of structural adjustment programs which gave them little bargaining power or independent direction in establishing their own domestic trade policies.

5.5 Dependency Theory and External Forces

Following the end of the Second World War, dependency theory rose to prominence beginning in the 1950s as a response to mainstream approaches which were positivist and materialist (Reinhert et al., 2008: 269). These latter approaches assume an objective

"reality" that can be observed and scientifically measured. Dependency theory is used in this study to highlight the role of external factors and how developing countries were coerced into embracing trade liberalization to serve the interests of the capitalist North. Dependency theory is illuminating in this context because it helps to explain the inequitable relationship between developed and developing countries in the global trade regime and demonstrates why developing countries underwent economic reforms when they did as a result of their dependent relationship with the industrialized economies in the global trade regime.

Theotonio dos Santos of Brazil provides a compelling definition of dependency stating that it is:

> a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others. A relationship of interdependence between two or more economies or between such economies and the world trading system becomes a dependent relationship when some countries expand only as a reflection of the expansion of the dominant countries, which may have positive or negative effects on their immediate development (Dos Santos, 1970: 231).

The national reformist tradition arose from dependency theory, beginning with the works of structuralist thinkers like the Argentine economist Raúl Prébisch as well as other thinkers including Anibal Pinto and Celso Furtado in the UNECLA. The main premises of this structural school were further developed in the works of Enzo Faletto and

Fernando Henrique Cardoso[64] (Reinhert et al., 2008: 270). Within this approach, systemic underdevelopment is understood to be produced in the international system from its historical development. This is a result of the division of labour in society and the structures within the capitalist state system (Blaney and Inayatullah, 2008: 663). This system perpetuates a core-periphery relationship where the periphery becomes dependent on the core for financial assistance and technology in order to produce goods.

Dependency theory explains economic development based on external factors (economic, political and cultural) and how they impact domestic policies. This system creates inequality between the rich and poor economies since not all countries are at the same level of economic development and those that are subordinate come to rely on more advanced economies for resources and financial assistance. There are three common features associated with dependency theory. First, the international system consists, broadly speaking, of two types of states: the core and the periphery, the former being the advanced financial markets and the latter being those of the global south including Latin America, Africa and Asia, with significantly lower levels of GDP. Secondly, external forces/pressures use their influence to coerce other, less developed economies to conform with their economic and political interests. These include multinational corporations,

[64] **Fernando Henrique Cardoso** was the President of the Republic of Brazil from January 1995 to January 2003 winning two majority governments. He served as the Brazilian Minister of Finance (1993-94) and as the Minister of Foreign Relations (1992-93). He was the founding member of the Brazilian Social Democratic Party (PSDB) in 1988 and was elected senator in 1982. Additionally, he is the chair-holder of the 'Cultures of the South' at the Library of Congress and served as a professor-at-large at Brown University in Providence, Rhode Island, US. He received his Master's and Doctorate from the Universidade de São Paulo in Sociology in 1952 and furthered his academic studies and career in France and Chile with his most significant contribution being in development studies on dependency theory. (The Globalist. http://www.theglobalist.com/ AuthorBiography.aspx?AuthorId=867).

financial institutions and developed economies. These can be in the form of economic sanctions in trade relations such as quotas and tariffs or, in the present case, economic conditionalities associated with essential financial relief. Finally, the interactions between the core and the periphery reinforce the dependent relationship and subordination of developing countries – in this case, coercing them into accepting trade liberalization (Ferraro, 2008: 58-64).

Dependency theorists suggested that in order for countries to be able to become progressive and autonomous, the state needed to take an active role by promoting state-leadership within economies to overturn imperialism, protect domestic markets and stop the exploitation of natural resources in the peripheries. These ideas were championed by scholars such as André Gunder Frank, Paul Sweezy and Paul Baran (Reinhert et al.,2008: 269). Under this Marxist-influenced tradition, the connections between the industrialized and developing countries led over time to what is referred to by Cardoso and Faletto as 'dependent capitalist development' because development was extraverted towards the needs and interests of the northern elites. This was posited as the main reason for the underdevelopment of southern countries (Wiarda, 2004: 116-119). In order to reverse this trend, governments in the peripheries began to take an active and nationalistic role in state-planning to promote industrialization, build technology and establish infrastructure. They did so by using import-substitution as their main industrial strategy for development so that they could reduce their dependence on the purchase manufactured products from more advanced economies (Wiarda, 2004: 116-119).

During the 1960s and 1970s the nationalist reformist tradition was very popular but in direct contrast to the free market economy (which later became the dominant economic strategy of the Western hemisphere in the 1980s and 1990s) (Yergin and Stainslaw, 2002: 232). Dependency theorists, including Cardoso, dos Santos, Frank and Samir Amin along with several Latin American countries were proponents of state-led economies with government controls rather than the open trade and export markets associated with the free market economy. However, developing countries as a group came to be characterized as 'neo-colonial' as they became heavily dependent on industrial states for capital and manufactured goods and raw material exports that were to be sent to the core for consumption. One main issue for developing countries was their dependence on industrial economies for technological assistance since they did not have the capacity or resources to provide these themselves. Mass consumption did not occur; therefore the peripheries continued to remain underdeveloped (Cardoso & Faletto, 1979: xvi-xvii). From a dependency perspective, this creates an internal centre-periphery dynamic that produced an asymmetrical capitalist system (Rojas, 2001: 1). As noted by Rojas, "the economic divide and income gap between industrialized countries and developing countries has widened continually, especially during the debt adjustment decade of the 1990s, which vindicate the predictions of structuralist and dependency theories as opposed to the neo-classical and neo-liberal approaches which foresee convergence" (Rojas, 2001: 1).

In terms of why developing countries underwent economic reforms and trade liberalization in the global trade regime, this approach is applied to the study because

many developing countries had become progressively more dependent on the larger industrial economies as well as IFIs, including the World Bank and IMF, for loans. This was in exchange for foreign aid, debt refinancing and relief since relying on ISI and domestic production was no longer able to sustain or promote economic growth and development, and was producing growing trade imbalances. As noted by Pérez del Castillo, "external pressures and conditionalities were certainly significant and part of the equation. During the eighties, Latin America was strongly conditioned by its debt crisis and it was certainly forced to accept further reforms, in particular from international financial institutions, in order to avoid economic chaos in many cases" (Pérez del Castillo. Email Interview. 9 August 2012). Terms of trade (derived from the quantity of imports that could be purchased based on the country's exports) and liberalization were, in effect, dictated by the dominant powers, demonstrating external pressures imposed on developing countries. In accepting economic and trade liberalization therefore, all developing countries were effectively coerced and/or pressured to some extent as a result of their dependence on external ideas and financial assistance.

Resulting from dependent relations that grew out of ISI, loans were given to developing countries by the World Bank and IMF, along with other donor agencies; however, as the debt crisis mounted and their financial situation deteriorated, a set of conditionalities were impressed upon them that forced them to liberalize their trade under the terms of the Structural Adjustment Programs (SAPs) implemented in the 1980s and 1990s. Inward-looking industrial policies were proving unsuccessful and unsustainable, causing the WB

and IMF to begin taking an active role in developing countries' reform processes (Dornbusch, 1992: 70). Chowdry and Ranga note that the conditionalities included:

1) Reduction in government expenditures
2) Cut in the expenditures in the social sector
3) Cut in subsides
4) Increase the issue prices of commodities by the government
5) Enhance the irrigation and power tariff
6) Inviting foreign investments
7) Devaluation of currency
8) Taking loans form the IMF (Chowdry and Ranga, 2004: 2)

Similarly, the Structural Adjustment Programs impressed upon developing countries during the 1980s and 1990s included: encouraging exports, import liberalization, reasonable taxes and tariffs, abolishing the permit-licensing system, attracting foreign investments, adjusting the foreign exchange rate, financial sector reform, and reducing public sector undertakings (Chowdry and Ranga, 2004:2).

Kenya is an example of a country that can be characterized as having a dependent relationship with the IMF and World Bank. These IFIs imposed a series of conditionalities upon them as part of their economic reform programs in exchange for foreign aid. Francis Mwega noted that the reasons that Kenya underwent economic reform were expectations and concerns from the international financial community outside the national-level, particularly in the area of public finance, foreign direct investment and trade (Mwega, 2005: 4). Conditionalities were imposed upon Kenya by the IFIs, such as the requirement to promote its export manufacturing sector. This became problematic for Kenya. Kenya's ability to attract foreign aid and investment during the 1980s came to be evaluated by whether it met the 'outside expectations' of its

investors and reduced government corruption (Mwega, 2005: 4). Due to its underdeveloped economy the country had few options, proving a difficult challenge for two primary reasons. Mwega commented that,

> the first is the lack of institutional and technical capacity for the implementation of regional and multilateral commitments. The second is the hesitation to absorb the cost of adjusting to the programmes and rules of the multilateral trading system. The IMF/ World Bank reform programmes entail a more comprehensive, integrated policy package, accompanied by complementary macroeconomic and structural measures (Mwega, 2005: 7).

While Kenya undertook unilateral trade liberalization during the 1980s and 1990s while embracing a series of economic reforms, donor investment still declined as the country continued to renege on its commitments (Mwega, 2005: 24).

By the 1980s, the world market's vulnerability for developing countries was augmented by their increased dependence on dominant powers' markets (Rojas, 2001: 3). Stemming from this inequitable core-periphery relationship was that economic and social policies began to be dictated by international financial institutions and larger core-dominant powers. These policies of heavily indebted countries were dictated by the IMF and WB resulting in severe negative consequences, including a massive decline in social welfare and increased unemployment, especially in small developing countries and LDCs (Rojas, 2001: 3). This inequity and imposition were noticeable in the GATT during negotiations where the dominant Quad (US, UK, Canada and Japan) ultimately set the agenda, thus putting pressure on developing countries to comply with the results of the negotiations. Issue areas such as agriculture and textiles that were not in the interest of the industrialized economies continued to be marginalized. This eventually led to developing

countries being coerced to open their markets in order to participate in the trade regime and receive IMF and World Bank loans. Coercion was in the form of (but not limited to) quota restrictions, market access and/or financial assistance. As such, external forces pressured for the liberalization of economies in order to gain greater market access and meet externally imposed conditions. Carlos Fortin notes that, "external pressures, in the form of World Bank and IMF conditionalities, played a role. Conditions concerning trade and economic management were the main component of World Bank conditionalities in the 1980s. They also featured, although less prominently, in IMF conditionality. Together they provided a strong push to liberalizing moves in developing countries" (Fortin. Email Interview. 17 August 2012). As discussed in the next chapter, for each of the illustrative case studies, external pressures varied depending on the amount and types of loans requested, but were present in all cases. In looking back, this dependency over the course of time by developing countries provides one explanation for their participation levels in the GATT but also explains why they effectively liberalized their economies when they did.

5.6 Constructivism and Epistemic Communities

A third explanation of developing countries' changing role and attitude towards the GATT uses a constructivist approach to look at the evolving ideas, identities and interests of the trade epistemic community. As discussed in chapter three, up to the Tokyo Round most small developing countries were 'observers'[65] in GATT negotiations because of its

[65] "Observers" for the purposes above imply that they did not have a strong voice in negotiations. This is not to be confused with observer status where a developing country was not a contracting party member and therefore maintained an observer status.

structure and the process to which it adhered. As noted previously, numerous factors caused the prevailing 'power politics' amongst developed countries to be challenged by developing countries. No longer were developing country governments willing to accept trade deals that would negatively impact their economies. Most noticeable were Brazil and India who initially strictly opposed liberalizing trade in services and intellectual property rights.

A new economic discourse in the GATT arose during the Uruguay Round concerning dis-embedded liberalism (Ford, 2002: 137). As societies became increasingly advanced, the governments of developed economies most notably (but also some emerging and more advanced developing countries) were no longer capable of dealing with the wide array of issues in their domestic sphere as they once had. This was a result of growing population size, higher levels of education and development and advancing technologies and resources. With all of these competing factors, opening up domestic markets to foreign competition and investment through a series of economic reforms was a policy alternative that at the time seemed both sustainable as well as efficient (Haas, 1992: 4). Under this new approach government systems focused on the free-market economy that operates in a laissez-faire state, with minimal government intervention unless, of course, a state of emergency arises. Rather than focusing on rules that govern the market, dis-embedded liberalism concentrates on the interdependence between states and enterprises to promote free-trade that leads to competition, capital accumulation and encouragement of countries producing goods for which they have a comparative advantage over other products. This new system was supported in the 1980s and 1990s as it offered both

opportunity and constraint in establishing trade relations rather than the state-penetrated economies that had dominated in the 1960s and 1970s. In an attempt to tackle the decades of power-politics by the Quad (US, EEC, Japan and Canada), dis-embedded liberalism moved away from the social welfare state.

This sea change of attitudes was rooted in the 1980s. Many developing countries began to move through a series of economic reforms to more export oriented industrialization, stemming from exhausted ISI industrial policies and state-led industrialization, along with the demonstration effect of the success of Asian developmental states. On the other hand, many developed countries moved from more Keynesian to neoclassical economic policies (Biersteker, 1995: 174). Both of these two major ideological shifts represented the rise of a new set of dominant ideas amongst the trade community, dubbed by Francis Fukuyama as the "triumph of liberalism" or "the end of history" (Fukuyama, 1992). As Thomas Biersteker points out, during such a time, "a system of ideas, a revised conceptual framework, or even a simple slogan or mobilizing phrase can effect significant changes in the definition of interests, which in turn can influence both individual and group behaviour…they provide critical distinctions, convey the basis for new categorizations, and may determine the very nature of core units of analysis…thus ideas can define away problems as much as they define them" (Biersteker, 1995: 174).

Constructivists came to view the changing system as one of complexity whereby governments were not specialized enough to deal with major issues and began to engage

epistemic communities who were in fact highly specialized knowledge experts in their respective areas. As Peter M. Haas notes, "epistemic communities is a concept developed by 'soft' constructivist scholars of international relations concerned with agency to understand the actors associated with the formulation of ideas, and the circumstances, resources, and mechanisms by which new ideas or policy doctrines get developed and are introduced to the political sphere…epistemic communities are importance actors responsible for developing and circulating causal ideas and some associated normative beliefs, and thus helping to identify legitimate participants in the policy process and influencing the form of negotiated outcomes by shaping how conflicts of interest will be resolved" (Haas, 2001: 11578-11579). This is the type of group of individuals that began to influence the politics of both developed and developing countries in the Uruguay Round since government had called upon them for their expertise and education to act as delegates in negotiations (Haas, 1992: 4). With this approach, new ideas began to influence the actors' identities and interests and led to a change in ideological underpinnings that had characterized the GATT until the early 1980s.

In this environment, the trade epistemic community began outlining the benefits of a more integrated trading system. This epistemic community was comprised of academics, practitioners, economists, lawyers, consultancies, think-tanks, law firms/schools and policy institutes. They became increasingly influential amongst developing countries that had already begun their economic reforms and move towards trade liberalization, as in the cases of both India and Brazil. They also were useful in establishing public-private

partnerships within countries' policy and decision-making communities, and in presenting and demonstrating the merits of liberalizing trade. The individuals of this community were able to put forth new ideas that were needed to uphold the multilateral trade regime and help further educate officials by providing the necessary tools to develop its competitiveness, increase equality amongst the membership and establish greater market access for all. As the basis for policy coordination within the GATT, the trade epistemic community was dealing with a diverse set of dynamics of 'uncertainty,' 'interpretation,' and 'institutionalization' (Haas, 1992: 3-4). This is because in terms of the global trade regime, the basis of policy coordination rests on high levels of uncertainty and also high levels of dependence that arises from the policy choices of other states. Mai'a K. Davis Cross notes that, "the more internally cohesive an epistemic community, the more likely it will achieve a high degree of influence on policy outcomes" (Davis Cross, 2012: 138). As such, internal cohesion of the trade epistemic communities in the GATT was essential in its influence on policy outcomes. With the help of and reliance on advice from this community, developing countries such as India and Brazil relied on their expertise and knowledge to push their agendas forward and help establish relations and cooperation with other partners in the trade regime. This was evident in the role of the highly specialized experts and educated officials that the governments of India and Brazil selected for Uruguay Round negotiations, including

Ambassador B.K. Zutshi[66] of India and Ambassador Luiz Felipe Lampreia[67] of Brazil. Increasing their effectiveness was the fact that many were fluent in multiple languages (as was the case of the Brazilian delegation) with very strong administrative skills (as demonstrated by the Indian delegation). This further demonstrated their high levels of expertise and ability to communicate with and amongst other delegations in negotiations. Terry Collins-Williams commented that,

> I have always been impressed with the professionalism, knowledge and experience demonstrated by Brazilian negotiators - it is not unusual for Brazilian diplomats to speak fluently - four or five languages, and of course they are conducting detailed negotiations in a foreign language (English). Indian civil servants have long been recognised for their administrative skills, which some might attribute back to the formation of the Indian bureaucracy in colonial periods and even earlier in Indian history (e.g. the Mughal Empire). In the Uruguay Round and beyond, both Indian and Brazilian negotiators not only excelled representing their national interests, but also played useful roles advancing the negotiations as a whole acting as Chairs of Negotiating Groups (Collins-Williams. Email Interview. 8 August 2013).

Although it took time for smaller and underdeveloped economies to come onboard, reforms gathered momentum amongst several developing countries. National policies of the 1970s were no longer perceived as compatible with an increasingly interdependent world; and as a result, this new epistemic community influenced and advised on the benefits of liberalism in both developing and developed countries. New interests and

[66] **B.K. Zutshi** served as India's Ambassador to the GATT during the Uruguay Round and was the Permanent Representative and Chief Negotiator from June 1989 to 1994. In the early 1980s he was India's Chief Negotiator on Textiles. For close to 35 years he served in India's Administrative Service. (Bhagwati and Hirsch, 1998: 31).

[67] **Ambassador Felipe Luiz Lampreia** is a member of the Oxford Martin Commission at the University of Oxford and served as Brazil`s Ambassador and Permanent Representative to the GATT during the Uruguay Round. From 1995 to 2001 he was the Minister of State for Foreign Relations in the Brazilian Government. During 1992 to 1993 he was the Secretary-General of the Brazilian Ministry of Foreign Affairs and from 1988 to 1990 was the Under-Secretary General for Foreign Affairs. (WTO website). He graduated from the Brazilian Diplomatic Academy and studied sociology at Pontifica Universidade Catolica do Rio de Janeiro. (McLarty Associates. http://www.maglobal.com/?q=node/19).

identities were constructed as a result of norms which impacted this group of knowledge-based experts (Haas; 1992: 2-3; Ford, 2002: 135). Developing countries specifically began to be progressively more important in the trade regime due to their increased interdependence with other developing economies and in some cases developed economies (as was the case between the ACP countries and the EEC as a result of the Lomé Convention). New issues became increasing important during the 1980s and 1990s, including services, intellectual property and investments with growing international studies raising awareness on the importance of intra-industry trade among countries.

The constructivist approach focuses on the importance of this interplay between ideas and interests: how they come about, how they change through time and what is the cause of the change. The world is seen as socially constructed by the relationships of states and their perceived self-interests. This alternative approach to materialism takes into account what constitutes interest and observes what is causing changes in behaviour (Katzenstein, 1996). Rather than focusing solely on material objects (like military machines and natural resources), ideas become important in shaping outcomes. From a constructivist perspective, distribution of capabilities amongst developing and developed countries was not the only factor in explaining the changing role of developing countries' behavior during the Uruguay Round of negotiations, as it would be amongst neo-realists or indeed dependency theorists. In examining the GATT, the constructivist approach looks at how interests are formed based on the interaction of negotiators and how, through interactions, the process changed as a result of complex social learning. As noted by Ford, interests

and identities of countries do not solely change as a result of pure learning but rather the meaning of power can be altered by social interactions amongst states and state representatives that lead to the establishing or changing of norms (Ford, 2002: 121).

Social learning became the crux of epistemic communities and their influence in changing the norms and ideas around the GATT, particularly which issues were both included and omitted in negotiations during the Uruguay Round. This highly knowledgeable and intellectual community had a significant characteristic. Many were educated in schools in either North America or Europe that were dominated by liberal thought and where open market economies had become the latest fashion in economic policy thinking. Ambassador de Mateo notes that, "I did my doctoral studies at John Hopkins in the US and this was a time when generations of people from around the world started to attend schools abroad under this new liberal ideological way of thinking about trade. Some people however favoured trade restrictions, some favoured more open trade policies and some were in between" (de Mateo. Phone Interview. 13 July 2012). This significant characteristic of the nature of education among the participants in this trade epistemic community was also addressed by Panagariya. He notes that in fact there was a shift in ideology resulting from this trend. Thus, "for India in 1991, every cabinet member of India had a child or grandchild studying abroad in the US. These members came back to India and had major impacts on the members of cabinet which eventually resulted in new ideas and domestic trade policies" (Panayargia. Phone Interview. 21 May 2012). For Lacarte Muró, "knowledge is the basis of it all" (Lacarte Muró. Skype Interview. 14 May 2012). The epistemic community in place by the time the Uruguay

Round of negotiations began had a profound impact in setting the agenda of issues to be discussed by both developing and developed countries.

These epistemic communities have an authoritative claim on knowledge which specifically distinguishes them from advocacy coalitions, transnational networks or interest groups. Knowledge is defined by every 'spacio-temporal-specific knowledge structure' to see where claims are embedded within the structure itself in order to assert that epistemic communities have an authoritative claim on knowledge. Compatibility is the main way methodologies are selected by these communities. They share common world views and have causal beliefs which in this particular case are connected to the benefits of a more liberal trade regime (Antoniades, 2003: 27). With a new understanding created within the GATT, language also became particularly important in creating a shared interpretation of the multilateral trade regime. As noted by Roger Tooze (as cited by Antoniades), "language not only enables knowledge of world politics, but is knowledge of world politics" (Tooze, 2000: 189). The construction of language also plays a major role in GATT negotiations because understandings were changed as a result of the influence of the trade epistemic community (Antoniades: 2003: 31). Having a common sense of language can increase the levels of trust among the various negotiators. Weekes points out that, "while the epistemic community of persons come from various professions such as law, economics, politics, and trade they have a common sense of objectives and in the dynamics of trade negotiators getting to know one another is a complex process. That is why 'trust' is so important especially since it is imperative people do as they said they would" (Weekes. Personal Interview. 12 April 2012).

Additionally, as Curtis points out, for developed countries in particular, many had established trust amongst themselves since they knew one another through the OECD and Asia-Pacific Economic Cooperation (APEC). For example, "The Canadians knew the Australians, the New Zealanders and the Taiwanese" (Curtis, Personal Interview. 13 April 2012).

The actors (negotiators) in the Uruguay Round came to be influenced by the trade epistemic community of knowledge experts who promoted the benefits of trade liberalization and economic reform. They were motivated by technocratic elites in their home economies that increasingly shared an understanding of the desirability of liberalized trade relations. The trade epistemic community consisted of individuals from law firms and law schools, economists, think tanks, consultancies, the business community and other relevant practitioners to each individual country. As highlighted by constructivism, through the interactions, interests and identities of the actors, new ideas ultimately led to a change in structure of the GATT. Changing interests are usually followed by new norms. An important factor, as noted by Anthony Antoniades, is that epistemic communities are products of the social reality before being influential (Antoniades, 2003: 29). Therefore, as a result of changes in the international community due to seminal events and a shift towards a more interdependent and integrated world economy, a new emerging social reality was constructed. This led to a change in actors' interests resulting in new norms with respect to the global trade regime and the GATT. The trade epistemic community, in combination with 'power politics', had the ability to

control power by transforming people's understanding, wants and interests (Antoniades, 2003: 29).

Antoniades notes that there are three dimensions of epistemic communities. First, they can be 'sources of information' or act as an agent or advisor which may result in influence being exercised among policy makers, or in this case, trade negotiators in how they behave in GATT negotiations (Antoniades, 2003: 32). Moreover, they may influence domestic policy makers' choices in the trade policies they embrace. Secondly, they can provide an agenda-setting function by influencing both international and domestic politics. Examples include changes to approaches in how countries conceptualize existing issues in the trade regime or the addition of new ones to the agenda, such as trade in services or intellectual property rights (as occurred during the Uruguay Round) (Drake and Nicolaïdis, 1992: 37-100; Antoniades, 2003: 33). Finally, negotiators and domestic policy makers may request that policy details be outlined by the epistemic community since they rely on their knowledge and expertise (Antoniades, 2003: 33). Alexander Wendt states that, "a fundamental principle of constructivist social theory is that people act toward objects, including other actors, on the basis of the meanings that the objects have for them" (Wendt, 1992: 396-397). They constitute and reconstitute one another and meaning is drawn from a collective understanding and acceptance of those norms (Ford 2002: 121). As Martha Finnemore points out, "states are what they do in international relations" (Finnemore, 1996). This is true of developing countries in the GATT because they helped to bring about the changing norms and understanding of trade policies. As a result of interaction and social learning, social

identities began to change among them because the meanings of outdated GATT principles were never fixed.

The ideas shared between developed and developing countries at the point of the Uruguay Round (including the previous Rounds) were not fully inter-subjective; that is, a fully shared understanding of international trade policies. This was most evident in contested areas, including: agriculture, textiles and clothing, intellectual property and trade in services. The understanding of ideas from a constructivist approach is described by Jeffrey Legro in the following terms: "ideas are not so much mental as symbolic and organizational; they are embedded not only in human brains but also in the 'collective memories,' government procedures, educational systems, and the rhetoric of statecraft" (Legro, 2005: 6). Ian Hurd summarizes that, "constructivism suggests that material forces must be understood through the social concepts that define their meaning for human life" (Hurd, 2008: 301). Applying this approach to the trade regime, embedded norms that previously existed began to change as more and more developing countries' interests caused a shift in their ideology to be more compatible with GATT principles. The lack of shared meaning between the developed and developing countries on the way the GATT was operating led to a change in the GATT itself. An increasing number came to see the value in affirming a multilateral trade regime. Members of the trade epistemic community provided new ideas to those they interacted with in negotiations as well as their respective governments. Through this social learning, policy makers then had this information to consider when making their decisions thus leading to a change in the interests of developing countries.

As Wendt describes, "actors acquire identities (that is, relatively stable, role-specific understandings and expectations about self) by participating in…collective meanings" (Wendt, 1992: 397). Structures and agents are major factors in the constructivist approach. The institution of the GATT is the 'structure' while the contracting parties are the 'agents'. One of the major challenges for constructivists is what Wendt refers to as the 'agent-structure problem'. The problem lies in the fact that if structures and agents are mutually constitutive and interdependent upon one another then this leads to potential for change in either the structure or agent. As noted by Wendt, two truisms explain the social world. First, society can be transformed as a result of the social relationships that exist. Second, interactions between agents and structure establish the norms of society. In combination, structures and agents are therefore interdependent and mutually associated with one another which help to explain social behavior (Wendt, 1987: 338). When the agent and the structure are not mutually interdependent through their interactions or the agents' interests change leading to new norms and ideas, it directly impacts the structure (institution). Due to interactions with others, relationships may change or they may reinforce the current state. Hurd notes that, "they may also reinforce or change the broader social structures in which the actors exist, including norms and other forms of shared meaning" (Hurd, 2008: 303).

Constructivists provide a solution to this agent-structure problem in what they term 'structuration', a term coined by Anthony Giddens. Ford describes structuration as agents reproducing social structures through the existing process, while "simultaneously [being] constituted as actors by these structures" (Ford, 2002: 121). This process creates

an inter-subjective relationship where sustained action creates the social identities of the agents. In applying this to the GATT and this research study, if for example the US repeatedly refuses to meet developing countries' demands in agriculture, developing countries will come to view them as uncooperative. This allows them to act accordingly and anticipate how they will behave in GATT negotiations (Ford, 2002: 112; Wendt, 1992 & 1987: 329-335). Applying this concept to the multilateral trade regime, by the time of the Uruguay Round a collective change became evident (more so nearing the conclusion of the Round). Revising the roles of the agents within the structure and establishing a new understanding of those roles created this cultural transformation within the regime. Many developing countries reversed their roles as changes occurred in attitude and ideas. This began with the trade epistemic community and led to developing countries being more demanding and active in the 1980s.

With the growing and increasingly integrated global economy, the trade epistemic community thus promoted the benefits of trade liberalisation by a series of economic reforms that flourished as a result of a change in both perceptions and ideas. Through the interactions of these actors with negotiators and policy makers in the trade regime, the process and structure of the GATT was altered since it was no longer compatible with the changing dynamics of the negotiators and rules of the GATT. Many developing countries, led by India and Brazil, changed course through a demonstration effect which saw them beginning to embrace a rules-based multilateral trade regime rather than acting primarily as bystanders as in the old GATT system. This led to a structure in the trade regime where new roles became defined by the actions of the negotiators taking part in

the Uruguay Round. The interaction of the players became critical to the innovative ideas which began to redefine norms. As noted by Collins-Williams, "the most successful and lasting trade reforms taken by a government are consistent with their domestic policy objectives and in most cases were through unilateral trade liberalization. This signified that the country was committed and deeply embedded in overall liberal reforms as a package of trade liberalization" (Collins-Williams. Personal Interview. 12 April 2012). Identities were reproduced and constituted by the actors in the trade regime; therefore, their behaviour began to constitute their interests (Wendt, a social theory, 366; Ford, 2002: 137). Reciprocity resulted, as there was a mutual interest in preserving a multilateral trade regime. As a consequence, the GATT was transformed as were the norms that had previously dominated the trade regime following the Second World War. With the interests and identities of the actors evolving, a new era had begun.

5.7 Conclusion

Three theories were employed in this study to explain the change in behaviour of developing countries, particularly over the course of the Uruguay Round. Liberal trade theory provides a rationale for why several key developing countries underwent a series of economic reforms, notably during the Uruguay Round in the 1980s and early 1990s. The former ISI model of protectionism and production of domestic goods for national consumption was no longer able to sustain future economic development. Therefore, the more advanced developing economies, notably including India and Brazil, began to embrace this theoretical approach, which focuses on minimizing or at least reducing the

role of the state in the economy, deregulation and the privatization of enterprises. Through the exchange of information and access to new and improved technological resources, deregulation of the financial sector was a key factor in the advancement of their economies by lessening barriers to trade and encouraging foreign investment and competition.

A second approach also provides an explanation for developing countries moving toward liberalized trade. Dependency theory highlights the impact of external forces and pressures from IFIs and other developed country interests on developing countries to undergo a series of economic reforms. Particularly for many smaller developing countries with volatile and fragile economies, this proved to be a major factor in their economic transformations, although they took years to implement these changes, some more successfully than others. Kenya was a prime example since they had only relatively recently gained independence from the British and the country was relatively underdeveloped due to their lack of financial resources, technical capacity and a weak national government that had highly fragmented ministries and a relatively greater turnover of government officials (Don Nanjira. Phone Interview. 10 May 2012). This made it difficult to develop cohesion on trade policies. Partly resulting from their use of the ISI model of development, they became dependent on the IMF and WB for aid which was tied to strict conditionalities and requirements for a series of economic reforms. This was particularly true for the smaller and least developed countries of the Global South.

The third theoretical approach employed in this study offers new insight into a change in thinking about the trade regime as a result of the role of the trade epistemic community that emerged during the Uruguay Round. This is explained through a constructivist approach that looks at the relationships and interactions between the agents and the structure of the global trade regime. Under this approach, ideas are a central component in how they construct meaning and interests amongst the actors. Furthermore, new ideas of the actors not only shape their identities and interests but also show how they can either reaffirm the GATT structure or transform it. This group of knowledge-based policy experts and activists (including but not limited to those from the areas of politics, trade, law and economics) began to have a considerable impact, especially amongst the advanced developing economies which were at more sophisticated levels of economic development. Countries such as India and plausibly Brazil were more susceptible to their influence since they had already undergone a series of economic reforms and because their delegation teams had highly educated and experienced negotiators, many of whom had become acquainted with liberal trade policies due to their education in Western schools. This group began to influence government/negotiators with the sharing of new liberal trade ideas that promoted competition, liberalized trade, interdependence and integration of domestic economies.

Epistemic communities, however, only came to influence certain countries' governments in the trade regime by the time of the Uruguay Round. Without a local epistemic community promoting trade liberalization, countries at relatively early stages of growth, economic development and expansion would not yet come to embrace new ideas and the

possibilities associated with economic reforms. The ideas of these communities precede development and therefore shape policy changes. It was highly possible that some officials in the LDCs also shared the understanding of the trade epistemic community. However, employing or adopting these new policies was not possible due to substantial issues associated with a lack of resources to be able to do so effectively. Moreover, many were still at their very early stages of independent economic development. It may not be until later that the epistemic community's way of thinking and a new framework could influence national policies. That is not to say that in the future there would not be an impact or influence on other developing countries like Kenya, but that this was a process that occurred in the later stages of their development and education of their government in the world trade regime.

In concluding the analysis of the three theoretical explanations employed to clarify the transition of developing countries, no 'one' approach offers a conclusive or adequate explanation in the decision-making processes of all developing countries as a collective group. Rather, each perspective offers a rationale for *why* developing countries, based on their historical circumstances, underwent economic reforms and followed their own trajectory based on domestic interests and external factors. However, that being said, as a result of the changes in the more advanced developing economies that were benefiting from these reforms, others began to follow-suit through a *'demonstration effect'* in order to ensure their inclusion in the multilateral trade regime rather than be forced outside of the GATT/WTO. The varying impacts of these three dynamics can be clarified through a

more focused examination of the three case study countries highlighted in this dissertation.

Chapter 6: Trade Liberalization: India, Brazil and Kenya

Three illustrative case studies were examined to sharpen our understanding of the various developments, trends and key points regarding developing countries and the ideological change that prompted a series of economic policy reforms during the Uruguay Round. Triangulation requires that the group as a whole be disaggregated, looking at the critical case studies individually in order to understand if there is a general argument that can be drawn from their own experiences. This provides a more in-depth analysis in addressing the trajectories of specific developing countries based on their economic and political circumstances. After examining a cross-section of key countries from the global South including India, Brazil and Kenya, a broad range of explanatory factors were identified. Comparing the more advanced developing economies of India and Brazil with Kenya did not lead to conclusive results concerning a common set of causal effects which impacted their decisions to move towards trade policy reforms when they did. Rather, these causal effects encompassed the impact of seminal events, domestic responses to the exhaustion of ISI, external forces and the influence of epistemic communities in varying combinations. Therefore, it was not possible to generalize about all developing countries' experiences because their histories and the development of their domestic economies were very different and in many key respects incomparable.

6.1 India

From the 1950s to the 1980s, before economic reforms took hold, India experienced a 3.5% average annual growth rate which was low in comparison to other emerging economies. This was the result of years of import substitution policies on the domestic production of goods rather than imports from, and trade with, other economies. This model did not foster export-oriented trade policies and focused primarily on the protection of the country's infant industries against foreign competition and investment. During that time, both quotas and tariffs were used to provide protection to their industries, including the area of imported technology. The government then instituted various restrictions through their ISI strategies in procedures, permits and industry controls (Mansuri, et al., 2007: 3). By the 1980s, the autarkic policies it pursued using ISI were no longer able to sustain or promote economic growth. With increasing trade deficits, corrective measures became a necessity in order to manage the balance-of-payments crisis that would result in 1991 and to deal with the problem of industrial stagnation. This was done to increase exports and to develop a domestic economy that was both competitive and efficient since import restrictions and industrial licensing were beginning to devastate their economy. Table 6.1 provides important statistical information on India's increasing deficits for the 1980s and early 1990s (Vijayan, 2011: 9).

Table 6.1 India's Increasing Deficits for the 1980s and early 1990s

Year Deficit	Exports Average Deficit	Imports	Trade	Monthly
1980-81	6.711 (4.6%)	12.54 (37.3%)	5.838 (114.2%)	487
1981-82	7.806 (16.3%)	13.608 (8.4%)	5.802 (-0.6%)	484
1982-83	8.803 (12.8%)	14.293 (5.0%)	5.490 (-5.4%)	458
1983-84	9.771 (11.08%)	15.831 (10.8%)	6.060 (10.4%)	505
1984-85	11.744 (20.2%)	17.134 (8.2%)	5.390 (-11.1%)	449
1985-86	10.895 (-7.2%)	19.658 (14.7%)	8.763 (62.6%)	730
1986-87	12.452 (14.3%)	20 (2.2%)	7.644 (-12.8%)	637
1987-88	15.741 (26.4%)	22.399 (11.5%)	6.658 (-12.9%)	555
1988-89	20.295 (28.9%)	28.194 (25.9%)	7.899 (18.6%)	658
1980-90	27.681 (36.4%)	35.412 (25.6%)	7.731 (-2.1%)	644
1990-91	32.527 (17.5%)	43.171 (21.9%)	10.644 (37.7%)	887

*Figures in parentheses indicate percentage changes over the previous year

Source: (Vijayan, 2011: 9)

It was at this time that India began its gradual transformation, spanning over a decade – a characteristic of India's experience in economic reform that they shared with Brazil. Their economy became increasingly interdependent and integrated internationally in an attempt to increase the low growth rate of around 3.5% it experienced from 1950 to 1980 (Mansuri et. Al., 2007: 3). This led to a shift away from the ISI model's protectionist policies. This move toward a free market economy led to both the privatization of state enterprises and the liberalization of domestic trade policies. India became more

integrated into the global economy with the direction of its government in a relatively gradual manner. This was a result of its democratic structure that required a substantial measure of consensus to pursue and implement major reforms. During the 1980s, India focused on developing and expanding its information technology (IT) sector with the help of the private sector in helping become globally competitive by modernizing its economy. Once it was able to establish a successful IT sector, it began to focus on the expansion of health and financial services (Ahluwalia, 2012).

Seminal events and pressure from international financial institutions also played a role in determining when and why they underwent economic reforms. In the 1990s, a minority government headed by the National Congress Party came to power with new ideas about what would be in their best interest when developing domestic policies. The newly elected government, pressure from IFIs, and a new sense of shared norms among negotiators and bureaucrats together explain the reasons for their changes in domestic policies, the necessary move towards trade liberalization and the pursuit of increased market access during the Uruguay Round.

Singh and Bery note that India's economic performance can be divided into three time periods after its independence in 1947: 1) 1950 through the 1970s; 2) the 1980s; and 3) the 1990s. The period from 1950 through the 1970s was a time when the economy was particularly vulnerable to economic shocks and was based on socialist public sector-led policies that were not as competitive as those of modern liberal democracies. By 1977,

democratic competition began to escalate following four periods of negative economic growth. Liberalization of trade continued to proliferate as a result of changing ideas and norms amongst government officials (Singh and Bery, 2007: 32). Foreign reserves had dried up, with remaining levels insufficient to meet the cost of imports. No longer were international financial institutions confident in the existing government since it reverted periodically to protectionism and isolated itself from foreign competition and investment to protect the country's infant industries and help spur growth (Mansuri, et al., 2007: 3-4). IFIs, including the IMF and World Bank, demonstrated their lack of confidence by implementing conditionalities (such as strict repayment schedules, significantly increased interest rates and the implementation of policies) upon loans which India requested in the 1980s and early 1990s. Also, in order to obtain an IMF loan, India needed relatively strong and continued backing of their business community who were allied with the IMF. As noted by Dash, the concerns of this group needed to be taken seriously, as the defeat of the Congress Party in 1977 resulted from their lack of support (Dash, 1999: 892).

The 1980s brought Singh and Bery's second period. India's third Prime Minister, Indira Ghandi of the National Congress Party, had been re-elected to succeed the Janata Dal government and served from 1980 to 1984 until her assassination (she also held this position from 1966 to 1977). Her socialist policies found weak political support. Dash notes that, "it would be difficult for her to seek an IMF loan without business support, so she decided to introduce the kind of economic policies that would please the business community. Accordingly, restrictions on some manufactured imports were removed, controls on entry and expansion of national firms were relaxed, and the rate of direct and

indirect taxes was reduced" (Dash, 1999: 892). New economic policies were employed to help the country's fragile economy by promoting exports and easing industry capacity limits. This led to a simplified licensing system to cope with the balance-of-payments concerns which continued to grow (Singh and Bery, 2007: 33). From 1979 to 1980 there was a decline in agricultural production of nearly 15% and a drop in the production of hydroelectric power causing energy shortages. This followed the second oil crisis, when India's inflation rate grew to 20% reflecting the exceptionally high price of imported oil. This also led to a massive decline in the capital account from $800 million in March of 1979 to negative $3.3 billion in March of 1981. Additionally, foreign exchange reserves continued to dwindle (Dash, 1999: 890-891). As a result of increasing economic concerns, Prime Minister Ghandi made the decision to apply for a hefty IMF loan and to undertake selective liberalization in various sectors. Her goal was to reduce India's dependence on domestic sources for financial assistance even though the loans came with intrusive conditions. Subsequently, support of her Congress Party by the business community would be strengthened so that they would not be as challenging when obtaining an IMF loan (Dash, 1999: 891).

6.1.1 The 1981 IMF Loan

In 1981 the government of Prime Minister Indira Ghandi applied for a $5.8 billion dollar loan from the IMF - at the time, the largest loan ever requested. The IMF met this request with trepidation since India was not in a reliable or financially stable economic situation. Initially, the IMF refused to grant this loan unless India changed to an annual

structural adjustment program rather than its initial five-year-plan. Thus, external pressure from the IMF came into play. They also insisted it accept stronger conditionalities in exchange for the loan as well as a standby arrangement for that year. This was refused by India in the early part of 1981 but later that year the IMF decided to grant this massive loan (Dash, 1999: 894). Dash notes that there were four factors that contributed to the IMF's decision. First, India was committed to structural adjustment programs. Second, IMF staff were encouraged that India came for financial assistance before the balance-of-payments crisis was too severe. Third, their goals and timeframes were reasonable. Finally, the entire Board of Directors for the IMF favoured the loan with the exception of the US (Dash, 1999: 894-895). Notably, India paid the loan back in its entirety by 1984 having used only 54% of the loan (Dash, 1999: 896). As stated by Roy and James, by 1985 India became known as the 'economic miracle', paving the way for future prosperity (Roy and James, 1992: 18). However, the apparent success of India's repayment of the 1981 IMF loan was incredibly short-lived and it began to borrow heavily from other commercial sources and finally requested a second IMF loan in 1991. Table 6.2 outlines India's economic indicators in both 1980 and 1990 demonstrating the critical economic situations it experienced during those decades.

Table 6.2 India's Basic Economic Indicators, 1980 and 1990

	1980	1990
Total External Debt (US$b)	20.5	71.0
Debt Service (% of exports)	10	26.4
Balance of Trade (US$m)	-5,644	-5,151
Current Account Balance (US$b)	-2.3	-9.3
Exports (% of GDP)	6.5	7.5
Imports (% of GDP)	9.8	9.6
GNP per capita (US$)	240	360
Foreign Exchange Reserves (US$m)	6,043	1,205
Budget Deficits (% of GDP)	-6.5	-8.4
Gross Domestic Savings (% of GDP	21.2	22.2
Inflation Rate	14.7	17.0

Source: (Dash, 1999: 897)

6.1.2 The 1991 IMF Loan

Later in 1985, India's situation began to change because of its growing and diversifying economy that was becoming increasingly competitive. In order to facilitate its mounting budget deficits, it started to borrow heavily from IFIs, including the World Bank, the Asian Development Bank and other commercial sources. Singh and Bery's third period of economic reform followed in the 1990s. By June of 1991, foreign exchange had rapidly declined to $1.2 billion. This was only enough to cover imports for a period of two weeks (Ahluwalia, 1994: 7). Inflation was nearly 17% and government debt was close to 8.4% of the total GDP. The debt service ratio became unmanageable and

external debt was over $71 billion dollars; this, compared to $21 billion in the 1980s (Agrawal, et al., 1995: 159-166). By this time, demand for Indian products was low due to the global recession. Through the impact of seminal events - in particular, the collapse of the Soviet Union and its East Bloc satellites - it also lost its Eastern European markets, many of which became part of Western Europe's economic orbit. Foreign exchange earnings continued to be low and the cost of imported oil was high as a result of the Gulf War in 1990 (Dash, 1999: 897).

India was forced to take another loan from the IMF due to its dire economic troubles. In 1990, the loan requested was in the amount of $1.8 billion dollars. Of the total amount, $780 million dollars came from the standby agreement while the remainder, $1.02 billion dollars, came from the Compensatory and Contingency Financing Facility (CCFF) (Dash, 1999: 898). The assassination of Prime Minister Rajiv Ghandi during the electoral campaign in May, however, led to more difficulty. By the time Prime Minister Narashima Rao was elected in 1991, India was experiencing a fresh crisis and was again in need of financial assistance. Major economic reforms were implemented as a result of the more stringent structural adjustment conditions imposed by the IMF and World Bank. This was a direct result of the balance-of-payments crisis and the greater push for market access in order for its economy to become globally competitive (Singh and Bery, 2007: 33).

As noted by Mansuri et al., there were nine major components in the economic reform process:

1) the removal of the formal monopoly and restrictive trade practice (MRTP), as a result of which tariffs were reduced and quotas were removed on international trade;

2) different sectors of the economy were promoted to shareholders to attract foreign investment;

3) the devaluation of the rupee was corrected to more accurate and unbiased levels;

4) gradually, the foreign exchange rate was determined by market forces as well as a move towards 'current account convertibility';

5) simplification of the tax system;

6) reduction of investment in public sector enterprises by the government;

7) unlimited borrowing power by the government was removed; and

8) interest rates were liberalized in the financial sector (Mansuri, et al., 2007: 4-5).

India never defaulted on these loans, unlike other developing country counterparts. The government concluded that the country was in need of economic reforms and was committed to structural adjustment.

Under new leadership in the 1990s, massive economic restructuring took place with fresh ideas which embraced financial competitiveness. This extended to the need for reforms. Baldev Raj Nayar stated that, "there had grown since the early 1980s a significant minority among the elites that shared the assumptions of the new economic orthodoxy. This minority was strongly represented on the economic team that presided over India's structural adjustment and several of its members had been socialized into it through training or work at the IFIs" (Nayar, 1998: 347-348). With the new shared consensus around the need for an open and liberal trade regime, India became even more active in promoting its agenda in the GATT. It realized that if it did not gain better market access, its trade competitiveness would continue to decline making it difficult to trade internationally. Subsequently, Indian representatives were progressively more active in negotiations through the UR. Lacarte Muró remarked,

> at the time of the Uruguay Round, both India and Brazil had very strong delegations, headed always by extremely competent people. They participated actively in all areas of the negotiations, and made their presence felt. For example, at the Punta del Este ministerial meeting that launched the Round, if I remember rightly India had five Ministers on the spot, and they asked me to ensure that they could meet with the Conference Chairman every evening at the close of the discussions. This was done, and since I attended these meetings I can assure you that there was always a great deal of substance in the conversations (Julio Lacarte Muró. Email Interview. 28 July 2013).

However, they were (as we have seen) highly critical of developed country positions on various issues and insistent on the desired outcomes which they deemed satisfactory. For example, they were unwilling to make concessions on trade in services and intellectual property early in the Round because there were other outstanding issues of interest to them, i.e. reforms to agricultural and textiles & clothing. This approach became

increasingly prevalent in the Round as a result of the evolving global economy with the introduction of new and shared ideas among the Indian political and economic elite. India's actions leading up to the Uruguay Round were very much opposed to the terms of the negotiations as well as the new issues (TRIMS, TRIPS and GATS) which the developed countries, namely the US and EEC, were adamant be included. India, like Brazil, wanted the issues of agriculture and textiles & clothing to be resolved before adding new items for discussion. India deliberately stalled Uruguay Round negotiations and it was not until the later years of the Round that they finally agreed to the inclusion of new issues under the 'single undertaking' which was required of all Contracting Parties.

As a result of the influence and knowledge of the trade epistemic community, India came to accept the benefits of integrating themselves more fully in the liberal trade regime, thus avoiding being left out of future negotiations. As noted by Professor Arvind Panagariya, "there was a change in thinking in the 1990s. For example, Finance Minister Manmohan Singh, a leading economist with a doctorate from the University of Oxford in the United Kingdom, demonstrated the benefits to the trade epistemic community of a more open trade regime that required domestic economic reforms. This in turn began to have influence on other members of parliament" (Panagariya. Phone Interview. 21 May 2012). His ability to do this was precipitated by the positions he held over the years: a professor of International Trade at the Delhi School of Economics from 1969 to 1971, Governor of the Reserve Bank of India in 1982 and the deputy chairman of the Planning Commission of India from 1985-1987. He had also served as Minister of External Affairs, the Secretary General of the South Commission and later went on and became

the thirteenth Prime Minister of India in 2004 (Singh, http://pmindia.nic.in/cv.pdf). Professor Panagariya commented that, "ISI was no longer working which was evident in multiple areas. By this time most cabinet members had children and grandchildren studying abroad, affecting the new ideas that were now coming about the trade regime" (Panagariya. Phone Interview. 21 May 2012). Cabinet ministers themselves also obtained some of their education in the Western Hemisphere, including for example P. Chidambaram[68] who completed his Masters of Business Administration and graduate school at the Harvard Business School in Boston, Massachusetts. Similarly, this was the case for Manmohan Singh, as noted above. Academic institutions in the West championed the liberal economic framework through the study of international political economy (IPE) and the increasing impact upon it resulting from integrated markets, international trade, democratic institutions and multilateral cooperation. Some of these institutions attended by Indian policy elites included: Oxford University, London School of Economics, University of Cambridge, Harvard University and University of Toronto. Through their liberally-oriented academic programs and courses, they promoted free-markets with reduced state intervention and with a focus shifted towards the private sector to increase competition, cooperation, collaboration and efficiency. Mr. Manmohan Singh himself noted that,

> structural change is inevitable in any society where there is rapid technical change and we live in a world where science and technology have emerged as the major determinants of power and wealth of nations. And, therefore, if our economy is not equipped to absorb, to assimilate, and to adopt this technical change which is taking place, all over the world, I think we will be marginalized. Many developing economies are already being marginalized in the new global economic system that has emerged. And it is only by successfully absorbing, assimilating, and adapting

[68] **P. Chidambaram** served as the Minister of State for Personnel, Public Governance and Pensions under India's Rajiv Ghandi government from 1985 to 1989.

> modern technological change that developing countries can acquire a minimum amount of bargaining power and influence in the management of the global interdependence. And, therefore, preparedness for handling problems of structural change is essential. This is the broad justification for economic policy initiatives taken by our government in recent months. (Singh, 1991: 108-114).

Determined by India's transformation, with academics, practitioners, economists and technocrats who studied abroad and embraced the benefits of a more open economy, domestic policies began to change in light of the issues discussed. The influence of the trade epistemic community on India as well as other emerging developing countries gradually began to impact trade negotiators in Geneva during the Uruguay Round. Through a process of "social learning" it became "necessary" for political leaders to acknowledge a new understanding of the benefits of trade liberalization as demonstrated by the interactions of Ambassadors from both India and Brazil. This, coupled with the move to reform economic policies and the conditions imposed by the IMF and World Bank, led to massive economic changes to re-stabilize the economy and pave the way for India's greater role in influencing GATT negotiations. David Hartridge[69] noted the real developmental change occurred generally in the trade group over time because personnel at the top of their respective governments began to believe in the multilateral trading system. This occurred as their understanding of a more liberal trade regime expanded as a result of new ideas that changed norms that had existed for decades prior to the Round (Hartridge. Phone Interview. 2 August 2012). As noted by Ambassador Luiz Felipe Lampreia of Brazil, there was a 'shift at the top' in the trade policy community and its

[69] **David Hartridge** was the former Director of the Office for Multilateral Trade Negotiations at the GATT, which was responsible for the launch of the Uruguay Round and subsequently for the negotiation of the WTO Agreements on Trade and Intellectual Property Rights, Trade and Investment and Government Procurement. Earlier in his career, Mr. Hartridge was Chef de Cabinet of the Director-General of GATT, and also served as acting Director-General of the WTO from May to September of 1999.

ideological way of thinking. New Indian negotiators came to participate in the Uruguay Round to help complete the final agreements. He commented on his interactions with Ambassador BK Zutshi of India and their work together to establish partnerships in the final moments of the Uruguay Round. He stated that he had asked Ambassador Zutshi why he came to favour liberal agreements and he responded that, "closed markets are a complete reversal to what the Uruguay Round intended. Establishing a more liberal framework was the only way to promote development in India in 1993 to deal with hundreds of millions in poverty. Something 'new' needed to be applied" (Lampreia. Skype Interview. 21 May 2012). Furthermore, Hartridge commented that Ambassador Zutshi came to be one of a half-dozen most influential negotiators in Geneva during the Uruguay Round (Hartridge. Phone Interview. 2 August 2012).

While economic reforms were essential to sustained development, each of the three theoretical approaches employed in the research design of this thesis were applicable (and indeed necessary) to explain India's evolution and transition towards trade liberalization and restructuring into the global economy during the Uruguay Round. Additionally, India was impacted by the catalysts of seminal events and the exhaustion of ISI. By the 1980s when the balance-of-payments crisis was most heavily felt in India, reforms became essential in order to sustain economic growth and further develop their domestic economy. Indian policy makers applied the main assumptions of liberal trade theory in order for this to be accomplished. It was not until the early 1990s when these were steadily underway, that the ISI model was no longer a viable industrial strategy. While external forces from the IMF and World Bank as well as internal pressures from their

domestic business community were impressed upon India in exchange for financial aid, the government was in fact highly successful in repaying the loans in-full and ahead of schedule (Dash, 1999: 891-893). This was due to the strengthened institutional capacity within their government and bureaucracy in addition to enhancing efficiency, knowledge development, and resource allocation through technological innovation.[70] Their economy began to grow in new areas of services which led to greater competition and attracted foreign investment. The epistemic community was critical to their change in attitude towards the usefulness of the GATT. With India's economy being more established, diversified and developed than smaller developing economies and LDCs, various levels of educated officials both in government as well as trade negotiators were influenced by new ideas from the trade epistemic community during the Uruguay Round. Popularized during the 1980s, liberal trade ideas then began to take flight and continued to gain ground into the early 1990s. This led to a changing dynamic amongst the interactions of individuals during GATT negotiations who came to a shared understanding that establishing a more open and integrated global economy could increase market access, trade and competitiveness. These ideas, through the process of interacting with the epistemic community, created new identities and interests that ultimately led to a change in the structure of GATT negotiations. New players began to voice their interests and concerns, especially countries such as India (and Brazil), and this ultimately led to a change in the structure of the global trade regime. Given that India was more advanced than LDCs who were still suffering more directly from the legacies

[70] **Technological Innovation:** for the purposes of this research study, technological innovation is understood as a process that spurs the development of and diffusion of new knowledge, the exchange of information, and the workings of different groups, organizations, governments and businesses to cooperate and collaborate with one another in order to establish competitive advantages, efficiency and the effective allocation of resources.

of their colonial past as well as the impact of seminal international shocks, they came to the conclusion that not accepting the terms of the Uruguay Round would promote another balance-of-payments crisis, an uncompetitive market and a stagnant economy.

6.2 Brazil

Brazil's path towards industrialization was not the same as other developing countries prior to the onset of the structural adjustment period in the 1980s. The experience of their trade liberalization was somewhat akin to that of the emerging economies of East Asia, including the Asian Tigers,[71] where state intervention played a major role in overall economic development. For these countries, their governments 'managed trade'[72] where considerable state leadership and direction were involved in export promotion. It was because of this type of authoritative intervention that they were in fact successful (Wade, 1990). In Brazil's case the state was heavily involved through its autarchic policies and its participation in the establishment and creation of public enterprise (Cardoso and Faletto, 1979: 138). This system was highly populist and the state played a substantial role in its industrialization through its economic nationalism. Cardoso and Faletto note that, "the state emerged as an instrument not only to regulate the industrial system but also to directly participate in it through the creation of public enterprise that was autarchic and state-controlled" (Cardoso and Faletto, 1979: 139). By the late 1980s and early 1990s reforms were underway. From 1990 to 1992, under the leadership of the

[71] **East Asian Tigers**: Taiwan, Singapore, South Korea and Hong Kong.
[72] **Managed Trade**: a process where the interventionist policies of a government restricting local and international trade results in economic advancement. This practice is heralded by scholars, including Robert Wade, who link this practice to the success of the East Asian Tigers' export-oriented economies (Wade, 1990).

Fernando Collor de Mello Government, privatization became one of the major tenets of economic reform, as noted in the National Privatization Program (Programa Nacional de Desestatização--PND). Rex A. Hudson states that,

> this was created by the National Economic Development Bank (Banco Nacional de Desenvolvimento Econômico--BNDE) and expanded the scope of privatization to include a number of the enterprises formerly considered as "strategic" by earlier governments. During the Collor government, fifteen state-owned enterprises were privatized, yielding about US$3.5 billion in total proceeds. During this period, most sales were exchanges of equity in state-owned enterprises for different types of public debt or "soft money," rather than for cash. Under the Franco government (1992-94), privatization continued but with a greater emphasis on sales for cash. Eighteen state-owned enterprises were sold, yielding over US$5 billion (Hudson, 1997: http://countrystudies.us/brazil/78.htm).

The following section discusses Brazil's path through this process.

Kennedy and Giannetti Da Fonesca disaggregate Brazil's transition into three phases. Phase I occurred between 1950 and 1966. Stemming from the exhaustion of the ISI model which caused an institutional crisis in 1964, inflation rates went from 51% in 1961 to 92% in 1964 (Kennedy and Giannetti Da Fonseca, 1989: 30-31). UNECLA was highly influential on all countries in Latin America during that time but the exhaustion of ISI became distinctly evident in 1962, prompting an institutional crisis (though it was noted that ISI was reintroduced in the mid-1970s as a result of its inability to meet its balance of payments and protect its domestic economy). The elected government of the day was consequently displaced by a military takeover of President João Goulart in April of 1964 (Kennedy and Giannetti Da Fonseca, 1989: 30). This coup resulted in military

rule for twenty-years, with the objective of avoiding the threats of communism or a political revolution on the left.

Beginning in 1967, the economy started to grow in Phase II due to major economic adjustments. Export licences were abolished and in August of 1968 a new crawling-peg[73] exchange rate was implemented. The support of export promotion also rose as a result of an exemption from income tax on export earnings instituted in the financial sectors. Between 1964 and 1967 the average nominal tariff fell from 54% to 39% as a result of import liberalization (Kennedy and Gianetti Da Fonseca, 1989:30-31). Despite this step towards export promotion, barriers to trade remained through heavy industrial protection. By this point though, exports had rapidly increased; GDP grew considerably along with an increase in foreign reserves, most significantly between 1963 and 1967. As noted by Kennedy and Giannetti Da Fonseca, this time period is known as the "Brazilian Economic Miracle" (similar to the terminology used to describe India during its economic reforms) (Kennedy and Giannetti Da Fonseca, 1989: 30-31). Crude oil was inexpensive; demand for imports around the world was high and low interest rates allowed for exports to grow. This produced positive economic benefits for the Brazilian economy (Kennedy and Gianetti Da Fonseca, 1989: 30-31).

[73] **Crawling Peg**: this allows for the adjustment of the exchange rate over time. It also permits the fluctuation of the fixed exchange rate to ensure stability and is adjusted for inflation and other market factors.

Phase III, however, did not produce the benefits that were experienced in Phase II. The impacts of the first oil shock in 1974 caused the balance-of-payments for the Brazilian economy to significantly worsen. The steps toward a more open economy that were promoted in Phase II were tightened and reversed by the government to protect itself domestically. This led to the implementation of an import deposit system[74] and increased import tariffs from 1974 to 1975. ISI was reintroduced by a newly elected government and investments were made in various sectors: pulp, copper, fertilizers, aluminum, petrochemicals, steel and capital goods (Kennedy and Giannettu Da Fonseca, 1989: 32-35). Positively, economic growth was 7% even with a large trade deficit resulting from foreign financing. By the time of the second oil shock in 1979 however, Brazil's economy was crumbling and its balance-of-payments situation led to crippling interest rates (Kennedy and Gianetti Da Fonseca, 1989: 32-35). ISI had become exhausted and liberalising trade though economic reforms became a necessity. Exports were falling, inflation increased, the country was experiencing a recession and import restrictions were implemented on many products, leading to a severe debt crisis. Brazil then sought financial assistance with the international banking community and the IMF in 1982. They negotiated a structural adjustment program with the latter and were forced to reduce imports and increase exports under a newly defined commercial policy agreement. As noted by Valls Pereira, "external conditions imposed on Brazil significantly impacted the domestic economy and led to increasing levels of inflation" (Valls Pereira, 2005: 124). The implementation of strict monetary and fiscal policies occurred along with a major devaluation of exchange rates with the *cruzeiro* being devalued by 30% in February of

[74] **Import Deposits**: Import deposits are set in place to ensure that duties on imports are paid. As such, for a period of time, money is put into an account for items such as deposits which may in fact depress imports and act as a non-tariff barrier to trade.

1983. (Kennedy and Gianetti Da Fonseca, 1989: 34-35). Currency devaluation was necessary as a macroeconomic stabilization measure in order to establish forced savings and massively cut back on spending (Taylor, 2006: 20).

Prior to the Mexican default in 1982 that started the international debt crisis, for three decades Brazil's average annual growth in GDP was more than 7.5%. In order to correct its trade deficit of 2.2% and dry up foreign finance it had to move towards a 5% surplus to meet its debt service obligations (Taylor, 2006: 20). The 1980s became known as the "lost decade" according to Lance Taylor, as Brazil's annual inflation stood at 340% with a growth rate averaging 3.3%. From 1990 to 1994 inflation reached 1645% with a growth rate of 0.8% (Taylor, 2006: 20). The *Plano Real* was implemented as a stabilization program in 1994 (Valls Pereira, 2005: 124). Economic growth was the major concern; therefore, economic reforms and macroeconomic stability were required in order for this to be accomplished. The goal was to establish comparative advantage and competiveness in the manufacturing and agricultural sectors as well as a more effective allocation of natural resources.

Coinciding with the beginning of the Uruguay Round in 1986, Brazil began to pursue economic reforms more intensively. External pressure from the IMF and the international banking community had mounted and Brazil's government realized that economic reforms were essential in order to ensure its balance-of-payments and a reduction in the country's growing trade deficit. To allow for the stabilization of the

economy, capital market liberalization was directly linked with anti-inflation packages. The control measures placed on Brazil were set in motion with the objective of increasing manufacturing exports through subsidization. This is referred to as the "heterodox plan" to reduce inflation through a monetary stabilization program. It was ultimately unsuccessful. At that time, government involvement and spending increased monetary and fiscal deficits in the context of an election year. By 1988 Brazil was experiencing a balance-of-payments crisis. This led to major changes in the 1990s. Previous monetary and fiscal policies that allowed for the freezing of exchange rates resulted in a total debt of $105 billion dollars. The former ISI method as promoted by the UNECLA was no longer sustainable and pressures mounted for import liberalization (Kennedy and Gianetti Da Fonseca, 1989: 34-35).

Terry Collins-Williams noted that, "Brazil (along with India) woke up and started to see the implications of the Uruguay Round. Not fully participating would lead to major negative economic implications including a non-competitive economy" (Collins-Williams. Personal Interview. 12 April 2012). In the Round's early years Brazil did not grasp the potential future implications of their resistance in the GATT or possible trade relationships that could be established in the near future. It was not until later in the Round that Brazil realized that not agreeing to its conclusion would lead to economic downturn and a slowing and stagnant economy.

Brazil, like other more advanced developing economies such as India, began to be influenced by the push for liberalized international trade as a new paradigm. This was eventually institutionalized at the global level, becoming the WTO itself and a legally-binding dispute settlement system that was established in the GATT/WTO in 1995. This new ideological way of thinking was noticeable in Brazil which, over the past few decades, had developed a highly sophisticated bureaucracy. This was institutionalized in its political structure with a division of labor outlined in its government ministries that dealt specifically with trade and negotiations including the Brazilian Foreign Ministry (Lacarte Muró. Email Interview. 28 July 2013). When it underwent economic reforms in the late 1980s and early 1990s, it was the result of highly specialized individuals who held long-term positions within particular ministries. This created a highly advanced, cohesive and sophisticated bureaucracy. For example, there was a high probability that a trade expert on agricultural commodities would represent this area for the duration of their career. They might change their position but their overall field would stay the same. This allowed for extensive specialization. Ambassador Julio Lacarte Muró commented to the effect that Brazilian diplomats and bureaucrats had very experienced careers working in specific ministries for many years and were followed by successors who were just as proficient. This was especially true for individuals in the Brazilian Foreign Ministry ("Itamarati') (Lacarte Muró. Email Interview. 28 July 2013).

Weekes notes that "having a strong bureaucracy that works well with their negotiating team in Geneva is a major issue for effective trade negotiations in moving issues along in the GATT. Additionally, some members of the epistemic community were in fact part of

the negotiating team for Brazil, promoting common objectives to deal with a complex set of items and advance negotiations. These included a series of economic reforms and trade liberalization" (Weekes. Personal Interview. 12 April 2012). Mr. Michael Gifford noted that, "the Brazilian delegation has a first-rate bureaucracy in Geneva. By the 1980s, it was very familiar in its dealing with many international organizations and was able to move agricultural interests forward during the preparatory process leading up to the Ministerial Meeting in 1982 that would establish the Uruguay Round" (Gifford. Phone Interview. 17 April 2012). Their knowledgeable delegation with a shared sense of normative objectives were able to bring new items to the agenda and help establish a common set of objectives in older areas (e.g. textiles and agriculture), seeking to increase market access for all developing countries.

A significant contributing factor to Brazil's economic reform and trade liberalization process was the trade epistemic community; they influenced its highly educated and knowledgeable bureaucracy by arguing for the benefits of more open economies. These individuals were Brazilian proponents of trade liberalization from economics, politics, the business community, academics and practitioners. As noted by David Hartridge, Ambassador Paulo Batista[75] of Brazil played a facilitating role during the Uruguay Round. Once having been strictly opposed to the Round and the inclusion of new issues,

[75] **Ambassador Paulo Batista** was the former Ambassador and Permanent Representative to the GATT from 1983 to 1987 and representative to the United Nations from 1989 to 1990. He received his Bachelor of Law degree from the University of Rio de Janeiro and from 1953 to 1954 was a Diplomat at the Rio Branco Institute. From 1964 to 1965 he obtained his Master of Arts degree in Political Science from Carleton University in Ottawa, Ontario, Canada. Additionally, he was a visiting professor at the Instituto do Estudos Avançados da Universidade de São Paulo (IEA). (Instituto do Estudos Avançados da Universidade de São Paulo (IEA), http://www.iea.usp.br/pesquisa/professores/ exrofessores-visitantes/ex-professores-visitantes-nacionais/paulo-nogueira-batista).

a change of interest began during the Uruguay Round. Brazil's position began to change and individuals, including Ambassador Batista, began to see the merits of adopting a more open trading system that would foster efficiency and competition. Near the early 1990s but closer to the end of the Uruguay Round, the facilitating role of Ambassador Batista came to be highly constructive in helping to bring other developing countries on-board, including those that had consistently been hard-liners during the Round. These included: India, Egypt, Argentina and Yugoslavia (Hartridge, Phone Interview. 2 August 2012).

With the help and influence of the epistemic community at work, trade negotiators in Brazil professed that adopting trade liberalization was the new way to attract foreign investment and would eventually lead to export expansion and a rise in productivity. This proved essential in gaining support of other developing countries but was best done with the support of the two main opponents, Brazil and India, who began to see the virtues of these new ideas coming to infiltrate the global trade regime. For Brazil (and India), already having a bureaucracy of persons knowledgeable in their area of specialization made it less difficult for the trade epistemic community to influence negotiations with them. This was because much of Brazil's economic success depended on highly specialized personnel responsible for particular areas of trade and development that were more open to methods that would advance their domestic interests, as they understood and could relate to the introduction of these new ideas and interests. These individuals were experts in their associated fields and expressed the importance of commodity diversification and the merits of creating a more competitive economy that

was increasingly lucrative and attractive for foreign investment (Shaffer et al., 2008: 9). For example, Shaffer et al. note that, "Brazilian law firms are among the largest in Latin America and have long engaged in international trade and investment-related work on the private side. Leading Brazilian lawyers, economists and consultants have typically studied abroad in the United States or Europe, and many have had internships, job postings or other connections with international or regional trade and development institutions, such as the WTO, UNCTAD, the World Bank and the Inter-American Development Bank" (Shaffer et al., 2008: 9).

Notably, while economic reforms led, in many cases, to reduced government intervention, much of Brazil's economic success was the result of two highly centralized entities in their government – the Brazilian Ministry of Foreign Affairs and the Brazilian Department of Foreign Trade (Carteira de Comércio Exterior do Brasil [CACEX]). These two ministries were directly involved with Brazil's delegation in Geneva who were consistently interacting with other countries' delegates (Shaffer et. al., 2008: 9). By doing so, these two ministries were able to establish trade relations with others and accomplish agreements which best suited their domestic interests. Additionally, Brazil was a highly organized and specialized state. Having more than two ministries involved in the workings of the trade regime in Geneva could complicate the process, leading to possible overlap, in-fighting and a longer decision-making process; however, in Brazil this was averted by each being responsible for specific areas. Along with their well-funded trade associations and business enterprises, this allowed for economic reforms to be implemented that would lead to enhanced trade and more export-oriented policies.

Advocates for economic reforms purported that they "promote economic efficiency and growth, gains in employment and distribution, and international convergence" (De Lourdes Rollemberg Mollo and Saad-Filho, 2006: 101). Even leading scholars and proponents of dependency theory had been impacted by the positive possibilities of liberalized trade through the influence of the trade epistemic community and the need for substantial reforms arising from the structural exhaustion of ISI. De Lourdes Rollemberg Mollo and Saad-Filho commented that,

> the Cardoso Administration was closely associated with the neoliberal transition…Brazilian economic policies shifted gradually towards neoliberalism since the 1980s and with increasing determination in the wake of the real stabilization plan of 1994. It is well known that neoliberalism is based on the assumption that market regulation is the most efficient way to coordinate economic activity, and the neoliberal transition required the curtailment of the wide-ranging economic roles of the Brazilian state (De Lourdes Rollemberg Mollo and Saad-Filho, 2006: 100-101).

Fernando Henrique Cardoso was the Minister of Finance for Brazil in 1994 and became its President in 1995. He supported the integration of the Brazilian economy into the global market for the following two years. Previously a strong supporter of ISI and one of the leading thinkers in dependency theory, he began to privatize state enterprises, opening the Brazilian domestic market to foreign competition. He also deregulated various industries, which led to the adoption of several liberal economic reforms in the mid-1990s. In this context, the arguments of the trade epistemic community had a tremendous impact which paved the way for highly significant ideological and structural changes in the global economy among highly educated Brazilian elites. They brought

new ideas that came to influence their country's path to integrating themselves into the global economy.

During the Uruguay Round, there was a competition for new expertise that began to challenge the existing norms within the trade regime. These individuals formed the basis of the trade epistemic community in Brazil and came from a variety of areas including business associations, policy institutes, law schools and firms, government organizations, think tanks, and consultancies (Shaffer et al., 2008: 3). They helped to establish relationships between the public and private sectors in order to preserve and advance the multilateral trading system while promoting and advancing goals within their domestic economies (Shaffer, et al., 2008: 3). During the later years of the Uruguay Round expanding trade liberalization as the epistemic community had encouraged became very important to both the developed and developing economies (as well as emerging countries from the South). This allowed for greater competition and foreign investment as well as the hope that improved market access would be achieved for developing economies like Brazil with interests in manufacturing and agriculture. Pérez del Castillo stated,

> evidently, the quality of domestic institutions and the political will behind them represent the core of the effective and efficient implementation of reforms. The widespread adoption of the UR agreements helped many developing countries to implement long term needed administrative domestic reforms, overcoming the limitations imposed by bureaucracies. The need to review and reorder all the set of trade and domestic support related policies in order to apply the agreements was of significant importance, leading to gains in efficiency and the reduction of unnecessary bureaucracy (Pérez del Castillo. Email Interview. 9 August 2012).

Brazil's gradual experience with economic reforms in the 1980s can be best explained by a combination of the three hypotheses. The failure of ISI and the oil shocks were the catalysts which resulted in a devastating recession, making economic reforms necessary in order to restore its balance-of-payments and macroeconomic stability. The country also was subject to heavy pressure from external forces in the international community to liberalize their trade policies, specifically emanating from financial institutions and developed countries, mainly the US. Acquiescing to these conditions was a prerequisite for receiving essential financial aid under the terms of the Washington Consensus. Finally, the trade epistemic community's influence is a plausible argument that can be made as it began to take flight during the 1980s and 1990s. While there appears to be a trade epistemic community at work in Brazil, further research on the ground using different parameters than my study is required to help demonstrate its actual influence. Further interviews of Brazilian officials from the Uruguay Round as well as subsequent years would be necessary to establish a more comprehensive account of the role of epistemic communities at this time. This influence was observed in leading developing countries, notably India and plausibly Brazil, rather than in other, smaller developing economies which were in earlier stages of independence and economic development. During this time period they experienced a shift in their interests in relation to the GATT because isolating themselves from the global trade regime was no longer a realistic means of sustaining their domestic economy.

6.3 Kenya

6.3.1 Lingering Effects of Colonialism

Kenya's legacy with colonialism largely explains its trajectory of development. In the pre-colonial period, Kenya operated under a kinship system of ownership. Agriculture, the major sector of its economy, was based primarily on production for the community as a whole rather than individual accumulation. As noted by Peter O. Ndege, under this system a small number of blood-related families acted as the political unit rather than large scale-state formations (Ndege, 2009: 1). Also, this structure of society was one where inter-ethnic interactions were fluid and due to intermarriages, trade and warfare were both sporadic and limited. Society in this period was not static but began to undergo significant changes as colonialism began in the late 1880s.

Kenya was colonized by the British, simultaneously with many other African nations, as a result of the rules set in place for occupation in the 1884/85 Berlin Conference. Nedge commented that, "together with the 1886 Anglo-German Agreement and other inter-European territorial agreements, the conference was instrumental in not only erecting artificial boundaries around Kenya but also in wrestling diplomatic initiative from the Kenyan people" (Ndege, 2009: 2). Without consulting its people, geographical boundaries were drawn for Kenya and large territorial boundaries set out by the British resulted. This led to significant challenges since it brought together nearly forty communities into the one territorial entity that was Kenya (Ogot, 2000). Combining different ethnic communities resulted in competition for resources due to ethnic and

administrative boundaries. This was most evident in the post-1945 era where nationalist struggles and the colonial state needed to adopt a system of governance that could hold the country together. This was accomplished by adopting an authoritarian system of governance in order to manage the diverse interests and numerous ethnic communities (Holmquist et al., 1994).

When countries including Kenya were colonized there was a loss of sovereign authority as a result of indigenous leaders being replaced by colonial rulers. Rather than govern on the basis of consensus amongst the leaders of the community, the colonial administration in Kenya reflected the interests of these rulers as their orders came from Britain. As noted by Ndege, "these institutions acted as legal and administrative devices that were intended to keep Africans in their subordinate place. The purpose they served included political expedience and imposition of administrative costs on Africans. Law and order was therefore maintained in the interest of British capitalist accumulation" (Ndege, 2009: 4; Mandani, 1996). Under this system of governance, individuals from Africa were excluded from participating in governing councils as a result of the colonial state's centralizing power (Ndege, 2009: 4).

Eventual decolonization was the result of increased nationalism in Kenya. Prior to their independence from the British in 1963 settlers came to inhabit much of the land due to its abundance of resources, namely raw materials, mineral deposits and other commodities including coffee and tea. However, over time the settler population grew and was increasingly unwilling to share the land with indigenous Kenyans who as a result were

forced to live on reservations. This became problematic for Kenyans since most of their industry was in agriculture and the small range of commodities they did have to trade had come from those arable land bases. This was true for numerous African colonies.

This settlers' takeover of the land and unwillingness to share with native Kenyans led to the flourishing of political nationalism. The Kikuyu peoples felt their 7.5 million acres of land had been taken from them and they were unable to inhabit it anymore (Chikeka, 1998: 51). In many instances due to their oppression and resulting protests, they were treated harshly (Chikeka, 1998: 50). As noted by Charles O. Chikeka, the settlers "had supporters in metropolitan parliaments. In all settler areas the metropolitan powers tended to pay more attention to the interests of the settlers and ignored those of the African majority. This neglect stimulated African nationalism and the determination of nationals to end settler dominance" (Chikeka, 1998: 50-51). This eventually led to the Mau Mau rebellion and as Chikeka claims, "their war of national liberation" from 1952 to 1956 (Chikeka, 1998: 51). However, the Kenyan rebels were ultimately defeated due to their lack of organization, infrastructure, equipment, food and persons for warfare. Over 10,000 African causalities resulted and others were sent to concentration camps. (Chikeka, 1998: 51-52).

In the end, although the rebel nationalists lost, the rebellion demonstrated to Great Britain that independence for Kenya was inevitable. Chikeka notes that, "in defeat, the nationalists caused a reversal of Britain's pro-settler policies. London had reached the conclusion that Kenya would be readied for full independence and should become a

member of the British Commonwealth of Nations" (Chikeka, 1998: 52). Nonetheless, once Kenya gained its independence in 1963, it found itself with a set of new problems which paved the way for its post-colonial weakness and inability to move towards trade liberalization as promptly as other developing countries at that time. Much of this was due to the legacy of issues carried over from the colonial era which continued to plague its development.

During the post-colonial period following Kenya's independence from Britain in 1963, to continue to hold its various factions together its governance maintained an autocratic structure and became even more oppressive than was impressed upon it during its colonial times. Leaders were increasingly unaccountable to Parliament. Jomo Kenyatta, who had led Kenya to its independence from Great Britain, became the first Prime Minister of Kenya. However, the promise of a new era for Kenyans was short lived. From 1964 to 1966 he pushed for the constitution to be amended to expand his political powers and he established the Office of the President replacing the Office of the Prime Minister; thereby assuming the role of both head of state and head of government with more extensive executive power (Himbara, 1994: 118). With these constitutional reforms, Kenya's autocratic presidential system led to ominous economic consequences and dismal human rights. This was a result of its lack of an accountable government structure and corrupt political leadership (Ndege, 2009: 4).

Furthermore, many individuals from the colonial era bureaucracy continued to hold their positions after independence which tended to maintain the status quo and constrained

others from rising into different portfolios. Some individuals were also given positions based on nepotism even though they were ill-equipped and/or uneducated on the particular subject matter for which they were responsible, lacking the necessary expertise (Don Nanjira. Phone Interview. 10 May 2012). Many were not experts in the art or language of negotiations themselves nor were they educated on trade-related matters. These issues led to a very unstable system which resulted in poor institutional capacity to support economic, political and social development. As noted by Kimenyi and Mbaku, "part of the reason why many Africans have relatively weak and inappropriate institutions is that many of them were inherited from the colonial governments and the people were never given the opportunity, in the post-independence period, to engage in the process of transforming and restructuring their institutions" (Kimenyi and Mbaku, 2003: 25). This proved to be the case for Kenya which still had underdeveloped domestic institutions and continued to lack in their ability to assist in the decision-making processes in GATT negotiations even by the time of the Uruguay Round. Similarly to other recently decolonized African countries, weak institutions led to a lack of foreign investment and the need for financial assistance.

This post-colonial system, with high levels of state intervention, also saw the rise of many social and political challenges, for example the state of education of business persons. As noted by David Himbara, "only an extremely limited number were entrepreneurial material. They were predisposed to look to the state to provide both financial backing and technical assistance through state agencies. This dependence on the state proved to be a major weakness, notwithstanding instrumentalist conceptions that

the Kenyans state acted as agency for European settlers" (Himbara, 1994: 159). The societal position that the Kenyan people had held in the colonial era of their own country was not conducive to supporting higher levels of education within their population. Very few were business educated due to limited resources and opportunities for schooling and development. This was a major issue since the state could not possibly fund all these business initiatives which led to them seeking international assistance. As noted by Himbara, the IFIs made efforts to develop partnerships between Kenyan businesses and international investors with a prerequisite that they act in a more accountable fashion (Himbara, 1994: 162). In many instances, liberalizing their business and banking sectors as well as moving towards trade liberalization were pre-conditions to establish their partnerships in return for financial assistance. This again reinforced their dependency on those outside Kenya.

As discussed, the Kenyan people had been pushed into colonial reservations, finding poverty and having to work on their former land which had come to belong to the settlers. Structurally most of Kenya's development initiatives under the British and settler rule were made to be held in a few urban locations. As noted by Colin Leys, "the transition from colonialism to neo-colonialism was a planned one, aimed at preserving the greater part of the monopolistic colonial economic structure in the interests of large-scale commercial, financial and estate capital by coming to terms with those leaders in the nationalist movement – a majority – who represented the new petty-bourgeoisie strata which had been formed throughout most of Kenya under colonialism. The critical issue was the terms of the transfer of mixed farms in the highlands from Europeans to Africans.

The decision that the incoming Africans should pay for the farms at full market value underwrote the position of foreign capital in the remainder of the economy, and the protection of private property in general." (Leys, 1975: 254). Therefore the structure of the system itself continued to be set to benefit the interests of the governing elite focusing more on the interests of these elites than the Kenyan majority. This reiterated the colonial relationship that had previously existed whereby the government continued to seek more power and control over the state, at the expense of the social and economic development of the country. Power concentrated in the centre eventually led to corruption and a highly impoverished country dependent on the international system for financial aid.

The government maintained strong controls on the domestic economy after Kenya's independence in 1963 up the the mid-1980s. By the time of the Uruguay Round, Kenya was still in its early stages of economic development as a result of its imperfect and under developed market. While Structural Adjustment Programs were set in place in the 1980s, price controls continued to be enforced by the government which led to exploitation and reinforced centralized political control (Maxon and Ndege, 1995; Chinsinga, 2004). Glenday and Ryan commented that,

> the Government of Kenya (GoK), has protected and controlled the country's markets, intervening on a regular basis in private exchange in an effort to meet certain societal goals. Such government control of economic activities peaked in the early 1980s and has declined since then. In the process, the country lost most of these regional markets during the 1970s. By the early-to-mid1980s, the Kenya economy was virtually closed to outside contact. The country however began opening up its economy again through trade liberalization and price decontrols starting in 1987, with liberalization reaching a peak in 1993-1994 (Glenday and Ryan, 2003: 124).

In the decades following its break from Britain, Kenya's legacies with its colonial past still influenced its ability to impact trade negotiations. Their economy remained weak and still lacked diversification since its base rested on a few primary commodities akin to their colonial situation, with heavy dependence on flowers for export and chrysanthemums (pyrethrum) as well as tea and coffee. This was primarily due to its geographical location (agriculture being its central commodity where it held a comparative advantage). This reliance on a small group of agricultural products became an impediment for Kenya, as noted by Michale F. Lofchie. He noted that its strong commitment to ISI may inhibit its ability to move towards more export-oriented trade polices as well act as a deterrent for foreign investment (Lofchie, 1990: 210). Even though they had gained 'independence', Kenya's reliance on Britain and other countries has been a recurring situation for their economy. By the time of the Uruguay Round and up to its conclusion in 1994, it continued to be financially, technologically and commercially underdeveloped. This hindered development process came largely as a result of its colonial legacies including their autocratic government's structure and policies, weak and inappropriate institutions, political and trade-related challenges as well as the societal position and geographical displacement of the Kenyan people. As a consequence of these domestic challenges, its ability to be influential in trade negotiations in the GATT remained minimal in the 1980s and early 1990s.

6.3.2 Kenya and the GATT/Uruguay Round

Kenya's experience with the GATT was very different than that of India and Brazil. Economic reforms and its move towards trade liberalization were a much slower and

more gradual process, really not getting underway until the 1990s. In general, Kenya had not been active in GATT negotiations because most of its trade policy dealings were in the Africa, Caribbean and Pacific Group (ACP) which was created in the context of the Lomé Convention of 1976. Because of this relationship and trade relations established with the EEC through the Lomé Convention stipulations on market access and cooperation had already been outlined (Ikiara, 1989: 26-27 and Gero. Phone Interview. 10 May 2012). This convention allowed for preferential access for various products based on quotas and also provided a system that dealt with investment and aid. Under the Lomé Convention, certain agricultural products from ACP countries were actually competitive in trading with the EEC. Alternatively, in the GATT, market access in the 1960s and 1970s was not easily attainable in the area of agriculture since it was not part of the negotiations.

Gerrishon Ikiara notes that in all GATT rounds, preferences given to developing countries in terms of time periods for compliance or phase-out periods were neither taken advantage of by Kenya nor was the Kenyan government active in negotiations. He notes that, "past GATT negotiations were generally regarded as being rather technical and sophisticated and Kenya focused on issues which were not of major importance to developing countries…little effort has been made to investigate possibilities of common negotiation strategies…the country has not made serious attempts to investigate the possibility of forming groupings for purpose of negotiations…and no systemic efforts have been made to enable Kenyan producers to take advantage of existing preferential trade agreements" (Ikiara, 1989: 19).

On the whole Kenya had a systematic problem. It only became a member of the GATT in 1964 following its independence from Britain; therefore, it did not have an educated and experienced negotiating team of its own. The negotiator on behalf of Kenya throughout the Uruguay Round, Ambassador Daniel Don Nanjira[76], commented that, "there were no schools to train individuals how to negotiate. Some went to school but others went to local colleges that did not have any idea how to negotiate or what that actually meant. There was an understanding that there was a need to remove protections but they needed to be trained in the art of negotiation" (Don Nanjira. Phone Interview. 10 May 2012). Following its decolonization from the British, the Kenyan government was never adequately prepared to make and enforce trade policies. Kenya also lacked the institutional and technical capacity to form an effective negotiating team since they did not have the educational and financial resources to do so. Nanjira stated that in the early rounds following its independence, this meant having outside personnel negotiate on their behalf, as was the case for most African countries at that time. Some of these individuals were expatriate western personnel and some were educated officials from surrounding

[76]"Daniel Don Nanjira has over 35 years of professional and academic background as a diplomat, teacher, lecturer, writer, human rights advocate and expert on international development and global negotiations of the United Nations system. He holds a Ph.D. summa cum laude from the University of Nairobi, Kenya, transferred from the University of Nottingham, England; a B.A. and M.A. summa cum laude from the Universities of Lodz and Warsaw, Poland and other academic credentials, including Certificates of Advanced International Studies acquired from the John Hopkins School of Advanced International Studies in Washington, DC…Dr. Don Nanjira held progressively responsible positions in the Kenya Government and has an employment record in the Kenyan Foreign Service extending over a period of 25 years… Ambassador Don Nanjira was posted to Geneva in 1992, where he served as Ambassador / Permanent Representative of Kenya to the United Nations Organizations based in Geneva and Switzerland, including the GATT/WTO and UN system Organizations based in Vienna." (IONA College, http://www.iona.edu/academic/artsscience/departments/politicalscience/faculty/adjunctfaculty.cfm).

countries that would negotiate for a regional group of African states (Don Nanjira. Phone Interview. 10 May 2012).

Even at the time of the Tokyo Round in 1973 problems persisted. Don Nanjira notes that,

> two factors caused issues for Kenya. First, external forces such as those imposed on them by the IMF and World Bank in terms of loan repayment times and interest rates. Second, were internal/domestic factors; mainly those in charge of negotiating for Kenya. However, they did not get clear and adequate instruction from home. Ministries established within the Kenyan government were divided on which issues should be most important as well as how to go about negotiating them. For example, the departments of Foreign Affairs, Trade, Planning and Finance could not all agree on what was important; therefore, in-fighting escalated. Foreign Affairs would say one thing, while Trade and Development would say another and then Agriculture would say yet another. There also existed the problem of who should be the delegate to negotiate (Don Nanjira. Phone Interview. 10 May 2012).

Indeed, Kenya did not actually participate in GATT negotiations leading up to the Uruguay Round due to its domestic limitations and lack of a team in Geneva (Collins-Williams. Personal Interview. 12 April 2012).

Prior to its reforms in the mid-1980s, Kenya experienced a balance-of-payments crisis from 1970 to 1971 as a result of its own higher tariffs and the increased severity of the licensing system that was in place. One of its main export commodities, however, continued to grow. Coffee prices were high, quadrupling between 1975 and 1977 (Bevan, Collier, and Gunning, 1999). This also affected the price of tea, which had increased by 54% by 1977. Due to these rises in prices, economic reforms were

unnecessary and foreign exchange earnings were strong (Gertz, 2008: 2). By the 1980s however, the price of coffee began to decline along with other commodities in the agricultural sector such as tea and sugarcane (Don Nanjira. Phone Interview. 10 May 2012). David Hallum from the Food and Agricultural Organization of the United Nations (FAO) commented that the reason for the decline, superficially in coffee commodity prices as he puts it, was the "significant expansion in global supplies against sluggish demand growth" (Hallum, 2003-2004). As these export commodities began to decline, widespread corruption continued to plague their economy and they suffered from a lack of expertise on finance and trade policies. Kenya then turned to the World Bank, becoming one of the first developing countries to apply structural adjustment policies which were assigned with the loan it was given in 1980. Kenya was subject to external forces in taking this step, as this loan was conditional on it employing more outward-oriented trade policies and liberalizing its interest rate and trade regime. In practice not many of these policies were adopted. As Gertz points out, "many quantitative restrictions – which had been the primary means of protection – were replaced with tariffs, but these tariffs often remained prohibitively high" (Gertz, 2008: 3). There was only an average tariff decrease of 8% and quota restrictions increased from 24% to 48% since imports were not subjected to them (Swamy, 1994 and Gertz, 2008: 3). As the economy continued to stagnate it turned to the IMF in 1982, promising reforms and further trade liberalization. However, this did not prove successful or sustainable and import controls were reintroduced (Gertz, 2008: 3). External forces were a significant factor for the government because of the policies it employed which led to a foreign exchange crisis from 1982 to 1984 (Gertz, 2008: 3).

From the mid-1980s onward real economic reforms took place due to external pressures from Kenya's donors to liberalize. Swamy notes that by 1987 tariffs were used rather than quotas as import restrictions and 40% of its imports were impacted by quantitative restrictions (Swamy, 1994). Moreover, by July 1991 import licenses were only to be utilized for security and for health reasons. Deregulation occurred in the mid-1980s and early 1990s, resulting in the depreciation of the Kenyan Shilling (KES) (Read and Parton, 2009: 570). This brought about an increase in cash crop earnings for domestic producers. The goal was to increase production and generate rising incomes (Friis-Hansen, 2000).

At the time of the Uruguay Round negotiations, Kenya's economy was based primarily on agriculture, which made up 35% of its annual GDP. Communication, services, the financial sector and tourism dominated the rest. Agriculture accounted for 60% of its export earnings and this sector employed 80% of the population (Ikiara, 1989: 31). Its exports were dominated by tea and coffee along with fresh cut flowers, falling under horticultural products. However, serious problems associated with a lack of market access, especially in North America and some European countries, continued to plague its economy. This resulted in the country's continued need for foreign financial support from the IMF and World Bank in the mid-1980s and led to the beginning of its economic reforms (Ikiara, 1989: 31).

Although a new comprehensive framework for Kenya's economic policy had been drafted in 1986, it was not until the 1990s that this structural reformation started to be

implemented. This very gradual move was designed to increase accountability and transparency as a result of major legislative changes: lifting quantitative restrictions and lowering the average tariff rate (Karingi and Siriwardana, 2001 and Read and Parton, 2009: 570). This was because Kenya relied heavily on imports to ensure growth and the production of both the manufacturing and agricultural sectors (Read and Parton, 2009: 570). Regarding Kenya's series of reforms, Bradshaw noted that it experienced, "a transition from classical dependency to 'dependent development'. This process is characterized by an increase in foreign investment in manufacturing and promoting economic expansion in the 'modern' sectors of the country. Such uneven development tends to enrich elites associated with foreign capital" (Bradshaw, 1988: 693). This held true for Kenya since its elites appeared to be following the conditions impressed upon them; however, the reform process was short lived and the country spiraled back into economic downturn and political tensions among the country's elites.

Due to its late development in comparison to other emerging economies and its very limited participation in previous GATT negotiations, Kenya had not been influenced to the same degree by the trade epistemic community. To some extent the government realized reforms were necessary as a result of the exhaustion of ISI and high levels of protectionism; however, they still had domestic issues to attend to and severely lagged behind countries with more advanced economies who were demonstrating increased growth rates as a result of trade liberalization. During this time, Kenya's interests were more domestic-orientated: developing infrastructure, health care and market access, as well as ensuring basic necessities were met. They understood the limitations of the ISI

model of economic development but did not have the institutional capacity to establish and develop a new structure. In their case, external forces from IFIs, promoting structural adjustment programs, set strict conditions on their financial aid in exchange for the assistance given. Kenya lacked the financial and technical resources required for stable and sustainable growth, and because of structural adjustments they were heavily influenced by the conditionalities of the World Bank and IMF loans. The primary problem was that high interest rates in the area of 18% were next to impossible for Kenya to pay back in the timeframe set. The lack of market access in relation to their commodity exports continued to plague their domestic economy and kept them on the periphery with little influence in the GATT and trade negotiations. For Kenya, by the time of the Uruguay Round in 1986, the most crucial areas for it to develop its comparative advantage and that it wanted to discuss in negotiations were: "agriculture, tropical products, tariffs, and non-tariff measures" (Ikiara, 1989: 31).

Kenya's experience with economic reforms and trade liberalization was in sharp contrast to those of larger emerging developing economies, including both India and Brazil. Most of the former's economic reforms were a direct result of external forces, imposed upon them by IFIs (particularly the IMF and World Bank) which heavily impressed conditionalities in exchange for financial assistance and technological resources. Additionally, a series of economic reforms were set in motion under the structural adjustment programs of the 1980s to help with their transition from ISI to more open and liberalized trade policies. By the time of the Uruguay Round, Kenya had only been independent from Britain for a little over twenty years and was still very much in its

formative stages of development, lacking expertise in trade. This made it increasingly difficult for them in negotiations that required specifically educated individuals to make sound domestic decisions as well as to have any hope of weight in influencing negotiation outcomes. For Kenya as well as many other underdeveloped countries and LDCs, in many cases (although not all the time), one individual would negotiate on behalf of several African countries (Don Nanjira. Phone Interview. 10 May 2012). In certain cases some did not even have a representative in Geneva due to a lack of financial resources. Kenya was far behind emerging economies (such as India and Brazil) and sharply challenged by poverty, corruption amongst the elites, and social cleavages amongst different groups within the country and Kenya negotiated more with other surrounding African nations rather that in the larger GATT regime. Kimenyi and Mukum Mbaku commented that, "corruption, excessive population growth, unmanageable external debt, economic policies of the industrial market economies and policy mistakes made by poorly educated civil servants and politicians have also been mentioned as obstacles to development" (Kimenyi, Mukum Mbaku and Mwaniki, 2003: 29). Due to a lack of institutional capacity, education, technological innovation and financial resources Kenya was unable to implement policies at the early stages of independence. As found in my research and interviews, Kenya's situation concentrated on the heavily-weighted negativity in their internal and external issues as well as their subsequent inability to have an effective place in negotiations. This proved to make their transition to economic reforms and trade liberalization difficult.

6.4 Conclusion

6.4.1 The Case Studies as Related to Economic Reforms

During the course of the Uruguay Round from 1986 to 1994, developed and developing countries embraced a series of liberalizing economic reforms. Both India and Brazil experienced an intellectual swing that moved their domestic trade policies away from ISI and toward more liberalized trade. Each of their reform processes was divided into similar periods, beginning in the 1980s and spanning nearly a decade. During that time period they moved towards a liberal market economy that promoted privatization and liberalization of domestic trade policies, partly in order to be included in trade regime negotiations. Both were adamantly opposed initially to the launch of a new Round; however, not opening their markets and adhering to the former model of protectionist ISI would have further isolated them from their developed country counterparts as well as denied them improved access in the much needed areas of agriculture and textiles & clothing. They came to the conclusion that opening their economies was the best policy option for them, especially since they already had a strong negotiating team in Geneva as well as greater development in infrastructure, governance and bureaucracy. For both Brazil and India, frustration and opposition to the new issues included in the Uruguay Round gave them a reason to join together on the basis of their mutual distrust of developed economies. This allowed them to assert greater influence in negotiations as strength in numbers was needed to assert their positions and represent other developing countries' interests. Their strong stance generated support and a 'demonstration effect' with other developing economies, which developed countries could no longer push to the

side and ignore. Undergoing these economic reforms allowed them access to the negotiations even if the outcome was only marginal improvement in their market access.

Kenya's experience with economic reforms was significantly different than that of both India and Brazil. It had gained independence from Britain comparatively recently and was not in any way equipped with the tools or negotiating skills of the larger, more advanced and emerging economies of the global South. It was still very much in the early stages of economic development and in order for the country to obtain financial assistance from the IMF and World Bank stricter conditions were impressed upon them. These were outlined in the Structural Adjustment Programs of the 1980s and early 1990s by developed economies' IFIs operating within the Washington Consensus, and were formally aimed at avoiding a further balance-of-payments crisis. This topic of conditionalities is discussed below to explain Kenya's acceptance of these economic reforms, even though they were rarely or ever fully implemented.

6.4.2 The Case Studies as Related to External Forces

Of the three research questions in this study, pressure from external forces is the one factor which was evident in each of the illustrative case studies during the Uruguay Round. This was most evident in Kenya as economic reforms were impressed upon developing countries. By the time of the Round, Kenya was still very much in its early stages of economic development and relied heavily on financial assistance from both the IMF and World Bank. Strict financial conditionalities were impressed upon them, such

as export-oriented trade policies, the liberalization of the financial sector and privatization of state-led enterprises. Specific repayment times were also applied by IFIs, ultimately leading to the Kenyan government's dependence on these institutions in order to rebuild their bureaucracy and rid it of the politically corrupt elite that continued to damage political, economic and social policies. While Kenya's transformation can be best explained by dependency theory, it also led to 'dependent development', as noted by Bradshaw (Bradshaw, 1988: 693). He stated that once Kenya began to open and develop its manufacturing sector, it became dependent on importing goods from developed economies in order to sustain the country's economic growth over the longer term, thus attracting foreign investment as well as diversifying its manufacturing sector.

India and Brazil however, were not subject to the same rigid conditionalities that were applied to Kenya. India applied for a loan in 1981, paid it back early and also obtained a second loan in 1991. By doing so they demonstrated their support for economic reforms. This eventually led the IMF and World Bank to loosen conditions for countries such as these because they understood that the monies loaned to them would be used for the purposes defined in their application for financial aid. By doing so would make them less dependent on external prescriptions in future international financial and trade-related considerations. Brazil also experienced pressure from external forces; however, this was not limited to IFIs. It also came from the international business community and developed economies, most notably the US. In order for Brazil to receive foreign aid from IFIs or other Contracting Parties, liberalizing trade was a prerequisite under the terms of the Washington Consensus. There was also pressure to open their economy to

financial assistance, reduce the number of state-led enterprises through privatization and diversify commodities for export. However, for India and Brazil the conditions which were impressed were less strict because they were already demonstrating success from their economic reforms. External forces need not be viewed as an entirely negative influence; rather, for India and Brazil they motivated their interest in economic reforms that came to be realized in the Uruguay Round with the Agreement in Agriculture and the phasing out of the MFA by 2005. Although those issues have yet to be fully or adequately resolved to this day, at that time these provisions of the Uruguay Round outcome were a small success for many developing countries in the negotiations.

6.4.3 The Case Studies as Related to Epistemic Communities

When examining the influence of the trade epistemic community during the Uruguay Round, one can see that this group of experts in a variety of fields had an impact on more advanced and emerging economy governments: those who were already dealing with the complexity of negotiations and the issues of importance for increasingly diverse developing economies. This was because these epistemic communities were based on a high level of expertise. Fortin noted "many officials and technocrats in developing countries share a common approach to development policy and particularly in Latin America they have indeed acquired it as a result of doing post-graduate work in US universities. In my experience this is particularly notable in the trade policy community, including decision makers in capitals and delegates in Geneva, most of whom appear fervently committed to free trade. I believe this is a factor in the adoption of a liberalising

ethos by developing country governments" (Fortin. Email Interview. 17 August 2012). LDCs and other smaller developing countries with limited and relatively undiversified markets did not yet have the same level of education or negotiation skills compared to those from countries like India and Brazil. Kenya's role in the Uruguay Round, like that of many other smaller and/or less developed countries, was therefore very minimal and they were unable to make influential concessions like their more advanced counterparts. This was not to suggest they were uninterested in the GATT or that they did not want to be fully engaged. However, due to limited resources and bargaining power it remained chronically difficult for them to have an impact on issues that developing countries were adamant about. Many became 'free-riders' on the negotiating influence of larger developing countries like India and Brazil, therefore becoming susceptible to the latter's 'demonstration effect' when they embraced the Uruguay Round outcome.

By reviewing the case studies, it can be concluded that out of the three theoretical perspectives, dependency theory (by way of the impact of external forces resulting from pressures from the international financial community) played a role in all three cases: India, Brazil and Kenya. However, an intellectual conversion and the move towards economic reforms under the liberal trade theory framework was applicable only to India and Brazil since they began to realize the exhaustion of their ISI strategies. Kenya on the other hand had only recently gained independence, was in its early stages of economic development and not at a point where it was seeing the exhaustion of ISI like India and Brazil. The constructivist approach and the influence of epistemic communities was most evident in the case of India where it could be demonstrated that it had a role in

influencing trade negotiators in Geneva, noting also that the trade negotiators for India were in fact themselves part of the trade epistemic community. However, while it is plausible that Brazil was also influenced by the trade epistemic community subsequently leading to a series of economic reforms and more open trade policies, research with different parameters is needed to prove this (which would include having discussions with former Uruguay Round negotiators and those that followed in similar positions in order to establish a more comprehensive account of the transformation itself). From my research study it appears that the epistemic community had more influence on developing countries that already had established stronger institutional capacity, more educated negotiating teams and greater resources. To this conclusion, the epistemic community was not found to have an influence in terms of Kenya. In the end, each of the three theoretical approaches has merit to explain developing countries' transformation in relation to one another as well as how major leaders like India and Brazil created a demonstration effect that would spearhead the conclusion of the Round.

Chapter 7: Conclusion

From the inception of the GATT in 1947 through to the Uruguay Round it was widely thought that developing countries were not active participants in its negotiations. This study has shown that this is not the case for all developing countries, and that the role of these countries must be nuanced. Some were very active, notably India and Brazil, who were the main leaders among developing countries and who participated in the formation of the GATT itself. It was also widely perceived that developing countries did not find utility in the GATT since many were active participants in UNCTAD and embraced variants of ISI as their industrial policy. This notion also lacks firm ground. Research found that smaller developing economies and less developed countries with weak economies did not have the institutional or technical capacity to significantly influence or even participate in negotiations (Lanoszka, 2009: 201-202). Additionally, the structural limitations of the GATT made it difficult for them to participate due to: the lingering effects of colonialism, the principal supplier rule, the principle of reciprocity, special and differential treatment, the focus on tariff negotiations and their lack of technical and institutional capacity.

The dissertation then examined why developing countries changed course, most notably during the Uruguay Round, to become more active in the negotiations as a group. The changing nature of their behaviour and the concomitant series of economic reforms that developing countries underwent during the 1980s and 1990s were also addressed. The

three research questions were directed to divergent aspects of this phenomenon and carried different weight for each of the three illustrative case studies (India, Brazil and Kenya). Three theoretical perspectives were employed to help explain their transition: liberal trade theory, dependency theory and constructivism, with particular emphasis on the role of epistemic communities. The literature was surveyed and extensive interviews were conducted with GATT negotiators, academics and trade practitioners. Taken together, this evidence demonstrated various trends, similarities, and differences in their paths to economic and trade policy reforms. In sum, no single theoretical perspective can provide a comprehensive account of the conversion of developing countries to support for liberalized trade. Each country underwent its own trajectory, with the larger and more influential among them becoming the source of a powerful 'demonstration effect' to countries which were essentially, and to varying degrees, policy takers in the context of the negotiations.

7.1 Differences in Levels of Developing Countries' Participation in the GATT

Much of the literature has suggested that developing countries did not want to participate in the GATT since by the 1960s and 1970s many (particularly, though not only, the Latin American economies) employed ISI as their industrial strategy. However, the findings of this dissertation demonstrated that there were a host of reasons that developing countries were not active in negotiations until closer to the time of the Uruguay Round. A lack of participation was highly evident in smaller and less developed countries, including Kenya, due to minimal resources and expertise as well as the limited relevance of the GATT given the salience of the Lomé Convention arrangement; however, larger and

more diversified developing countries like India and Brazil were always more active. The level of activity was stronger in more advanced economies, while others remained at a distinct economic and political disadvantage. Therefore, it is untrue to suggest that all developing countries were not active in the GATT. In fact, a more fine-grained analysis shows that some were considerably more active than others.

7.2 The Lingering Effects of Colonialism

Some developing countries had once been heavily dependent on their imperial powers not only for resources but also because they spoke on their behalf in areas of trade, absent the technical and institutional capacity to participate in Geneva due to deficient finances, bureaucratic resources and political weight. By the time of the Uruguay Round, almost all developing countries had become independent of imperial powers and were no longer under colonial rule. However, their transition to political independence was still new and in some respects unconsolidated. In fact, in the earliest GATT rounds those still remaining as colonies had no standing to participate in their own right. This was evident in the case of Kenya which became an official member of the GATT/WTO only in 1964, and thereafter did not have strong or effective negotiating teams due to a lack of education, expertise and resources. Brazil and India, on the other hand, became GATT members in 1948 allowing them greater time to generate strong negotiation teams in Geneva as a result of their more advanced economies and relatively strong resource bases (human and financial).

7.3 The Principal Supplier Rule and the Principle of Reciprocity

During early GATT negotiations, the negotiation process was oriented towards the greater benefit of developed economies; a game of power politics amongst those countries that eventually emerged as the Quad in 1981 and who were *principal suppliers* of numerous commodities, especially the US and EEC (although the EEC did not initially exist as a distinct entity). Developing countries were not the *principal suppliers* of any commodity during the post-World War II era meaning they could not effectively participate in negotiations. As noted by the World Bank, "for 70 percent of the world's poor who live in rural areas, agriculture is the main source of income and employment" (World Bank, http://data.worldbank.org/topic/agriculture-and-rural-development). This was a substantial contribution to many economies of developing countries. This was especially true for many least developed countries (LDCs). Due to high levels of subsidization by developed economies in this area, along with the fact that agriculture was deliberately left out of GATT negotiations, developing countries had a very limited basis on which to participate. They maintained that they were willing to engage in negotiations but the structural and procedural limitations of the GATT effectively prevented them from doing so; they were unable to make reciprocal concessions under the *principle of reciprocity* in the same way as the larger, more advanced developing economies. Most had not diversified into the manufacturing sectors, limiting economic development in many countries.

7.4 The Impact of Tariff Negotiations

Tariff negotiations heavily dominated the post-World War II period amongst the industrialized economies. It was not until the Tokyo Round (except for one anti-dumping code in the Kennedy Round) that other issues besides reducing tariffs became prominent, including: non-tariff barriers, anti-dumping and countervailing duties. Tariff negotiations had been the core of the GATT's work for several decades and put developing countries at a disadvantage because in many cases, their interests lay largely in agriculture and textiles and clothing. Agriculture was left out of the negotiations; while several import quotas were placed on textiles and clothing causing financial difficulties. It was not until the Uruguay Round that a very limited and shallow Agreement on Agriculture (AoA) was established, largely as a result of the lobbying of the Cairns Group, incorporating both developed and developing country producers. Also, the Multi-Fibre Arrangement (MFA) was to be phased out over a ten year period and removed in 2005. In principle these two agreements were to be fulfilled, but many issues in these sectors have not yet been resolved to this day and have continued to stall the Doha Development Agenda which began in 2001 in Doha, Qatar.

7.5 Special and Differential Treatment

Developing countries, up until the later years of the Uruguay Round, were proponents of special and differential treatment under the GATT since their economies were generally far less advanced than their industrialized counterparts. However as the Uruguay Round negotiations unfolded, many feared being left out of the multilateral trade regime,

0especially the larger developing countries, including India and Brazil. Maintaining this type of treatment excluded them from having weight at the negotiation table and also limited trade relations with the developed economies in areas where they had a comparative advantage. This also kept them on the periphery of the GATT and in a perpetual cycle of relative underdevelopment and isolation, as was the case when employing ISI. Once the exhaustion of ISI became apparent, economic reforms were then set in motion and trade liberalization began to occur.

7.6 A Lack of Technical and Institutional Capacity

Of the three illustrative case studies, Kenya (like many other developing countries) clearly lacked the technical and institutional capacity to effectively negotiate, even by the time of the Uruguay Round. They lagged behind as a result of their recent independence, corruption amongst the political elites and varying levels of education (Bradshaw, 1988: 693). Without an educated and knowledgeable negotiating team in Geneva, their abilities at the table were inadequate. Furthermore, a lack of financial resources limited their means to even send a delegate to Geneva. This resulted in minimal representation. Daniel Don Nanjira, who negotiated on behalf of Kenya during the Uruguay Round, re-affirmed the obstacles and difficulties of being a delegate in Geneva for smaller and least developed economies. Domestic ministries did not necessarily share the same points of view; therefore, there was often contradictory direction given to negotiation teams which resulted in infighting amongst government departments. This posed a significant challenge especially for delegates who were new to negotiations in Geneva and meant

lengthy and at times tiresome discussions (Don Nanjira. Phone Interview. 10 May 2012). Research interviews found that this was not uncommon for many smaller and least developed economies, many of which had only minimal delegations present in Geneva or, in some cases, no delegation at all. Effective influences in negotiations could not be realized under these conditions.

India and Brazil were not in the same position and had sophisticated negotiation teams in Geneva with experts on trade relations who had strong cohesion amongst themselves and their respective government. They made their issues known and negotiations were purposely stalled in order to obtain more time for discussion and collaboration. This method was used many times by developing countries including India and Brazil to ensure their interests were heard, even at the expense of having negotiations move forward. This was best seen during the Uruguay Round negotiations in the new areas of trade in services, intellectual property and investment. It was also the method used to promote their interests in establishing an Agreement on Agriculture (AoA) and an agreement to phase out the Multi-Fibre Arrangement (MFA) by 2005. However, as shown in Chapter 4, while these were discussed thoroughly in the Uruguay Round, even today key issues within agriculture and textiles and clothing have not been fully or adequately addressed.

7.7 Conclusions on the Core Research Questions in the Uruguay Round

7.7.1 Liberal Trade Theory & Economic Reforms

By the time of the Uruguay Round, a series of economic reforms stimulated by the premises of liberal trade theory were in motion. Government intervention was reduced in order to make way for a freer market economy allowing for free trade and competition to flourish. This was occurring not only in developed economies but was also slowly beginning in many developing countries. During the 1980s and early 1990s, this was most evident under the Ronald Reagan Administration in the US and the Margaret Thatcher Government in the UK which promoted privatization, low inflation and a 'smaller state' through strict control over the country's money supply (though the US at this time still presided over large fiscal deficits and massive defence spending, providing direct government stimulus to the economy).

During this time, the global economy experienced major structural changes and developing countries shifted their attitudes on the importance of integrating themselves into it. By the mid-1980s, ISI policies were no longer producing benefits to them because protectionist trade policies were exhausting their economies and could not sustain long-term economic development. Levels of economic growth began to decline under the impact of shocks from a series of seminal events and the devaluation of currencies ultimately led to inflation, high unemployment, increasing debt and a balance-of-payments crisis for an increasing number of countries. The oil shocks of the 1970s and the subsequent Recession of 1982 brought many to accept the necessity of more open

economies. This was very evident in the cases of India and Brazil. Many increasingly advanced developing economies such as these began to undergo unilateral trade liberalization in an attempt to become more open and integrated into the global trade regime, thereby expanding their economic competitiveness. Furthermore, they went through a series of related economic reforms including new industrial policies, privatization, increased fiscal discipline and technological development meant to enhance efficiency and competitiveness in certain sectors where they saw a comparative advantage.

Seminal events of the 1980s and 1990s, including the collapse of the Soviet Union and the economic model of the centrally planned economy, resulted in a shift in policy direction towards more open economies, the promotion of economic cooperation by increased market access and trade liberalization. Inward development and heavy government intervention shifted to more export-oriented liberal trade policies in an attempt to be more competitive internationally. This was already noticeable in Brazil and India as well as other countries such as those noted in Chapter 5 with Rudiger Dornbusch's discussion on Turkey, South Korea and Mexico. Countries in these types of groups demonstrated that more open economies were proving successful over the longer term by improving balance-of-payments situations, establishing free trade agreements with developed countries and attracting foreign investment. Smaller and less developed countries like Kenya experienced economic reforms as well under the terms of the structural adjustment programs of the 1980s, although their reforms were more gradual

and halting. However, major trade policy alterations did not occur for them until after the Uruguay Round had concluded.

Shifting domestic trade policies and the move to liberalizing economic reforms by many developing countries during the 1980s and 1990s were thus a result, at least in part, of their choices and self-interests based on historical circumstances. The change in dominant ideology focused on more open markets and more internationally integrated economies, rectifying the structural crises which resulted from the exhaustion of ISI and therefore ensuring sustainable economic growth over the longer-term. Not all developing countries underwent economic reforms at the same time, nor was there a one-size-fits-all approach associated with the reforms that took place during, or after, the Uruguay Round. Each developing country, based on their domestic interests and needs, underwent economic reforms which they supposed best contributed to their pursuit of prosperity, though positive results were not always realized on similar or comparable levels.

7.7.2 Dependency Theory & External Forces

Dependency theory focuses attention on the forces exercised by external actors on developing countries – particularly international financial institutions, including the IMF and World Bank, along with some bilateral relationships between advanced capitalist and developing countries, like that between the US & Brazil, noted in Chapter 1. To some extent, external pressures played a role in all of the illustrative case studies in this dissertation. During the 1980s and 1990s, structural adjustment programs were designed

with the declared purpose of assisting developing countries with long-term economic development (as outlined in the Washington Consensus). A country receiving a loan had to adhere to defined conditionalities and strict repayment timeframes. By the time of the Marrakesh Ministerial Meeting in 1994 unilateral trade liberalization had occurred in 24 developing countries and the process was underway for several others.

One of the first countries to receive a World Bank Structural Adjustment loan was Kenya. The conditions included a requirement that the country move towards trade liberalization and adopt more open trade policies over their adjustment period. In order to obtain a loan, stricter conditions were impressed upon the Kenyan government since their economy was small and unstable in the aftermath of independence in 1963. This was the result of volatile commodity prices in coffee, sugar and tea as well as the highly corrupt political elite that dominated their landscape, lacking the ability to generate the necessary funds to pay back the principle amount plus the interest in a specified time. Kimenyi and Mbaku noted that, "many of the so-called policy mistakes made by African elites have actually been deliberate programs designed and implemented by opportunistic bureaucrats and politicians seeking ways to enrich themselves" (Kimenyi and Mkabu, 2003: 2). Therefore, the IMF and the World Bank imposed conditions to ensure monies were given to designated areas and the recipient governments would adhere to the stipulations imposed. However, IFI conditionalities were very onerous and controversial, including for example substantial cutbacks in funding for social programs and education. Furthermore, Kenya's political and economic conditions were worse than India's and Brazil's not only because they had a dramatically smaller market size but also since they

had only recently gained independence from Britain and were in the very early stages of economic development, lacking infrastructure and the education needed to spawn development. Therefore, they were given stricter limits on the timeframe for loan repayment as well as the amount of funds received. The pressure for Kenya to move towards liberalized trade was heavily impressed upon their agricultural and manufacturing sectors with the objective of attracting foreign investment and competition. Over time this led to what Bradshaw describes as 'dependent development' since Kenya became dependent on the developed economies for imports in their manufacturing sector. Their goal was to increase economic development and attract foreign investment (Bradshaw, 1988: 693). Through employment of structural adjustment programs in the 1980s they aimed to move beyond strict government controls in order to be competitive in the global trade regime. However, Kenya became the victim of economic stagnation during the 1980s and early 1990s, resulting from a slow series of economic reforms which ultimately did not produce the results intended due to a fragile economy as well as poor economic and political infrastructure in place at the time.

The conditions imposed upon India and Brazil were somewhat different. India went to the IMF twice for financial assistance. The IMF was originally reluctant to allocate the amount which India initially requested, the largest amount ever. However, the loan was eventually granted. Not all the funds were spent and it was paid back in full and on-time based on the conditionalities impressed upon them. Due to India's strong commitment to development and economic reforms, less strict conditions were imposed on the second loan due to the success of the first. Brazil too experienced financial pressure from the

IMF and the US government to move towards trade liberalization in order to reduce its accelerating debt and to ensure it maintained a positive balance-of-payments. Brazil was to promote its manufacturing sector for export to generate greater trade.

It can be concluded that external forces played a significant role in reinforcing a dependent relationship between international financial institutions and developing countries. Financial assistance was given on the condition that developing countries follow a set of guidelines, all of which included liberalizing economic reforms. Particularly in the Uruguay Round, these pressures continued to mount. This compelled developing countries' governments to adopt trade liberalization as a step towards becoming more integrated into the global economy.

External forces were also evident in the Uruguay Round between the developed and developing economies in terms of the issues set on the agenda. The developed economies, specifically the US and EEC, were insistent that three specific new issues be placed on the agenda: services, intellectual property and investment. India and Brazil, along with other developing countries, were strictly opposed to these being included since they believed that the previous issues introduced in the Tokyo Round should have been dealt with before new issues were added. In the end, due to extensive bargaining to establish the Agreement on Agriculture (AoA) and the phasing out of the Multi-Fibre Arrangement (MFA), an exchange was made; however, it was an unequal exchange that did not materialize into what was originally agreed upon. The *Inequitable Grand*

Bargain for developing countries was that if agriculture and textiles & clothing were on the Uruguay Round agenda, they would then agree to the inclusion of the new issues pushed by the US and EEC. Developing countries had no choice but to accept this deal since their markets heavily depended on these two areas, which for many were their primary sources of exports to developed countries' markets. They feared if they rejected the GATT that they would be marginalized from the liberal trade regime and unable to participate in or influence future negotiations. This was also where the 'single undertaking' became particularly important in order to get all parties to accept the negotiations of the Uruguay Round. External forces thus helped to push agendas forward even though their inclusion reinforced the inequity of the trade regime.

7.7.3 Constructivism & Epistemic Communities

A major change in thinking occurred during the Uruguay Round negotiations. The shift in attitude by some developing countries, such as India and Brazil, towards the GATT can be partially explained using a constructivist approach and its discussion of the role of epistemic communities. Prior to the Uruguay Round many developing countries were considered observers rather than active players in negotiations; however, over the course of the Round this situation began to dramatically change. They became more assertive in trade negotiations and no longer accepted deals which were not in their best interest (although near the end of the Round they compromised on trade in services and intellectual property in exchange for reforms in agriculture and textiles & clothing), nor were they willing to take a back seat when addressing their concerns about new areas

introduced on the agenda. Increasing integration of the global economy had brought on a fresh way of thinking about the world, notably reinforcing and institutionalizing a more multilateral trade regime. Perceptions and ideological attitudes were changing amongst the Contracting Parties as a result of seminal events, external pressures and the exhaustion of ISI and many, especially in developing countries, underwent economic reforms and trade liberalization. With all of these major changes occurring, national governments did not have the capacity to fully engage in the global trade regime or the negotiation process itself. In order to provide them with the information and policy advice they required they solicited input of the epistemic community of highly specialized trade experts. Though a direct causal and analytical link could not be determined it can be inferred through the bulk of evidence that the interaction of these negotiators during the Uruguay Round resulted in social learning amongst the delegations and associated governments, resulting in the emergence of new trade policies and accompanied by the rise of new 'technocratic elites' in many developing countries.

In terms of trade relations between countries, in order to establish a relationship with potential (long-term) trading partners, open domestic markets were seen to be required to attract foreign investment and competition. Some developing countries realized that they should capitalize on what they are good at exporting and the commodities that would benefit their overall economy and elevate their comparative advantage. This is iterated by Alice Amsden who explained the 'Rise of the Rest'. Through observation and

complex social learning the 'Rest'[77] and the epistemic communities of the domestic governments realized that attempts to compete in areas where the US and EEC held a comparative advantage were not going to reap benefits for them. Therefore, they began to understand that capturing a market where they themselves held a comparative advantage was most advantageous. This eventually became the most desirable outcome in order to increase their revenues from export commodities (Amsden, 2001).

It is significant that the old power-politics that had dominated the GATT since the end of the Second World War never fixed social identities. However, it was found that change could result from social learning amongst negotiators through their interactions with one another. Common interests and identities emerged allowing for the establishment of new norms with shared meanings and collective understandings associated to them. Through the use of epistemic communities by developing countries' governments, they came to new shared understandings as a result of their interactions within the trade regime. For example, emerging economies such as India and Brazil knew that in order to compete with the US and the EEC in negotiations, they would need to establish themselves in the global market and assert a comparative advantage that they could produce most efficiently with minimal cost. As a result of their 'social learning' and coming to terms with this reality, they began talks with other developing economies which allowed for greater interaction, collaboration, and time to assess other countries' domestic needs.

[77] "**The Rest**: "China, India, Indonesia, South Korea, Malaysia, Taiwan, and Thailand in Asia; Argentina, Brazil, Chile, and Mexico in Latin America; and Turkey in the Middle East" (Amsden, 2001: 1)

They were able to establish a level of trust amongst one another by helping to bind together in negotiations, pushing their agendas and interests along.

The nationalistic policies of the 1970s were no longer compatible with the new interests and identities that had been socially constructed within both the developed and developing economies as a result of the growing influence of this epistemic community. It began to promote the benefits of more open and liberal trade policies which changed collective norms in the global trade regime. These knowledge experts, many of which were educated in the West by universities and educators with a strong liberal orientation, influenced domestic policies of many advanced developing economies to undergo reforms in the 1980s and 1990s. Because of developing countries' increasing engagement in and dependence on the trade regime, economic reforms came to be understood as necessary and this group brought it to their attention and then shaped their direction.

By the time of the Uruguay Round and most evident in the last couple years of the Round, there were sharply divergent perspectives between developed and developing countries on how to deal with both the old trade issues (agriculture and textiles & clothing) and the new issues (services, intellectual property, and services). The embedded norms that existed for decades before this Round and were established by developed economies were no longer compatible with the GATT. An increase in its membership and greater resistance by developing countries to both it and its interests

began the push for change in the way it operated. With the help of the trade epistemic community of academics, economists and bureaucrats, new norms were established as identities and interests changed and new perceptions and ideas began to flourish.

This was demonstrated by the change in behaviour of India's officials who were influenced by these new ideas emerging through the influence of the epistemic community. Some of India's delegates and government officials during the Uruguay Round were educated overseas. For example, this was the case for then Finance Minister Manmohan Singh and also P. Chidambaram (serving as the Minister of State for Personnel, Public Governance and Pensions during the early years of the Uruguay Round) who came back to their country to present the benefits of trade liberalization. Government officials had children and grandchildren studying abroad and even they themselves had left to obtain university degrees from Western schools before returning back home to fill vacant government positions in many cases. Individuals in India as well as other emerging economies such as Brazil, whose Ambassadors and negotiators were heavily specialized on particular trade issues, came to understand and exert the benefit of more competitive trade which would increase collaboration and efficiency amongst the Contracting Parties of the GATT. Both Weekes and Collins-Williams noted the sophistication of the Brazilian delegation in Geneva and also those dealing with trade policies from Brazil itself.

During the course of the Uruguay Round, the views of the trade epistemic community changed and began to influence agenda-setting and policy formation. Both India and Brazil's bureaucracies were highly developed and influential in blocking decisions as well as asserting their role in the GATT. Moreover, Weekes and Collins-Williams noted that people in those positions generally stayed in their field due to their level of knowledge and expertise in a given trade area (Weekes and Collins-Williams. Personal Interview. 13 May 2012). They were able to establish a common set of objectives on complex issues and form relations of trust between delegations, which were essential for agreements to be created and concluded. The state-led economy began to change with the influence of their new ideas and a fresh way of thinking about the global economy. This was most evident in the emerging economies of India and Brazil since they had stronger governments with highly specialized and centralized bureaucracies. This, coupled with their increased access to financial resources, expertise and technology, allowed for their transition into more open and integrated economies. Furthermore, they had been independent for decades and had the opportunity to undergo various reforms after the Second World War.

Epistemic communities may have played a major role for some developing countries but their influence was less observable in influencing other, smaller and/or least developed economies that were still in their early stages of economic, political and bureaucratic development, lacking both financial and technical resources. For example, Kenya had only recently gained independence from Britain in 1963 and was still very much in the early phase of development, with a fragile economy and lack of financial resources.

They were late coming into the GATT (1964) and by the time of the Uruguay Round they were still struggling with high inflation and a volatile, slowing economy. To increase accountability and transparency, Kenya was in the process of making major legislative changes. While the Kenyan government realized reforms were necessary they relied on more support from the IMF and World Bank for aid to help manage their balance-of-payments, precisely because they lacked major financial and technical resources. In assessing the case of Kenya, the influence of the trade epistemic community was less observable during the time of the Uruguay Round. By this time they were still trying to meet their basic domestic needs, dealing with the legacies of the country's colonial past and trying to establish themselves as an independent political and economic actor.

The constructivist approach, in developing the concept and role of epistemic communities, provides explanatory value in helping to understand the change of attitudes and norms in the global trade regime amongst many (particularly more advanced) developing countries. One of the major explanatory components of constructivism is dealing with uncertainty and the Uruguay Round enveloped this notion. No one knew if in fact the Round would be concluded up until the bitter end; nor did they know whether it would produce the benefits projected by its advocates. However, when states become involved in negotiations, the negotiations themselves build a dynamic towards a conclusion in which governments have a vested interest. Developing countries, led by India and Brazil, began to change their attitudes and embrace a rules-based multilateral trade regime. These leading 'Southern' countries exercised what circumstantial evidence indicated to be a '*demonstration effect*' and came to influence other developing

economies. They felt that since they were in favour of concluding the Round (albeit, not until the very end) they could collectively pressure the developed economies into negotiating items that were also in their interests. With new ideas introduced into the trade regime, the interaction between and amongst economies and policy makers began to re-shape interests and identities. The trade epistemic community had great influence in this process as a result of their expertise and specialization, giving them legitimacy within GATT negotiations. Roles became defined by the actions of the negotiators, creating new norms and collective identities. The actors reproduced the identities so behaviour began to constitute interests. Preserving the multilateral trade regime became a collective norm which resulted in reciprocity amongst the Contracting Parties through interaction and social learning. Because of this, a new rules-based regime was created that came to be institutionalized under the WTO.

7.8 The End of the Uruguay Round

Eight Rounds of trade negotiations had taken place by the end of the Uruguay Round. The Final Agreement was signed in Marrakech, Morocco on 15 April 1994 after nearly a decade of negotiations. Following the signing of the Agreement, the World Trade Organization was established on 1 January 1995. By this time most countries had acceded to the GATT/WTO to avoid having to go through the lengthy accession process that would follow under the newly established rules-based trading system.

The Uruguay Round was characterized by Sylvia Ostry as the 'North-South Grand Bargain', based on the Round ending with agreement between the US-EEC and India-Brazil. For the first time in GATT negotiations agriculture was added to the agenda to address possible reforms and greater market access for the exports of developing countries, which in many cases held a comparative advantage in this sector. Additionally, it was agreed that the Multi-Fibre Arrangement (MFA) would be phased out over a ten year period and completely ended by 2005. It was also agreed that a fully institutionalized Dispute Settlement Mechanism (DSM) would be created to address trade conflicts between countries that were not adhering to GATT/WTO rules. The goal of the DSM was to establish legal equality amongst the Contracting Parties, regardless of whether they were developed or developing economies. Finally, the new creation of the WTO that came about from the GATT was established to ensure the future of the multilateral trade regime.

However, these offerings as part of the 'Grand Bargain' could be looked at as a manifestation of coercion on the part of the developed countries: even if developing countries would finally see agriculture and textiles & clothing on the GATT agenda the trade-offs were essentially asymmetrical and did not result in the most desired outcome. This was because, on the other side of the 'Grand Bargain', the US and EEC gained new rules for trade in services, investment and intellectual property, while their concessions on agriculture and textiles & clothing were practically very minor. In the end they persuaded India and Brazil to concede and agree to the Uruguay Round by using the threat of excluding them from multilateral trade negotiations in the future should they not

comply under the 'single undertaking' required for the Round. This 'single undertaking' therefore was a critical component in the completion of the Uruguay Round. The fear of being further isolated from the multilateral regime and losing market access as a result weighed heavily on developing countries' calculations and interests. India and Brazil took the lead, holding off until the last possible moment to avoid having some issues purposely left off the agenda. In the end however, power politics dictated an exchange between the North and South, or more particularly between the US-EEC and India-Brazil. This occurred in the wee hours of the morning and allowed the Round to be concluded.

One of the most interesting findings in this research study is the importance of the 'demonstration effect' amongst developing countries. India and Brazil were initially opposed to the launch of a new Round of trade negotiations in the 1980s. However, they eventually were persuaded by the US and EEC to agree to the terms set out in Geneva in exchange for putting some of their interests on the negotiation table and, ultimately, embedding them in the final agreement. It took nearly a decade for developing economies to come on board and support the Round. At the time, India and Brazil were the leading and most influential developing economies in the trade regime. The behaviour and positions they expressed was observed by other developing countries as well as LDCs and acted as a catalyst for the change in developing countries' attitudes towards the GATT, particularly during the Uruguay Round. By the end of this Round, membership had dramatically increased to 123 Contracting Parties. This created a new dynamic within the trade regime that involved countries with very different issues and vastly different levels of economic development. It was the first time in its history that

the old GATT structure could no longer address the issues put forth on the negotiation agenda. This caused the evolution of the GATT into the fully institutionalized organization of the WTO.

While some concessions were made by the developed countries, they were not enough to elevate developing countries' market opportunities to what was pledged by the North in terms of generating more open trade. Developing economies still struggle with access for their agricultural and textiles & clothing sectors, due to quantitative restrictions and high tariffs. Since these issues have not yet been satisfactorily resolved, it brings into question the validity of the pledges made to developing countries in the 'Grand Bargain'. Interestingly, although the WTO operates under a rules-based system it has yet to fully deal with agriculture or phase out all of the Multi-Fibre Arrangement items that were negotiated in the Uruguay Round. This has stymied the Doha Development Agenda which commenced in 2001 and has yet to be completed. Additionally, the use of informal meetings by the Director-General in the Doha Round has not been as prominent as with former Director-General Arthur Dunkel and his informal Green Room meetings during the Uruguay Round. This has led to long and ineffective negotiations. Under the WTO's rules-based trading system most governments continue to play by the rules but there are still basic disagreements over issues that have been dominant for decades. While some reforms to textiles & clothing have emerged, agriculture still remains at the crux of the conflicts in the trade regime. It is not an unfamiliar topic amongst the membership and continues to cause considerable tension in negotiations for some, though not all, developing countries whose major commodities remain in this sector.

Furthermore, now that membership is climbing further, more diverse interests are making it even more difficult to reach consensus.

The dramatic ideological shift in developing countries' attitudes in the Uruguay Round was the necessary foundation for the 'Grand Bargain' between the developed and developing economies, leading not only to the presentation but also a significant extension of the multilateral trade regime. The research makes it evident that the change in the attitude of developing countries in the Uruguay Round and their move toward economic reforms and trade liberalization was successful for several developing countries that otherwise would have remained on the periphery of the trade regime. Some smaller and/or least developed countries, such as Kenya, are still struggling with their development agenda; however, other countries, including India and Brazil, continue to make significant headway and increase their GDP, economic growth and employment levels in certain sectors. Therefore, it can be said that one consequence of the Uruguay Round is the growing divergence and disparity *'between'* developing countries. The economic reform processes that developing countries underwent are all somewhat different and unique to their own circumstances. Theoretically, no one perspective in this research study can adequately assess or explain the behaviour of the illustrative case studies collectively; however to establish a full picture, important theoretical lessons must be drawn from each of the developing countries to examine their various stages of economic reform, to determine what influenced their transition and how each went about it. After the decade it took to conclude the agreements of the Uruguay Round the way

was not only finally paved for future negotiations but also conditioned for deadlock under a newly established and institutionalized organization – the WTO.

Appendix I

THE BOXES-DOMESTIC SUPPORT IN AGRICULTURE

THE BOXES

In WTO terminology, subsidies in general are identified by "boxes" which are given the colours of traffic lights: green (permitted), amber (slow down - i.e. be reduced), red (forbidden). In agriculture, things are, as usual, more complicated. The Agriculture Agreement has no red box, although domestic support exceeding the reduction commitment levels in the amber box is prohibited; and there is a blue box for subsidies that are tied to programmes that limit production. There are also exemptions for developing countries (sometimes called an "S&D box", including provisions in Article 6.2 of the agreement).

AMBER BOX

All domestic support measures considered to distort production and trade (with some exceptions) fall into the amber box, which is defined in Article 6 of the Agriculture Agreement as all domestic supports except those in the blue and green boxes. These include measures to support prices, or subsidies directly related to production quantities. These supports are subject to limits: "*de minimis*" minimal supports are allowed (5% of agricultural production for developed countries, 10% for developing countries); the 30 WTO members that had larger subsidies than the *de minimis* levels at the beginning of the post-Uruguay Round reform period are committed to reduce these subsidies.

The reduction commitments are expressed in terms of a "Total Aggregate Measurement of Support" (Total AMS) which includes all supports for specified products together with supports that are not for specific products, in one single figure. In the current negotiations, various proposals deal with how much further these subsidies should be reduced, and whether limits should be set for specific products rather than continuing with the single overall "aggregate" limits. In the Agriculture Agreement, AMS is defined in Article 1 and Annexes 3 and 4.

BLUE BOX

This is the "amber box with conditions" - conditions designed to reduce distortion. Any support that would normally be in the amber box, is placed in the blue box if the support also requires farmers to limit production (details set out in Paragraph 5 of Article 6 of the Agriculture Agreement).

At present there are no limits on spending on blue box subsidies. In the current negotiations, some countries want to keep the blue box as it is because they see it as a crucial means of moving away from distorting amber box subsidies without causing too much hardship. Others wanted to set limits or reduction commitments, some advocating moving these supports into the amber box.

GREEN BOX

The green box is defined in Annex 2 of the Agriculture Agreement. In order to qualify, green box subsidies must not distort trade, or at most cause minimal distortion (paragraph 1). They have to be government-funded (not by charging consumers higher prices) and must not involve price support.

They tend to be programmes that are not targeted at particular products, and include direct income supports for farmers that are not related to (are "decoupled" from) current production levels or prices. They also include environmental protection and regional development programmes. "Green box" subsidies are therefore allowed without limits, provided they comply with the policy-specific criteria set out in Annex 2.

In the current negotiations, some countries argue that some of the subsidies listed in Annex 2 might not meet the criteria of the annex's first paragraph - because of the large amounts paid, or because of the nature of these subsidies, the trade distortion they cause might be more than minimal. Among the subsidies under discussion here are: direct payments to producers (paragraph 5), including decoupled income support (paragraph 6), and government financial support for income insurance and income safety-net programmes (paragraph 7), and other paragraphs.

Some other countries take the opposite view - that the current criteria are adequate, and might even need to be made more flexible to take better account of non-trade concerns such as environmental protection and animal welfare.

(Source: WTO, 2002)

Appendix II

Interviewees & Affiliations

Abbot, Roderick: Former Senior EEC Negotiator on Market Access during the Uruguay Round.

Collins-Williams, Terry: Deputy Canadian Ambassador to the GATT during the Uruguay Round.

Curtis, John: Former Canadian negotiator on TRIMS and also an expert on intellectual property.

De Mateo, Ambassador Fernando: Mexico's Permanent Representative to the WTO and during the Uruguay Round was served as Mexico's chief negotiator on services.

Don Najira, Daniel: Former Ambassador and Permanent Representative of Kenya to the GATT during the Uruguay Round.

Fortin, Carlos: Research Associate at the Institute of Development Studies at the University of Sussex, UK and Deputy Secretary-General of UNCTAD from 1990 to 2005.

Gallagher, Kevin: Associate Professor of International Relations at Boston University, US and Research Associate at the Global Development and Environment Institute (GDAE) at Tufts University in Medford, Massachusetts, US.

Gero, Ambassador John: Canada's current Ambassador and Permanent Representative to the WTO.

Gifford, Michael: Former Canadian negotiator on agriculture during the Uruguay Round.

Hartridge, David: Former Director of the Office for Multilateral Trade Negotiations at the General Agreement on Tariffs and Trade (GATT), which was responsible for the launch of the Uruguay Round and subsequently for the negotiation of the WTO Agreements on Trade and Intellectual Property Rights, Trade and Investment and Government Procurement. Earlier in his career, Mr. Hartridge was Chef de Cabinet of the Director-General of GATT, and also served as acting Director-General of the WTO from May to September of 1999.

Hoda, Anwarul: During the period 1974-81 and again 1985-93, he worked in the Government of India in the Ministry of Commerce and the last post held by him was Special Secretary in the Ministry. Throughout this period his main responsibility was multilateral trade negotiations under the auspices of the GATT. He was the Chief Policy

Coordinator in the Government of India during the Uruguay Round (1986-93). In 1993 he was appointed as Deputy Director General for the Interim Commission for the International Trade Organization (ICITO)/GATT and in 1995 he assumed the position of Deputy Director General, World Trade Organisation.

Lacarte Muró, Ambassador Julio: Former Ambassador of Uruguay to the GATT during the Uruguay Round and one of the creators of the GATT in 1947.

Lampreia, Ambassador Luiz Felipe: Former Ambassador of Brazil to the GATT during the Uruguay Round.

Matus Baeza, Ambassador Mario: Currently the Ambassador and Permanent Representative of Chile to the WTO From 1994 to 1998 he served as Minister (commercial) of Chile in Washington, D.C. During the Uruguay Round he was a delegate to the GATT from 1987-1991 and Trade Advisor to Chile's Undersecretary of Foreign Affairs between 1992 and 1993.

Panagariya, Arvind: Professor of economics and a Jagdish Bhagwati Professor in Indian Political Economy at Columbia University. He is also a Non-resident and Senior fellow at the Brookings Institution in the US. He has advised the World Bank, IMF, WTO, and UNCTAD in various capacities.

Pérez del Castillo, Carlos: Currently the Special Advisor on International Trade Negotiations to the President of the Republic of Uruguay.

Steger, Debra: Senior Negotiator for Canada on Dispute Settlement and the establishment of the World Trade Organization during the Uruguay Round. She also was Principal Counsel to the Government of Canada for all of the Uruguay Round agreements.

Stoler, Andrew: Principal U. negotiator for a wide range of WTO Agreements. Some include: the Trade Policy Review Mechanism, the Marrakesh Agreement establishing the WTO and other institutional issues, including aspects of the final text of the Dispute Settlement Understanding. He served as the US Deputy Head of the Mission for several years in Uruguay Round.

Wasescha, Ambassador Luzius: Currently the Permanent Representative of Switzerland to the WTO.

Weekes, John: Former Canada Ambassador to the GATT during the Uruguay Round.

Wilkinson, Rorden: Professor of International Political Economy at the University of Manchester, UK specializing in international trade.

Woznowski, Jon: Served as Director of the Rules Division for the GATT and the WTO from 1991 to 2008. In the Uruguay Round, he served as Secretary of the Negotiating Group on Subsidies and Countervailing Measures and as Coordinator for the Rules area.

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