PROTECTIONISM AND DEVELOPMENT: TIME FOR A NEW DIALOGUE?

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Growing protectionism in the United States and other developed country markets threatens current efforts by the less developed countries (LDCs) to restructure their economies and achieve their growth targets. This paper analyzes the relationship between trade policy in the North and growth prospects in the South, with special attention to moral issues of global equity and justice among nations. It reviews the history of trade relations between the developed and the less developed countries, showing how moral claims contributed to the developed countries' acceptance of special trade rules governing the LDCs. The paper then analyzes recent changes in development theory and practice in the LDCs and the relationship between new approaches to development, questions of international justice, and protectionism in the developed countries. It concludes that a new dialogue between North and South on trade and development is both necessary and feasible.

Trade and development have always been linked. For years, development theorists have debated the relationship between the world economy and domestic development in the LDCs. Some see the integration of LDCs into the world economy as the cause of the poverty of nations, while others see it as a source of progressive growth. Either way, the international context of development has always been a subject of great importance, and trade relations an area of major concern for development theorists and policy makers. Today, the issue of trade and development has taken on new importance as the world economy experiences a major restructuring. These changes mean that development theory

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must pay renewed attention to the issue of trade, and that policy-makers in the United States and other developed nations must be aware of the needs and concerns of the LDCs. Part I of this paper provides a summary of the history of the North-South trade debate since the end of World War II and an overview of the issues involved. Part II describes the current global regime of Special and Differential Treatment for LDC trade and the moral claims upon which it rests. Part III outlines new ideas and policies about trade and development that are emerging in the developing world; Part IV discusses the need for a better alignment of LDC policy and developed country trade rules, outlining the dialogue which can and must take place in order to achieve these goals.

I. Trade and Development: A Brief History and Overview

The story of the less developed countries in the world trading system is long and complex, replete with paradox, and full of irony. In the years after World War II, the LDCs fought for, and eventually won, special treatment under the General Agreement on Tariffs and Trade (GATT) and related trade regimes. Moral claims played a significant role in this struggle, and the rules that emerged represented a recognition by the world community of the LDCs' concerns about equity and international justice. Today, the issues are changing, but the moral claims remain valid and continue to affect trade and development theory.

The current world trade regime took shape in the 1950s and 1960s. The basic principles of the post-war trading system were liberalization, reciprocity, and non-discrimination. It was thought that progressively lower tariffs, granted through reciprocal concessions and applied to all members of GATT on a nondiscriminatory basis under the most favored nation (MFN) principle, would be the basis for increasing global prosperity. These principles were enshrined in the GATT, and were reflected in the national legislation of the participating countries.

While GATT appeared to be in the best interest of the world economy, skeptics in the LDCs viewed GATT principles as a hindrance to their own economic growth. For LDC leaders who saw industrialization as the only route out of na-
tional poverty, GATT had little appeal. The reasons for this were twofold. On the one hand, full application of GATT rules to the LDCs would facilitate industrial imports into the LDCs and thus hamper domestic industrialization. On the other, since GATT did not encompass the international commodity agreements that were the chief regulatory instrument of trade in primary commodities and the LDCs were not competitive in manufactures, LDC economies would get little benefit from liberalization of developed country markets. Accordingly, in order to offset its perceived negative consequences, the LDCs pushed for special treatment under GATT. They sought exceptions to the rule of reciprocity that would allow them to maintain high levels of protection for their domestic industries, and exceptions to MFN principles that would ensure that LDC exports could get preferential treatment in the markets of developed countries. They requested special consideration under GATT rules which allowed participating countries to impose import restrictions for balance of payments reasons and to protect infant industries. Finally, they sought to insulate systems of intra-LDC (South-South) preferences from GATT disciplines.\(^1\)

LDCs were largely successful in their efforts to obtain special treatment. By the end of the Tokyo Round, major concessions had been won from the developed countries, and a scheme of special treatment had been accepted. LDC participants in GATT could get the benefits of liberalization without having to promise corresponding concessions. They had secured agreement that developed country preferences for LDC exports would be exempted from general GATT rules on non-discrimination. Finally, they gained approval for some intra-LDC preferences which might otherwise be in derogation of GATT.\(^2\)

It is important to note that the struggle by the LDCs for acceptance of special and differential treatment for poorer

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2. See The Uruguay Round and Beyond, supra note 1, at 111-16.
countries constituted a conceptual challenge to GATT and the trade theories upon which it rested. GATT was based on a central concept of non-discrimination: all countries in the GATT would treat all other Contracting Parties equally. The LDCs argued, however, that the only way that the world trading system could give them effective equality of circumstance was to recognize their special situation and discriminate positively in their favor. Echoing Anatole France's critique of "equal protection of the law" (which forbids both the rich and the poor from sleeping under the bridges of Paris), the LDCs argued for different treatment in the service of a global goal of greater economic equality.

The paradox of the LDC struggle was that no sooner had the LDCs secured acceptance in principle of their claims that positive discrimination in their favor was necessary, than they began to question the utility of the secured gains. Special treatment was intended to allow the LDCs to promote rapid growth both by protecting domestic industries and by permitting LDC firms to compete on an advantageous basis in developed countries. In recent years, however, it has become increasingly clear that the goals of special treatment have not been realized. As a result, the LDCs have begun to question both the desirability and effectiveness of growth strategies based on national import substitution and regional arrangements to foster rapid growth.

The realization that the underlying policies of special treatment are potentially detrimental to LDC growth, coupled with the recognition that its practical advantages are limited, has lead the LDCs to reconsider the original GATT principles which they had initially opposed. LDCs have begun to discover the potential benefits that might flow from a stricter observance of GATT disciplines by the developed countries. While the LDCs are not willing to abandon preferences they have been granted through exceptions to these disciplines, they may be recognizing that the gains they get from special treatment are of questionable value: in some cases the margin of preference in developed country markets for the goods they are most interested in exporting may not be very significant. At the same time, the LDCs have become painfully aware that one of the biggest barriers to their trade policies may be the growth of a series of special arrangements, quotas, and non-tariff measures in developed coun-
tries that, if not in direct derogation of general GATT rules, certainly conflict with the spirit of the principles of liberalization, reciprocity, and non-discrimination. Reduction of these obstacles to LDC exports, which might occur if developed countries adhered more strictly to GATT disciplines, is increasingly being seen as a more effective way to improve LDCs' growth potential than the special treatment for which they lobbied so relentlessly.

As a result of the disappointments with GATT, including the alleged benefits of the regime of special treatment, as well as changes in development thinking, at least some of the LDCs are looking at trade issues in a new light. These new approaches may reopen the issues of justice that were raised in the struggle for special treatment, and could create the possibility of a new North-South dialogue on trade issues.

II. Special and Differential Treatment for Less Developed Countries

The success of the LDCs in securing special treatment under GATT and related domestic trade laws of the developed countries was supported by both economic analysis and moral claims. These helped shape a regime of special rules which developed over time but were largely in place by the beginning of the 1980s. As indicated earlier, however, experience with this new regime has proven to be disappointing. The gains that might have been realized by special treatment have been undermined by protectionism in the developed world. While some of the protectionist measures are allowed by GATT, many have been implemented outside of GATT and are inconsistent with its guiding principles.

A. Moral Claims, Growth Strategies, and Trade Policies

As indicated above, international trade law recognizes that the less developed countries require special rules that take account of their position in the world trading system and their need for rapid growth. The set of rules which have been created as a result of this recognition are referred to as "Special and Differential Treatment" (S&DT). The special trade rules that embody this principle emerged through a long struggle between the LDCs and the developed countries which started immediately after World War II in the ne-
egotiations over the abortive International Trade Organization and continued through the 1970s. As a result of this protracted effort, the poorer nations of the world were able to convince the developed countries to both accept a moral claim for special treatment that would foster their economic growth and to develop rules that were thought to achieve that end.

The moral claim behind S&DT is easy to understand, but its relationship to the policies that emerged is complex. The claim was embodied in what is usually called the "structuralist" analysis of the world economy. This school of thought stressed the structural nature of the relationship between the "core" of advanced nations and the "periphery" of less developed countries. In the immediate post-war period, the basic trade relationship between developed and less developed countries was the exchange of primary products for manufactured goods. While neo-classical trade theory suggested that this relationship, if based on the principle of comparative advantage, would be both efficient and equitable, structuralists saw it as unfair. They felt that the terms of trade were permanently skewed against the primary commodity exporters, and that the countries of the periphery could only improve their economic situation through industrialization.3

The moral claims embodied in structuralist thinking were twofold. First, it was claimed that the sharp disparities in income levels between core and periphery nations were unjust. Second, it was asserted that the global trading system, including the basic free-trade policies that were enshrined in GATT, worked in a way that maintained, or even aggravated, these income disparities. Thus, they argued, the world system must adopt new policies that would offset structural inequality and support progressive leveling of income disparities. Hence, the rich countries had a general obligation to support rapid growth in the poorer nations not only because existing disparities in income and life-chances were unjust, but also because the relative wealth they enjoyed was based on the unfair structure of global economic relations.

Structuralists argued that the developed countries had

3. See Tussie, supra note 1, at 20-37.
an obligation to support LDC industrialization by permitting the creation of a supportive trade regime. To eliminate the unfair structural conditions prevailing in the world economy, this regime must provide LDCs with the opportunity to shift their economies from exclusive reliance on primary exports to a more diversified base that included a strong and dynamic industrial sector. It was assumed that while the LDCs could develop industries that would adequately serve the domestic market, they would not be competitive in world markets for some time. Therefore, the LDCs should be allowed to protect their new industries from competition from the developed world. Furthermore, since many LDC markets were too small to enjoy the advantages of economies of scale, and because LDC industries could not export to the advanced nations, the LDCs should be allowed to grant each other preferences that were not allowed to other GATT members.

While it took many years for these arguments to gain acceptance among the developed nations, by the end of the 1970s the basic elements of Special and Differential Treatment had been adopted by the global trading community. The result was a regime that included more liberal rules for application by LDCs of trade restrictions for balance of payment purposes, exemption of LDCs from the principle of reciprocity so that they could gain from GATT liberalizations without compensating concessions, authorization for a Generalized System of Preferences to be granted by individual developed countries, and some relaxation of the rules affecting South-South preferences.4

B. The Ambiguous Meaning and Limited Impact of Special and Differential Treatment

There are two ways to view Special and Differential Treatment and the resulting relationship it creates between the LDCs and other GATT participants. The regime can be seen as a derogation of the general GATT structure in that it is based on a different set of principles than those which underlie the system as a whole. This view holds that the LDCs are given favored treatment, while the rest of the world is

4. See The Uruguay Round and Beyond, supra note 1, at 111-16. See also Hudec, supra note 1.
held to strict guidelines in the name of basic free trade principles. A second perspective on the relationship between S&DT and GATT, however, provides a significantly different interpretation. Recognizing that there is a disparity between the realities of GATT and the principles upon which it was intended to operate, this viewpoint criticizes GATT's internal workings. While S&DT itself rests on the basic principles of equity embraced by GATT, these principles have not been fully upheld by the developed countries, which have employed both the exceptions sanctioned by GATT and agreements subsequently made outside of GATT.\(^5\)

While S&DT does relax rules otherwise applicable to GATT Contracting Parties, it still adheres to the principles of GATT. This is because, in theory, S&DT is a temporary exemption based on the fundamental economic principles to which GATT is committed: the neo-classical theory of comparative advantage. Under this theory, if international trade is free, countries will specialize in the products they can produce at least cost, and the international division of labor will come to reflect comparative costs and factor endowments. S&DT appears, at first glance, to be in derogation of this principle, as it allows the LDCs to keep presumptively lower-cost products out of their markets, and grants them subsidies in the form of preferences for their exports to the developed countries. But, as Diana Tussie has pointed out, S&DT was always treated as a temporary measure, in order to provide "a helping hand to gradually actualize potential comparative advantage."\(^6\) S&DT, in effect, is an extension and elaboration of the classical infant industry exception to general neoclassical trade rules. Under this exception, the LDCs are given temporary respite from GATT disciplines in order to create the conditions necessary for effective competition in global markets. This interpretation of S&DT is strengthened by the fact that the Generalized System of Preferences, one of the cornerstones of S&DT, provides for "graduation" of LDCs out of the scheme of preferences once their economies have reached a certain level.

At the same time, it is important to understand the extent to which the developed countries in GATT, and the

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5. This section is largely based on the analysis in Tussie, supra note 1.
6. Id. at 138.
world trading system in general, avoided the full rigors of the doctrine of comparative advantage from the very beginning. Comparative advantage dictates that if country X can produce widgets more efficiently (relative to the production of other goods) than country Y, then Y should allow X’s widgets to enter its market and accept the consequent decline in the domestic widget industry in Y. This, of course, would result in a temporary decline in employment in Y, but in theory this would be offset both by gains elsewhere in the economy as Y realized its own comparative advantage in some other industry, and by the benefits Y would get from importing widgets at a lower cost.

The reality of trade policy, however, suggests that theory provides little consolation to a suffering economy. In a case like the one illustrated above, the costs of comparative advantage are felt directly and keenly by the affected industry, while the gains from a liberal regime are often diffuse. While the beneficiaries of the liberal regime may not be organized for political action, the suffering industries often are. The political pressures from import-threatened sectors frequently outweigh the pressures to maintain a true free trade regime. This reality was acknowledged by the drafters of GATT. When GATT was created in the post-war period, its architects were forced to recognize that comparative advantage would have to be qualified by the need of national leaders to maintain high levels of employment. Tussie notes:

Given the expectation that the freeing of trade would lead to a process whereby industries would be changing geographical location as patterns of comparative advantages shifted globally, and yet at the same time a great concern with maintaining full employment, GATT codified a system which was not one of absolute free trade but offered a second best. Domestic interests would be allowed a degree of protection or preferential treatment over foreigners, but the latter could compete for a part of the domestic market.7

The “second best” approach has allowed countries affected by trade to adopt policies that limit the full impact of

7. Id. at 38-39.
international trade on domestic industries. These policies consist of two types: those that are built into the GATT system itself, and those that have emerged outside GATT and in possible conflict with it. GATT explicitly allows some limits to be placed on imports which harm domestic industry: these provisions are called “safeguards.” They create exceptions to the general rules and are designed to limit the impact of increasing imports on domestic industries. In theory, the use of these safeguards is carefully restricted, although some believe that in practice these disciplines are not well-enforced. More important than the safeguards, perhaps, is the implementation of the second type of policy. The growing number of bilateral and multilateral agreements, reached outside of GATT, that are designed to limit access to markets for specific products, has had serious repercussions for the LDCs. Of these, the Multi-Fibre Agreement (MFA), which controls global trade in textiles and clothing products, has had the most significant impact on the LDCs.

C. Barriers to Export-Led Growth: Comparative Advantage Meets the Political Economy of Protectionism

Increasingly, developed countries have resorted to both kinds of arrangements in order to limit the impact of low-wage manufactures from the LDCs on their domestic industries. Both types of import-limiting policies have had disproportionate effects on the LDCs. While “safeguard” policies are not formally targeted at the LDCs, the position of these nations in the structure of world trade means that these deviations from free trade principles fall with disproportionate impact on the poor countries. As the developing countries have moved beyond primary commodity exports and import substitution and have begun to realign their industries for exports to the markets of the developed world, they have naturally concentrated on products which they can produce at world market prices. Lacking advanced technology and short of capital, they have, out of necessity, fallen back on the one resource they command: an ample supply of low-wage labor. As a result, they have tended to concentrate

their export efforts on the production of labor-intensive products.

This export strategy, however, creates tensions with existing industries in the developed countries. By and large, the LDCs are not exporting wholly new products, but rather seek to use the advantage of low-cost labor to displace existing producers in the developed countries. Because the LDCs can manufacture the products more cheaply than the developed countries, LDC imports have a significant impact on profits and wages in the existing industries. As a result, strong pressures for protectionism have arisen in the developed counties. As Tussie notes:

Developed countries wishing to protect employment will be under pressure to restrict the inflow of lower-priced, labour-intensive goods. The pressure for protection will be greater the more labour-intensive and the less skill-intensive the industry.... Because of extreme wage differentials,.... labour-intensive goods will be produced more efficiently by LDCs and imports of such goods will tend to displace employment in developed countries. What is more, imports will have an impact on the least qualified workers and the more depressed areas.9

These pressures have led developed countries to invoke the GATT-sanctioned "safeguards" against LDC penetration of their markets. These same pressures are also responsible for the resort to quotas, voluntary export restrictions, and the creation of agreements like the MFA that are negotiated outside of GATT and are, arguably, in derogation of GATT's principles.10

An argument can be made that this kind of protectionism, which has grown in recent years, offsets any benefits that the LDCs may have secured through S&DT. The S&DT regime operated on two fronts. First, it was designed to support import substitution industrialization (ISI) by freeing the LDCs from certain GATT disciplines and exempting them from the principles of reciprocity and non-discrimination. Second, it tried to make it easier for the LDCs to export

9. Tussie, supra note 1, at 61 (citations omitted).
10. For a detailed analysis of the MFA and its impact on the LDCs, see Tussie, supra note 1, at 64-103.
manufactured goods to the developed countries by offering the LDCs privileged access to developed country markets. As the LDCs began to industrialize, and the limits of national or regional import substitution industrialization became clearer, the LDCs began to look towards developed country markets as a source of income for their manufactured goods. However, they found that the preferences they had won were of relatively little value, since liberalization in these areas had reduced the margin of preference. More importantly, the LDCs found a series of barriers, like those imposed by the MFA and various "voluntary" export restrictions, had placed severe limits on their ability to penetrate developed country markets, especially in the areas where they have the greatest comparative advantage.

The irony of the situation is clear. The LDCs struggled for special treatment under GATT in order to remedy inequity, although the regime that emerged can be seen as based on the principle of free trade in the long run. However, the benefits from the regime of S&DT have been limited, and their value to the LDCs may have been undermined by the increasing use of safeguards and special agreements which are, to one degree or another, in conflict with free trade principles.

III. Development Strategies and Trade Policies: From Import Substitution Industrialization to Export Oriented Growth

As trade policy evolved, major changes were occurring in global thinking about development and in the policies pursued by governments of many LDCs. As a result of many interrelated world forces, the international context of development has changed radically since the 1970s.11 Changes in

development theory and practice have led the LDCs to reassess the policies underlying S&DT. These changes may shift the nature of the debate about the morality of developed country trade policy as it affects the developing world, as well as inspire new practical strategies for economic growth.

A. Import Substitution

In the period following the Second World War, most of Latin America adopted the development strategy known as "import substitution industrialization." This policy rested upon the premise that Latin America could only grow economically by closing its borders to manufactured imports and building domestic industry behind high tariffs and other trade restrictions. ISI was promoted by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and adopted in many of the major countries in the region. Moreover, ISI was followed in many other parts of the developing world.

The trade and development policies associated with ISI were clear: these countries were not overly concerned with protectionism in the developed world, but were opposed to reciprocal tariff reduction that would remove the protection needed to nurture their domestic manufacturing sector. Of course, LDCs did not want developed countries to erect protectionist barriers, since developing countries needed access to developed country markets for their traditional, non-manufactured exports. These exports were needed to earn the foreign exchange necessary to finance domestic industrialization. However, the ISI-oriented countries were not as concerned about access for their manufactured goods, which they assumed would be produced for some time principally for the domestic market, or possibly for regional markets and free trade areas which would maintain high tariffs against extra-regional products. At the same time, countries committed to the policies of ISI were naturally adverse to trade liberalization initiatives (reciprocal or otherwise) that would force them to lower the walls sheltering domestic industries against competition from the developed world.

The prevalence of ISI-oriented policies helps explain why GATT was not unconditionally embraced by the developing countries. The key to ISI is the maintenance of a high
wall of protection around industries that produce goods previously imported. GATT provided little benefit to countries pursuing such a strategy. To participate fully, LDCs would have to lower these tariffs, thus risking the destruction of fledgling domestic industries. At the same time, they would receive little advantage from the corresponding lower tariffs for manufactured goods in developed country markets, since LDC industries were not internationally competitive and the main LDC exports (primary commodities) were not covered by GATT liberalization rounds. As a result, LDCs did not participate in GATT in the early years, and when they did it was largely because they had won acceptance for S&DT.

As development strategies have changed, however, new attitudes toward trade and GATT have emerged. While ISI policies were dominant in the 1950s and 1960s in much of Latin America and elsewhere, in the 1970s, the East Asian Newly Industrializing Countries (NICs) led the way to a new development strategy oriented towards exports and fuller participation in the world economy. Similar trends could be seen on a more limited basis in a few Latin American countries, such as Brazil, but it took the “lost decade” of the 1980s to spur a major turnaround in the region. The economic picture in Latin America in the 1980s was dismal: growth slowed, real per capita income declined in most countries, and external finance was virtually nonexistent. This forced an agonizing reappraisal of ISI-type growth strategies. Spurred on by one of the worst economic crises in the century, influenced by the East Asian experience, pressured by international financial institutions and creditor nations, and affected by a major “paradigm shift” in development thinking throughout the world, many Latin American countries made radical changes in their economic policies and practices. The result has been a shift to export-oriented growth strategies and thus to a new set of concerns about trade issues.

B. A Harbinger of Change: The United Nations Economic Commission Report on Changing Production Patterns With Social Equity

In 1990, ECLAC produced a document of extraordinary interest. Entitled Changing Production Patterns with Social Equity, this report assessed the new situation and sought to create a framework for understanding and perfecting the new policies the Commission observed in the region and wanted to foster. Essentially, the ECLAC report sounded the death knell for ISI in Latin America and the Caribbean and announced the new outward-oriented growth strategy that had been gaining momentum as the 1980s drew to a close. Because ECLAC had originally been a strong proponent of the now somewhat discredited ISI doctrine, this document was as significant for its authorship as for its contents. As a summary of changing policies, and a reflection of changing mentalities, it is worth careful scrutiny.

The Report starts with a diagnosis of the Latin American economies at the end of the 1980s. It draws attention to the trends already mentioned. Per capita gross domestic product (GDP) fell by 8% from 1980 to 1989. Export prices declined by over 25%, and the region's share of world exports declined from 7.7% to 3.9% between 1980 and 1988. The number of people below the poverty line increased from 35% of the region's population in 1980 to 38% (164 million people) in 1986. Total investment declined from 23% of GDP in 1980 to 16.5% in 1988. In addition, with declining foreign private investment and finance and reduced official flows, Latin America had become a net exporter of capital.

Having addressed the dismal state of affairs, the Report proposed a new and novel solution. While the Report deals with many policies and sectors, great emphasis is placed on non-traditional exports, including high value-added manufac-

14. *Id.* at 20.
15. *Id.* at 21.
16. *Id.* at 34.
17. *Id.* at 35.
tered products based on new technologies, as a way to re-
store economic growth in the LDCs. ECLAC favors exports,
but not just any exports. The Report rejects an export ap-
proach that relies primarily on natural resources (which are
being depleted), primary products (for which demand is
slacking), or low-cost labor (which would not ensure equity
or stimulate technical innovation). ECLAC recognizes, how-
ever, the reality that Latin America is ill-equipped for an im-
mediate non-traditional export drive, since its production
patterns are oriented to natural resource extraction, ineffi-
cient production for domestic markets, low value-added ex-
ports, and low wage export industries. Hence, ECLAC calls
for “changing production patterns” with an emphasis on do-
ing that “with equity.” ECLAC recommends that Latin
America make three basic moves at once: (i) reorient growth
policies from the internal to the international market; (ii)
shift exports from low value-added to higher value-added
products; and (iii) ensure that the gains from the new export
orientation are widely shared.

It is important to highlight the implications of the
ECLAC approach on wages. ECLAC rejects an export stra-
teugy based primarily on low cost labor as a long-term solu-
tion. While the Commission seems to recognize that Latin
America’s current export potential must, in part, be based on
the comparative advantage created by low wage rates, the
Commission also believes such an approach, while a possible
way to initiate export-led growth, will in the long run be
counterproductive for both growth and equity. ECLAC be-
lieves that successful and long-term participation in the
global economy must be based on continuous improvement
of product quality and constant absorption of new technol-
ogy. ECLAC’s opposition to exclusive or continued reliance
on low industrial wages as a base for export-led growth is
justified not only on distributional grounds—although these
are important—but also to ensure that industries have an in-
centive to engage in technological innovation. Without this
strategy change, the level of competitiveness will continue to
deteriorate as a consequence of the declining importance of
the cost of labor as a stimulus to competition in new produc-
tion processes.

The need to shift industrial production away from ineffi-
cient industries producing for the domestic market and low
value-added exports, as well as the concern with increasing competitiveness in new sectors where wages are high and technical absorption will be rapid and continuous, leads ECLAC to articulate a new set of concerns about trade policy. On the one hand, the Report favors liberalization of domestic protection. It recommends that Latin American countries lower tariff and non-tariff barriers, create "neutral" policies that do not favor production for the home market over production for export, and allow manufactured imports that will foster the competitiveness of domestic industry and provide inputs for export industries. At the same time, the Report reflects concern about trade policy in the developed countries. ECLAC warns that developing countries cannot achieve their equitable goal of changing production patterns by themselves. They must have the cooperation of the developed countries whose trade policies can either impede or encourage the recommended production shifts. Without this cooperation, LDCs will either fail in their efforts to increase manufactured exports altogether, or will remain exclusively dependent on the exploitation of low wage labor for export earnings.

C. Trade Policy, Changed Production Patterns, and Equity

To a certain extent, ECLAC has merely reported policies already adopted by many countries, starting with Mexico and Chile and now including, to one degree or another, the whole region. Most countries have now concluded that to have a competitive export sector it is important to liberalize tariffs and other restrictions on imports. This means that Latin American governments—and those of other developing countries—see liberalization as in their own best interest, and explains why significant trade liberalization has occurred in the developing countries even without compensating reciprocity in the developed countries whose manufacturers have benefitted from new import regimes.

The developing countries are aware, however, that trade policy in the developed world poses a threat to successful implementation of their desire to promote growth through greater participation in the global economy. The United Nations has also recognized the trend towards increasing pro-
tectionism in developed country markets, and has expressed concern that the impact of these policies will fall heavily on developing countries. While tariffs on manufactured goods in general have fallen in the developed world in the post-war period, both tariff and non-tariff barriers in some industries remain significant. Unfortunately, these are often the markets of greatest interest to the developing countries. ECLAC thus concludes:

The trade barriers applied by the developed countries tend to be greater with regard to imports of manufactures from developing countries than those from other developed countries, and the tariffs applied under the most-favored-nation principle tend to be higher in the case of products exported on a substantial scale by the developing countries. 18

This statement reflects the Commission’s greatest concern: the possibility that the developed countries will increase protectionism in just those markets the developing countries have targeted for export promotion. These concerns are not unfounded. The whole rationale of an export-oriented development strategy is to restructure production patterns to emphasize exports first in areas where low wages give developing countries a comparative advantage and ultimately in higher value-added products whose export will yield optimal payoffs to the national economy and ensure a higher standard of living for its workers. However, developed country protectionism already bars exports in many sectors where developing countries can compete most effectively because of the wage differential, such as textiles, steel, and automobile assembly. If the developing countries also begin to shift into the higher value-added products, as ECLAC urges them to do, the developed countries might respond in much the same way. If selective developed country protectionism, via residual high tariffs, quantitative restrictions, or other trade barriers, block exports in these industries, ECLAC’s recommended restructuring effort will fail. ECLAC suggests that selective trade barriers aimed at limiting imports from developing countries in high value-added

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18. Id. at 43.
products will act as a "veritable international tax" on changes in production patterns.

It is instructive to note that the theory behind the development policy shift is the importance of developing and maintaining *internationally competitive industries*. As ECLAC notes, the stimulus of international competition will play a vital role in ensuring that developing country industries engage in continuous product improvement and constant absorption of new technologies. Developing countries have begun to accept this proposition as legitimate. The reason developing countries are moving away from import substitution is that they have learned that these policies promote inefficiency, encourage "rent-seeking," and deter technological change. LDCs are liberalizing their imports in order to promote efficient and internationally competitive domestic industry. This will change their orientation toward GATT, where they once were primarily concerned about securing exemptions for their high tariffs, and preferences for their exports to developed countries, their concern will shift to securing GATT support for reducing the impact of quotas, agreements like the MFA, and other non-tariff barriers to developed country markets. This is particularly likely if "graduation" rules are applied to the LDCs as they reach higher levels of industrial maturity.

Finally, it is useful to understand the relationship between the overall policies that are actively promoted by the developed countries and the trade regimes these countries are creating to protect their domestic industries. A careful look reveals major inconsistencies, as the developed countries advocate one policy while practicing another. The developed world is pushing developing countries to follow policies that lead them toward export growth in manufactures, including high wage, high-tech products. This new approach has been championed by the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development, as well as by many of the creditor nations in bilateral negotiations. They have preached the gospel of export neutrality, trade liberalization, export-led growth, and other GATT principles. Officially, therefore, the developed countries are committed to policies that call into question many of their own trade restrictions. This inconsistency may make it marginally easier for developing countries to mount
an effective attack on forms of protectionism that hinder them from carrying out the very policies the developed countries and the international financial institutions have prescribed.

IV. CONCLUSION: DEVELOPMENT AND THE MORALITY OF PROTECTIONISM

For some time, developing countries have raised equitable claims as the basis for differential treatment in world trade. They have argued that the developed world has an obligation to provide special treatment for the LDCs in order to offset bias, promote growth, and reduce income disparities that have been a result of unjust structural features of the world economy. These claims have gained legitimacy in many developed countries, which has led the developed world to accept the need for different trade rules governing LDC imports and exports. The adoption of “Special and Differential Treatment” reflected and institutionalized this acceptance.

Today, the debate may be shifting to a new ground. While the LDCs will continue to press the moral arguments that were developed through the struggle for S&DT, they may soon call for a different set of policy changes. Rather than stressing the need to maintain high levels of protection for their own markets, and preferences in developed country markets, they may begin to ask for stricter application of GATT disciplines to the trade policies of the developed countries. This will involve asking the developed countries to abandon various forms of protectionism erected through the use of GATT-sanctioned safeguards and under agreements, like the MFA, which operate outside of GATT. Rather than seeking exceptions to general rules, the South may initiate a new dialogue on trade matters by lobbying for greater enforcement of the basic principles and disciplines the developed countries have officially endorsed.

Moreover, due to the growth of many LDC markets and continued pressures to liberalize, developed countries may now have a greater incentive to consider changing their protectionist policies. In recent years, growth rates in many of the LDCs have far outstripped those in countries which are members of the Organization for Economic Cooperation
and Development. In 1992, China grew by an estimated 12%,\textsuperscript{19} Chile by 10%, Mexico by 4%.\textsuperscript{20} Because of this rapid expansion, developed country exporters are increasingly looking towards LDC markets as a source of revenue, just as the LDCs may be willing to keep their markets open to developed country exports to a degree unimagined just a decade ago.

At the same time, the successful struggle for S&DT has created a moral climate which has legitimated LDC claims for assistance in their growth efforts, even though the policy grounds for such aid have shifted. To the extent that the ECLAC Report is representative—and it does seem to imply a very real shift in thinking—the policies that would best promote a higher standard of living in the developing countries, and narrow the global income gap, are those that will enable developing countries to achieve their goal of changing production patterns with equity. This may not necessarily mean continuing to emphasize preferences and exemptions, but instead may result in a greater reliance on reciprocal liberalization, non-discriminatory treatment in developed country markets, and elimination of quantitative restrictions in key industries.

This does not indicate that the conditions are ripe for a major new agreement on trade and development. The structural problems that have led to developed country protectionism remain. The arguments of morality may have been accepted in principle, but they have been ignored in practice. The political pressures to maintain protectionism in the industries in which the LDCs have the greatest current advantages will remain strong, and the current slow-down in economic growth in the developed countries is intensifying those pressures. The ECLAC policy of shifting production patterns from low-wage to high-value-added industries will take a long time to implement, and it will generate a new set of trade conflicts even if it is successful.

Nonetheless, a new dialogue is possible, and some progress may be made. Four conditions suggest that this may


occur. First, many developing countries have unilaterally liberalized their trade regimes. Whether this has come about through pressure from the IMF and the World Bank, or because of the dawn of a new age of enlightenment, the fact is that import duties and non-tariff barriers have decreased significantly. Second, the developing countries are coming to recognize that non-discriminatory access to developed country markets may be more desirable than preferential treatment. Third, as growth slows in the developed world and gains momentum in the developing world, the volume and relative importance of developed country exports to the developing world should grow. This is likely to create incentives for the developed world to engage in dialogue while concurrently enhancing the bargaining power of the developing world. Fourth, as developed countries see the conflict between the general development policies they promote through financial assistance and debt negotiations on the one hand, and their own trade policy on the other, and come to understand the contradictions between promoting liberalization abroad and increasing protection at home, they may be more open to reconsidering their protectionist policies.