Convergence or Divergence ? : The Political Functions of the International Trading Regime on the Democratizing and Liberalizing Reforms

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Introduction

Although it is true that the state intervention in market and society has been omnipresent for centuries in the Western countries, the last century saw the massive appearance of the socialist and developing states which showed an unprecedented adherence to the state leadership in managing the economic and social development. We can generally characterize those states as politically authoritarian and economically state-intervening, despite some important differences in the political regimes(dominant-party system, military rule, etc.) and the intensity of economic intervention (from command economy to more modest industrial policy). Since the late 1970s or early 1980s, however, those states have been confronted with the great transformation of their political and economic systems from authoritarian and state-intervening to democratic and market-oriented ones. Though there are mass debates on how this process of transformation emerged and what the most influential cause was, this paper examines whether and to what extent the international trading regime[1] (the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization(WTO)) contributed to the political democratization and economic liberalization in those states.

I argue that the international trading regime, especially GATT, didn't lead these socialist and developing states to the liberalizing reforms directly by means of obliging them to abstain from intervening the international trade. Since virtually every socialist state has not been a member of the international trading regime until recently, the GATT principles of trade liberalization had no direct meanings for these states. On the other hand, no small number of developing countries has been members of GATT, but it had permitted these countries for several decades to keep restrictive trade measures so thoroughly that it could be said that these countries stayed almost outside the GATT regime. Thus we must realize at the outset that the international trading regime exercised very little direct influence on the removal of restrictive regulations on international trade, let alone on the withdrawal of the authoritarian regimes in these countries.

At the same time, however, we can identify the indirect functions of the international trading regime which significantly contributed to the democratization and trade liberalization in those states. First, the beneficiaries of state-intervening economic policies in those states, such as the authoritarian political elites and import-competing

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[1] An international "regime" in this paper refers to a set of fundamental principles, norms, and values in a particular issue area (international trade here), and some concrete rules and procedures to achieve the goals expressed in such substantial principles. As regards international regimes, see Krasner 1983.

business sectors, were all the more encouraged for the very permission of protectionist measures by the international trading regime. Thus strengthened protectionism and interventionism meant the ever-growing economic distortions (high inflations, reckless governmental expenditures, and the political corruption and patronage) and political repressions (restrictions on the political opposition and labor militancy, insufficient civil liberties and elections, and even martial laws). Such conditions eventually invited macroeconomic crises and political turbulences, which brought the authoritarian regimes to an end after the 1980s. Hence, though it is true that the most influential and direct factors in democratization and liberalization were the internal ones, we cannot neglect that the sympathetic attitude and tolerant discipline of the international trading regime gave powerful impetus to the more intense authoritarian and state-intervening policies, doomed to nurture adversarial internal conditions.

Second, the international trading regime has facilitated the commerce on goods and services among advanced industrial states, and has contributed to the dramatic increase in the amount and value of the international trade. This gradually emerged external environment of “globalization” or “internationalization” of commercial activities has fairly raised the opportunity cost of rejecting involvement in the free trading circle and missing the chance of taking advantages of reduced transport costs and lowered tariff barriers[2]. Rising recognition of such kinds of economic costs by policymakers and entrepreneurs in the developing and socialist states have created pro-liberalizing coalitions in each country or at the multilateral or regional level, which partly fostered the decline of the status of those who clung to the “statist” development strategies. Hence the international trading regime in this respect had another indirect impact on the domestic configuration of political opinions about the choice of economic system in these countries.

As a result of economic liberalizing efforts in the developing and socialist states, the international trading regime, in turn, has been strongly affected, and its institutional nature and purpose has undergone serious changes since the beginning of the negotiating process of the Uruguay Round (UR). Aggressive participation in reciprocal wall-lowering negotiations by developing states and eager appeals from socialist states for an accession to the international trading regime have raised its global comprehensiveness in members and issue areas, and strengthened its organizational basis, resulting in the establishment of WTO in January 1995. On the one hand, these new trends in comprehensive and organizational character of the international trading regime may bring about a deep integration of economic policies, institutions, and regulations all over the world. On the

[2] See Krueger 1998, p.3. Frankel also notes these two characteristics as the main causes of “globalization” of the economy, saying that “[t]he two major drivers of economic globalization are reduced costs to transportation and communication in the private sector and reduced policy barriers to trade and investment on the part of the public sector.” See Frankel 2000, p.45. On the other hand, Keohane and Milner identify the reduced transaction costs as a cause of “internationalization” of trade, while the lowered trade barriers as its “effects.” They refer to internationalization as “the processes generated by underlying shifts in transaction costs that produce observable flows of goods, services, and capital,” whereas “ the liberalization of foreign trade and investment policies, the deregulation of domestic markets, shifts in fiscal and monetary policy, and changes in the institutions designed to affect these policies” are included in “possible changes” provoked by economic internationalization. See Keohane and Milner 1996, p.4. As for the developing and socialist states concerned in this paper, we can see not only declined costs of transportation and communication but also lowered government barriers in advanced industrial countries by virtue of the international trading regime as the given external environment, which then would induce the developing and socialist states to change their economic policies and institutions.

other hand, it means the difficult endeavor for policymakers in the developing and (former-)socialist states to reconcile their economic policies and institutions with ones of developed countries. In order to facilitate this troublesome process, preferential treatment and technical aid from the international trading regime and the developed countries have become unavoidable. Otherwise, dissatisfaction and distrust on the part of developing states would place the multilateral negotiating processes and the regime survival itself at risk. Therefore, such correlative requirements of harmonization and technical assistance after the UR have catalyzed the unprecedented interaction between the international trading regime and the policymakers in the developing and (former-)socialist states, without paying attention to which we could never fully understand the highly internationalized character of democratization and liberalization in those states.

While foregoing situations will be to a large extent common to most developing and (former-)socialist states, each country or each region has its own characteristics and particularities in historical backgrounds, internal political circumstances, comparative advantages in production, and relations with other countries or regions, all of which will form some varied patterns of democratization and liberalization. This paper examines this kind of diversifications in several aspects relating the international trading regime. First, in each issue area, there can emerge complicated interests along the diverse comparative advantages or other individual settings of each countries. Such across-the-issues diversities, however, are not necessarily inconsistent with, or even promoted in, the multilateral trade negotiations. In this regard, the international trading regime matters twofold; it has incorporated into its sphere more and more diverse issues and agendas from services, investments, and intellectual properties to environmental problems, workers' rights, and even human rights in general; and then, policymakers in each country will find many opportunities for package-dealing negotiations, exchanging concessions across several issue areas, which enables each state to design unique and specific development strategies.

Second, regional and geopolitical situations of each country can make great divergence. As multilateral negotiations on trade have become more and more difficult with the multiplied members and issue areas, irritated policymakers feel more inclined to regional cooperation which can be negotiated with decreased numbers in states and issues and increased similarities in historical experiences, geographical situations, and economic systems. The international trading regime basically permits such a regional cooperation as long as it does not preclude multilateral liberalizing efforts, though, in reality, it usually has intense discriminatory and trade-diverting effects against the rest of the world. Moreover, some regional regime can influence the democratizing processes of member states, as seen in the EU-accession requirements on Eastern and Central European states. Thus the varieties in regional locations of each developing and (former-)socialist state will provide quite unique democratizing and liberalizing path, substantially different from other states in other regions. The international trading regime, having been tolerant toward various forms of regionalism, has surely played a part in the expansion of such regional divergences.

Third, domestic political circumstances and institutions can affect the decision-making process and policy outcome about democratization and liberalization. In a country which is on the way to democratizing its former authoritarian regime, policymakers will be placed in the complicated relations to traditionally benefited groups, such as subsidized industries or protected farmers. Some democratizing government may have political ability to pursue drastic liberalizing reforms, holding relatively large autonomy in relation to the state-interventionist groups, while other government may be necessitated to give in to some of protectionist demands, in order to keep stable political foundations and to make liberalizing reforms proceed incrementally without causing serious distributional conflicts. Because the international trading regime has enabled each member state since its establishment to choose "compromised" style of trade liberalization, particularly in the form of elaborate provisions of trade remedies law which permit members to protect seriously endangered domestic industries from competition from abroad, developing and (former-)socialist states can launch into trade liberalizing reforms, while protecting, if necessary, some economically uncompetitive but politically powerful industries in a GATT-legal or WTO-legal manner. Increased use of antidumping measures or safeguards by developing countries reflects incremental political processes of "compromised" trade liberalization. Therefore, we can say the highly flexible character of the international trading regime has provided each country various courses to achieve liberal trade, corresponding with its own democratizing path which creates diverse patterns of political environment around policymakers.

This paper examines how the international trading regime has legally and politically affected the processes of democratization and liberalization in the developing and (former-)socialist states, with the emphasis placed on the effects of convergence and divergence of policies across those states, to which, I argue, the international trading regime has significantly contributed.

Phases of convergence

This section reveals major political functions served by the international trading regime which are commonly observed in democratizing and liberalizing processes of the developing and (former-)socialist states. In the first subsection, I argue that, until these states entered into their reforming processes, the international trading regime induced them to deepen rather than to eliminate their authoritarian and state-intervening policies. At the same time, however, there existed hidden and indirect functions served by the international trading regime which have led these states to democratization and liberalization in the end. The second subsection deals with more direct democratizing and liberalizing functions of the international trading regime, which were made possible once the policy change in the developing and (former-)socialist states took place.

Before transformation : the dual functions of the international trading regime

A. Existing theories about the function of the international trading regime

There exists two systemic theories explaining trade-liberalizing behavior taken by each state on the anarchical international plane where the centralized authority is absent and commitments to cooperate one another are not guaranteed to be surely performed. The first is the "theory of hegemonic stability" claiming that the presence of a single dominant state (hegemony) leads to collectively desirable outcomes for all states in the international system[3]. Charles Kindleberger contends that the maintenance of free-trade regimes can be directly attributed to the leadership provided by the dominant state, Britain in the mid-19th century and the United States in the mid-20th century, for example[4]. Without the leadership, there may be an inadequate amount of public goods[5] which are highly expensive to provide but are truly indispensable for the maintenance of an open international trading regime[6]. But these public goods, once provided by a benevolent hegemonic state[7], are open for the weaker states to take a "free ride". Thus, following the hegemonic stability theory, cooperative actions of trade liberalization can surely be possible under the auspices of the unilaterally-provided public goods supporting the existence of an international trading regime. As for the developing and (former-)socialist states, however, they kept restrictive trading regimes when public goods supporting an open and stable international trading system were provided by the American hegemony in mid-20th century, and began liberalizing reforms after the dominant power of the United States rapidly declined in the 1970s. Therefore, the theory of hegemonic stability should be said to have little ability to explain why these countries shifted their economic policies from restriction to openness, and how the international trading regime influenced this process.

As an account for the survival of the international trading regime and the continuation of cooperative behavior after the downturn of the American hegemony, there evolved the alternative school of systemic theory, the "Liberal-Institutionalism." Robert Keohane contends that, in many of the issue areas of international relations, states share common

[3] Snidal 1985, p.579.

[4] Kindleberger 1981.

[5] Public goods Kindleberger assumes to be needed to stabilize the international economy are a market for distress goods, a steady flow of capital, a management of the structure of foreign-exchange rates, and so on. See Kindleberger 1981, p.247.

[6] This assumption of the hegemonic stability theory that collective actions of cooperatively providing public goods are impossible have been a target of intense assaults by its critics. They contend that, as Thomas Schelling's notion of "k-group" suggests, it is possible for two or more secondary powers to produce international collective goods after hegemonic power left off because they have incentives to avoid the collapse of the regime and consequently become willing to participate in collective actions. See Snidal 1985, pp.597-612; Lake 1993, pp.462-467. Certainly it may be possible for two or more states to act collectively, but there must be some conditions and circumstances to be fulfilled before collective actions really materializes and public goods are actually provided. Therefore, Whether the secondary powers of European states or Japan have succeeded the role of providing public goods after the decline of American hegemony is yet to be examined and demonstrated.

[7] Krasner, who also presented a hegemonic stability theory, does not assume a hegemonic state to be benevolent, but to be coercive. A hegemonic state "can use its economic resources to create an open economy… It can withhold foreign grants and engage in competition, potentially ruinous for the weaker states." Here the hegemonic power uses its superiority to force other, smaller states to contribute to create the trading system satisfying its self-interest. See Krasner 1976. In this case, what matters will be the relative ability of the hegemonic state to force subordinate states rather than the absolute ability to provide public goods. Both coercive and benevolent nature, however, can coexist in a hegemonic state. See Snidal 1985, pp.585-590; Lake 1993, pp.467-468.

interests the realization of which will render all of them to be better off, rather than incompatible interests the satisfaction of which by one state will be the loss of another[8]. Even if common interests exist, however, states might be unable to cooperate and to reach a Pareto-optimal solution when nothing would guarantee to prevent any state from "defecting" from cooperation and gaining great extra benefits (Prisoners' Dilemma). In order to overcome this failure, states develop institutional mechanisms that inhibit cheating by providing information, reducing transactions costs, and raising the cost of defecting behavior. Thus, by means of constructing an appropriate international trading regime, states are able to open their economies and reach mutual gains without worrying about sudden closure of trading partner's markets. With respect to the developing and (former-)socialist economies, however, they were not satisfied with "mutual gains" which would be obtained by cooperating with advanced industrial states. Rather, they sought to be benefited "more" than developed countries by fostering the growth of their own industries, or even by protecting their economies from international competitions, in order to catch up with developed countries as soon as possible. Therefore, even if an active participation in and full compliance with the international trading regime could bring the developing and (former-)socialist states a fair amount of "absolute gains," such gains were inadequate for them to be inclined to full involvement in the regime, since they were interested in "relative gains" against advanced industrial countries[9]. We have to conclude that the Institutionalist approach to the international trading regime is unable to explain the cause of liberalizing reforms in the developing and (former-)socialist states.

If so, what is the appropriate description of the political functions served by the international trading regime regarding the liberalizing processes in these states? My argument is that there were "dual functions" of the regime to be observed; the one, a visible and direct function which helped these states to reinforce their state-interventionism; the other, nonetheless, an invisible and indirect function which constituted one of the backgrounds of the their ultimate turn to the democratization and liberalization. These dual functions are described below respectively.

B. The visible and direct function of the regime : Encouragement of the intervention

From the beginning of GATT, advanced industrial countries as well as developing countries have been allowed explicitly to adopt several kinds of exceptional measures in order to protect domestic markets from competition with foreign products[10]. But

[8] Keohane 1984, ch.5. See also, Oye 1986 ; Axelrod and Keohane 1986.

[9] This kind of "gains" problems can occur among advanced industrial countries, of course. Krasner argues that there can be many ways to reach mutual gains, with some ways giving a larger share to one state and other ways giving a larger share to another state. Since there are many points along the Pareto frontier, distributional conflicts can happen over which point along the frontier should be chosen. See Krasner 1991; Powell 1994, pp.334-343.

[10] With the enlargement of suffrage and the democratization of domestic political processes in the Western Europe since the late 19th century, governments came to assume much more direct responsibility for domestic social security and economic stability. They cannot maintain any more the laissez-faire liberalism pervasive in the mid-19th century, but rather ought to manage international economic transactions so carefully that domestic industries and its employees might not be beaten by foreign competitors. This "welfare-state consensus" was shared by most states in Western Europe, and constituted a implicit, but fundamental, principle of GATT. See Ruggie 1982, pp. 379-398; Ikenberry 1989.

developing countries, in pursuit of "relative gains" against developed countries, demanded further exceptional treatment from major legal obligations of GATT. Given the situation of international political conflict of the Cold War, Western developed countries were eager to incorporate newly emerging countries into western sphere by securing the participation of these countries in GATT. The need for the "enclosure" of the Third World necessitated advanced industrial countries to make a substantial compromise on the issue of extra exceptional treatment, as a result of which developing countries remained virtually outside the fundamental GATT principles and maintained highly restrictive trading system for several decades. Most socialist states, on the other hand, were of course inconceivable to be members of the GATT regime. Thus, the fundamental GATT principles of trade liberalization have been surprisingly meaningless for every state except a handful of advanced industrial states

The reason why developing countries demanded trade restrictions will be attributed to the disseminated strategy of state-interventionism. In the 1950s all developing countries were highly specialized in the production of primary commodities for export, while importing manufactured products. Policymakers in developing countries regarded it as necessary for development to overcome the specialization in primary commodities, to improve domestic productive capabilities, and to industrialize domestic economies. The industrialization of developing economies was believed to become possible by means of protecting their domestic "infant" industries and gradually substituting domestic manufactured products for imported ones. The market-oriented trading system was thought to deteriorate their economic positions still more, and the governmental intervention in markets was regarded to lead economic activities more effectively by strategic plans and investments[11]. Under such considerations, a lot of developing states adopted the import-substitution policies, though some of them in East and South East Asia abandoned the strategy relatively earlier, shifting to the export-oriented economies. Despite such a bifurcation, however, almost all policymakers in developing countries sought to retain manipulative instruments to intervene in markets, especially by means of at-the-border restrictive measures. Then, GATT, while enshrining a fundamental principle of mutual trade liberalization, was necessitated for the reasons described above to accept the state-interventionism of developing countries, and was equipped with many exceptional treatments for them. Following exceptional treatments are notable.

Balance-of-payments restrictions---- Although Article XI of GATT prohibits member states from adopting quantitative restrictions of trade, Article XII prescribes that each state may restrict the quantity of imports in order to safeguard its external financial position and its balance of payments. Because the conditions to satisfy for applying restrictive measures of Article XII are rather strict, developing countries demanded mitigation of the requirements, leading to the attachment of a separate provision on balance-of-payments restrictions for developing countries at the 1954-55 Review Session, namely Article XVIII:B. Under the new provision, developing countries are permitted to use quantitative restrictions in order "to ensure a level of reserves adequate for the implementation of its programme of economic development," which means restrictions

[11] See Krueger 1995, pp.3-8.

are almost always possible[12]. In addition, periodic reviews by CONTRACTING PARTIES[13] over all restrictions under the Article gradually became ritual and meaningless. Moreover, developing countries adopting import-substituting policies failed to increase export earnings to support import-substituting industries which demand foreign exchange for importing capital equipment and intermediate goods[14]. It means that, since most developing countries suffered from constant foreign exchange shortages, Article XVIII:B was quite easy to apply. In fact, developing countries have declared during 1974-87 almost 3500 quantitative restrictions under the balance-of-payments exception[15].

Non-reciprocity---- While Article II of GATT permits member states to maintain tariffs below the levels of "scheduled" concessions, it is one of the major principles of GATT to incrementally reduce the existing general level of tariffs by means of periodic multilateral negotiations, so-called "round." In addition, such round negotiations are supposed to be proceeded on a reciprocal and mutually advantageous basis, as declared in Article XXVIII *bis*. Developing countries, however, were naturally very reluctant to offer equivalent tariff concessions in value to those offered by developed countries, since they had to keep tariff barriers as high as possible to protect domestic infant industries confronting import competitions. In the 1954-55 Review Session, a demand from developing countries for exceptional treatments to the principle of reciprocity in negotiations was accepted and materialized in the form of Article XXVIII *bis* :3 stating that "the needs of less-developed countries for a more flexible use of tariff protection to assist their economic development" shall be taken into account[16]. The permission for non-reciprocity does not mean developing countries cannot benefit from mutual tariff concessions among advanced industrial states, since Article I of GATT ensures any advantage granted by any member state to be accorded unconditionally to all other members (General Most-Favored-Nation Treatment : MFN). As a result, most developing countries were bystanders in round negotiations, while free-riding on the fruits of them. Until the Uruguay Round began, tariffs in developing countries that were on the schedule of reduction under GATT was estimated to be only 30%, contrasted with 80% of developed countries' tariffs[17]. Average tariff rates in developing countries were also rather higher than those of developed countries that were close to zero at the beginning of UR.

[12] In contrast, Article XII makes it a condition for applying the provision that a countries faces "imminent threat" and "very low reserves." As for a comparison of the provisions of Article XII and Article XVIII:B, see GATT 1994, p.346.

[13] Expressed in all caps to signify the contracting parties acting jointly under the GATT agreement.

[14] See Krueger 1995, pp.8-9.

[15] Finger and Winters 1998, pp.376-377.

[16] Furthermore, Article XXXVI:8, contained in Part IV of GATT on Trade and Development added in 1966, states that "the developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less-developed contracting parties." Though, from the viewpoint of legal terminology, Part IV did not create any new rights or obligations between developing and developed countries, it reveals how bitterly the fundamental GATT principles were deprived of their legitimacy by the assault from developing countries.

[17] Finger and Winters 1998, p.368.

Special and Differential treatments---- The main concern of foregoing exceptional treatments were to obtain the permission of import-decreasing restrictions executed in each developing country. It had become obvious, however, by the end of 1950's, that such a policy of import substitution behind trade barriers would be insufficient for promoting their economic development, because of the shortages of foreign exchange for importing intermediate goods. Then, it was of immediate importance in their trade strategy to increase export earnings on a dramatic scale. This led to the demand for the non-reciprocal opening of the markets of advanced industrial countries in favor of all developing countries by means of positively differentiated tariff rates from those applied to the products from other advanced industrial countries. This requirement meant not only the tolerance toward incomplete compliances of developing countries with GATT principles, but also the active, unilateral, and non-reciprocal trade liberalization by advanced industrial countries in order to give developing countries more improved access to their markets. At first, the second UNCTAD conference of 1968 declared the establishment of the "generalized system of preferences" (GSP), and then, in 1971, the CONTRACTING PARTIES of GATT finally waived the provisions of Article I for a period of ten years, making possible the implementation of the GSP agreed at UNCTAD. At the same time, another decision also waived Article I, allowing developing countries to accord preferential treatments with respect to products originating in other developing countries. In sum, by the end of the year 1971, the most-favored-nation clause can be invalidated not only in North-South trade but also in South-South trade[18]. The two interim waivers was made permanent in the so-called Enabling Clause in 1979. Plenty of preferential reductions of tariff rates were materialized by national legislations in developed countries. The Enabling Clause also legally authorized more favorable treatments for developing countries in other GATT rules dealing with non-tariff trade barriers such as the Subsidies Code, the Government Procurement Code, and the Standards Code. Accordingly, developing countries got "special and differential treatments" which made them exempted from the new obligations to liberalize non-tariff measures and regulations.

Foregoing exceptional, non-reciprocal, and preferential treatments were so tolerant that policymakers in developing countries were possible to maintain tariff and non-tariff measures, sheltering domestic markets from exposure to the international economy in a GATT-legal form. These favorable conditions for developing states in respect of international trade rendered all the other forms of state-centric management of domestic markets more empowered and unconstrained, as a result of which the authoritarian order in these states was all the more reinforced. Thus, at this point, we cannot agree to the theories asserting that the direct function of the international trading regime was to compel, persuade, or at least induce policymakers in the developing and (former-)socialist states to liberalize their economic systems; rather, its most direct function was to let, permit, or even encourage them to engage in intense state-interventionism and authoritarianism.

[18] Carreau and Juillard 1998, p.276.

C. The invisible and indirect function of the regime : Integrating drive

The systemic changes of the developing and (former-)socialist states since the 1980s toward a reduction in economic intervention and political control have been attributed to various causes. Frequently mentioned are; a growing sense of disillusionment with the past economic and political systems in the face of a deep economic shock of the global recession in the early 1980s; the financial, political, and ideological pressure exercised by international creditors like the IMF, the World Bank, and international private banks; the dissemination of neoclassical economic ideas among officials, technocrats, and academic economists in developing countries, many of whom had been trained in North American universities[19]. On the contrary, considering the direct function of GATT described above, the international trading regime seems to have been quite irrelevant, or even adverse to the shift of economic and political systems in the developing and (former-)socialist states. Here I reveal, however, another aspect of the functions of the regime which has indirectly led them to the drastic reforms.

Arranging the macroeconomic collapses---- While keeping on licensing, restricting, and prohibiting imports of consumer goods, it was necessary for developing countries to import capital equipment and intermediate goods in quantities in order to manage import-substituting industries. But developing countries (except few export-oriented states) were doomed to suffer from foreign exchange shortages, since it could not be expected to earn sufficient foreign exchange to finance imports under the import-substituting policies. Things got worse for several reasons. First, the nominal exchange rate was fixed at an unrealistically over-valuated level in order to import capital goods or commodities less expensively, which prepared quite disadvantageous situations to exporting industries. Second, the export-promotion by introducing foreign aid and investments was quite limited, except some East and South East countries. Finally, domestic import-substituting producers provided with monopoly positions in the sheltered market were free from competition in world economy, resulting in the perpetuated low competitiveness. Foreign exchange shortages and large amount of current account deficits invited in this way threw most developing countries into huge debt to international financial institutions and transnational private banks[20]. This made these countries vulnerable when the global recession in the early 1980s dried up international loans and raised the interest rate in international financial markets. Here appeared room for strengthened political positions of international financial institutions, other creditors, and neoclassical economists to intervene in the economic policies of developing countries. But we should also pay attention to the indirect function served by the international trading regime. Because the regime vastly tolerated the maintenance of measures thoroughly restricting imports, and, in spite of such uncooperative behavior, ensured them automatic MFN benefits, the cost of pursuing trade-restricting and state-intervening policies was kept to a minimum. Without the tolerance of GATT, there would not be so drastic state-intervening policies

[19] About international constraints on domestic policy choices of developing countries, see Stallings 1992. Others place emphasis on domestic political configurations of interests in each country for the sustainability of liberalizing reforms induced by external factors. See Biersteker 1992; Kahler 1992.

[20] Debt of the developing countries rose from $141 billion in 1974 to $313 billion in 1978, $546 billion in 1982, and $620 billion in 1983. Krueger 1995, p.31.

as actually executed, so destructive macroeconomic collapses as actually happened, nor so rapid transformation in economic systems as actually accomplished. Accordingly the GATT, while permitting a lot of self-contradictory exemptions, ultimately led developing countries to paradoxical consequences of liberalizing economic systems and being integrated with the international trading regime in the long run. Intended or not, the regime served this kind of indirect function as a result.

Evoking broad oppositions to the protectionist and authoritarian regimes---- Considering economic welfare of a state as a whole, unilateral liberalization is sufficient to get better off. The principle of reciprocal concessions is of an affinity with mercantilist ideas that detest buying much form other countries without obtaining equivalent opportunities to sell. Reciprocity as a principle of the international trading regime, however, has important political implications. When bargaining is reciprocal, exporters in a country will support the concession of their government in order to obtain concessions from other governments. Accordingly, exporting coalitions will be a strong constituency that supports trade-liberalizing efforts by policymakers and politicians[21]. The effective political instrument of reciprocity, however, was not available to policymakers in developing countries, since GATT denied the principle of reciprocity to be applied to developing countries. Therefore, even if policymakers were inclined to set about trade liberalization, they could not find enough supporters to push through the effort, and, on the contrary, would be confronted with protectionist requirements from interest groups strengthened by the official recognition of non-reciprocity by GATT[22]. Protectionist rent-seeking activities, even pursuing self-interests and quite irrelevant to the development of infant industries nor national interests, became fairly hard to be turned down[23]. The politicians and government officials in developing countries had to continue wasteful economic interventions such as restricting imports, managing inefficient state-owned enterprises, and subsidizing every kinds of domestic producers. Naturally, developing countries suffered from large amount of fiscal deficits, and the increased money supply to finance the governmental demands invited high inflations. Thus, *if* politicians and policymakers in developing countries were aware of destructive effects of state-intervening policies, the international trading regime ironically hindered them from changing their policies toward liberalization. But in many authoritarian regimes, it might have been the case that the elaborate relationships of patronage or corruption are created between politicians and import-competing sectors, seeking parochial benefits from protectionism at the expense of national development in the long run. In consequence, the macroeconomic deterioration of fiscal deficits and high inflations was caused by loose fiscal discipline accompanying the state-intervening and authoritarian regimes, which finally aroused broad internal oppositions to the unreasonable and harmful regimes. We should note that the drastic liberalizing and democratizing reforms invited in this way

[21] As for political function of reciprocity, see Krueger 1998, pp.5-6.

[22] Abbott argued that, under the international trading regime limiting protectionist actions, public officials can act to further their nation's interest as a whole and can avoid destructive pressures from protectionist. See Abbott 1985. But when it comes to the function of the international trading regime in developing countries, the regime made it difficult for policymakers in these countries to reject protectionist demands, and even helped interest groups to justify the claim that trade barriers are necessary to economic development.

[23] See Hudec 1987, ch.9.

would be attributed in part to the international trading regime which excessively encouraged authoritarian politicians and protectionist beneficiaries by means of non-reciprocal treatments. This is also one of the indirect functions of the regime.

Promoting globalization---- Among advanced industrial states, at least, the international trading regime have facilitated and prompted trade liberalization. Multilateral negotiations worked fairly well along the principle of reciprocity, with the material reduction of tariffs in each country. In addition, revolutionary progress in transportations and communications has totally diminished transaction costs in international trade. This institutionally and technologically promoted favorable environment, namely “globalization,” has actually increased the international trade dramatically in the amount and value[24]. Accordingly, the opportunity costs of insulating a country from the world economy have risen. Enterprises in a country with high walls of tariffs and other restrictions cannot take advantage of less expensive products in world markets. Nor are they inclined to transfer several stages of their business overseas, because the trading walls makes intrafirm transactions very costly. Thus, the import restrictions deprived domestic industries of advantageous opportunities, strategic perspective, and consequently international competitiveness. Furthermore, notwithstanding the existence of most-favored-nation clause, it was rather difficult for the competitive industries in developing countries to obtain substantial concessions from advanced industrial countries, unless their government would offer meaningful concessions. Consequently, the industries in developing countries that had comparative advantages were precluded from getting into large markets of advanced industrial countries. The entire loss of these kinds of potential benefits obtainable under the aegis of GATT was so remarkable that some policymakers and entrepreneurs in the developing and (former-)socialist states recognizing such opportunity costs have carried on a vigorous campaign for liberalizing reforms, which partly fostered the decline of the status of those who clung to the “statist” development strategies[25]. Accordingly, the international trading regime exercised an indirect influence on the shift of political opinions about desirable economic policies for development.

In conclusion, the visible and direct function of the international trading regime before the regime transformation in developing and (former-)socialist states was to encourage policymakers and private sectors in these states to concentrate on and cling to the state-intervening and authoritarian policies by exempting these countries from most obligations of GATT. On the other hand, the regime indirectly influenced the shift of economic and political systems in these countries by arranging the background of fiscal and monetary crises, evoking wide social oppositions to harmful economic and political regimes, and preparing the fascinating external environment of global free-trading networks.

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[24] Frieden and Rogowski describes various types of “exogenous easing” of international exchange. See Frieden and Rogowski 1996, pp.26-27.

[25] The pro-liberalizing effects of the “globalization,” however, vary cross-nationally due to different institutional as well as political-economic conditions in each state. This point will be explained below.

After transformation : The dual functions reversed

The emerging domestic conditions of the developing and (former-)socialist states described in previous subsection, combined with the rapid erosion of their bargaining position caused by the changes in the international political climate, the end of the Cold War, led these countries to the deep integration with the international trading regime. On the other hand, the process of integration entails another problem which may once again differentiate the position of developing and (former-)socialist states in the regime from that of advanced industrial states. I explain these contradictory functions of the contemporary international trading regime respectively.

A. The Primary function : Integration and harmonization

Once determined to give up pursuing intense state-interventions and to open up their economies to the rest of the world, policymakers in developing and socialist states increasingly came to see advantages to working with GATT. An agreement to launch the new round had been reached in 1985 with supports of developing countries, and they participated in the round with unprecedented aggressiveness.

Lowering walls for trade---- The Uruguay Round balance-of-payments understanding encourages the tariffication of existing quantitative restrictions and the gradual phasing-out of balance-of-payment measures. Developing countries had already recognized the need to get rid of such restrictions as a necessary step in the process of policy reform, and, by June 1996, only three developing countries (Tunisia, India, and Pakistan) maintained import restrictions declared under Article XVIII:B[26]. In addition, developing countries agreed at the Uruguay Round to reduce their tariffs by an average 8%, whereas advanced industrial states by an average 3.2%[27]. In the UR, developing countries were not bystanders nor free-riders of tariff reductions among advanced industrial states any more, but were, for the first time, active participants willing to offer concessions on their side.

New issues---- The United States were eagerly seeking to extend GATT rules into such “new issues” as enhancing trade in services, liberalizing trade-related investment regulations, and improving protections of intellectual property rights. In contrast to the “traditional” issues dealt with in GATT, namely the removal of at-the-border restrictions such as tariffs and quantitative restrictions, these “new” issues are seeking to coordinate

[26] Finger and Winters 1998, pp.376-377.
[27] Among developing economies, South Asian and East Asian countries agreed to large reductions (16.5% and 9.4%, respectively). Furthermore, though only 22% of the tariffs in developing countries had been “bound” under GATT before the UR, the number rose up to 72% under the UR agreement. See Krueger 1995, p.50. Although the average tariff reduction of the Latin American countries in the UR was rather small (2.4%), they exercised large amount of unilateral tariff reduction in the 1980s and 1990s. For example, Mexico reduced the average tariff rate from 23.5% in 1985 to 11.0% in 1988, Costa Rica from 22.3% in 1986 to 15.9% in 1992, Argentina from 30% in 1988 to 9% in 1991, and Brazil from 32.2% in 1990 to 14.2% in 1994. See Schatan 1993, p.83; Rodriguez 1993, p.109; Tussie 1993a, p.128; Abreu 1993, p.151, respectively.

numerous behind-the-border policies formerly regarded as the matter of domestic jurisdiction[28]. Most developing countries rather approved of incorporating these new issues, because they had strong incentives for coordinating their domestic regulations with those of advanced industrial states in order to regain access to foreign investments and borrowings. In addition, since the final package of resulting agreements in the UR must be accepted in its entirety ("single undertaking"), developing countries were able to exchange the acceptance of new issues for the concessions from advanced industrial states in such areas as agriculture, textiles, and clothing, which developing countries were very interested in. In this way, individual agreements were agreed in each new issue area.

Tightening up the discipline---- As some developing countries began to export products intensively, advanced industrial states faced plenty of domestic demands for the protection of threatened domestic industries. The policymakers had recourse to GATT rules regulating "unfair" trade such as dumping and subsidies (antidumping and countervailing duties; ADs and CVDs). On the other hand, since the GATT rules regarding safeguards were difficult for developed states to utilize, developing countries were, in turn, forced to carry out voluntary export restraints (VERs), whose legality were not necessarily apparent in the GATT legal system. Furthermore, the congress of the United States passed the 1974 Trade Act containing section 301, as amended by the Trade and Competitiveness Act of 1988. This legislation sought to force other countries through threat or imposition of sanctions to liberalize or coordinate their policies concerning new issues with those of the United States. In order to reduce these unilateral or bilateral pressures exercised by advanced industrial states, the United States in particular, developing countries sought to clarify and tighten the discipline regarding ADs, CVDs, and safeguards, and to strengthen the GATT machinery of dispute settlement[29]. This pursuit for discipline was reflected in each clarified and tightened agreement in each area.

Aggressive participation by developing countries described above transformed GATT into truly global and comprehensive trading regime. The organizational character of the regime was strengthened too, which led to the establishment of WTO. Member states have showed more and more respect for and compliance with the rules of WTO agreements. The increased number of the use of the dispute settlement procedure of WTO by developing countries represents the diffusion of rule-oriented approaches[30]. In addition, the Trade Policy Review Mechanism (TPRM) enables the periodic collective appreciation and evaluation of the member states' trade policies and practices covered by WTO agreement. Pressures from other countries will contribute to the coordination of trade policies with relevant WTO agreements.

Regarding countries that have acceded to the WTO recently, (former-)socialist states in particular, steps of accession are of importance. When a country submits request for

[28] See Haggard 1995, p.2.
[29] *Ibid*., p.43-44.
[30] "Between January 1995 and March 2001, there were 228 complaints, with about one quarter of the notifications coming from developing countries. More recently, nearly one half of the 46 complaints received during the 15 months from January 2000 through March 2001 were notifies by developing countries." See WTO 2001, p.2.

accession, a working party is established, and the submitted memorandum about the foreign trade system and relevant legislations of applicant country is examined in detail. When the examination in working party is sufficiently advanced, members states may initiate bilateral market-access negotiations, the result of which apply to all other members through the most-favored-nation clause. This process of accession helps policymakers in each applicant country to ensure that their legislations and regulations are in conformity with WTO agreements.

Therefore, as a result of the democratizing and liberalizing transformation in the developing and (former-)socialist states, the international trading regime unexpectedly obtained the global and comprehensive character and the established organizational basis. Member states recognize that they should comply with the various rules and procedures of the regime, and the developing and (former-)socialist states in particular have become aware of the benefits of the compliance. With the compliance, policymakers in those states are able to arrange favorable environment for foreign direct investments, to weaken domestic political forces requiring protection, and to check the unilateral and bilateral pressures from advanced industrial states. Accordingly, the integration and harmonization of legislations, regulations, and individual policies with multilaterally negotiated norms have become the primary function of the international trading regime, particularly WTO.

B. The complementary function : Differential and preferential treatment

The fact that the developing and (former-)socialist states have become the powerful and important constituents of the international trading regime indicates that, without ensuring their confidence in and satisfaction with the regime, the organizational process as a whole would break down. Such a condition is considerably different from that of the former GATT regime, where those states were virtually outside the regime, enabling developed states to manage the regime autonomously. This fundamental change was already realized at the 1999 Seattle WTO Ministerial Conference that failed mainly because of the disagreement between developing and developed countries. The advanced industrial states initiated confidence building measures within WTO with an eye toward the eventual launch of a new round, and the General Council decision of WTO in May 2000 supported these initiatives.

Capacity building---- As explained above, each country is required to coordinate and harmonize their domestic rather than border measures with the international norms. But countries poor in human and financial resources, or lacking the requisite experiences in administering or enforcing WTO obligations, found it difficult to fully and quickly harmonize their regulations[31]. Thus, a number of WTO agreements prepared "special and differential treatment" for developing and (former-)socialist states, allowing transition periods for full implementation. Most of such treatments expired by the end of the year 1999, but many developing members have requested extension of the periods[32]. To help policymakers in those states to improve their ability to fulfill their WTO obligations, advanced industrial states have arranged various capacity-building programmes. The

[31] WTO 2001, p.23. See also Krueger 1995, pp.54-55.
[32] WTO 2001, p.24.

Integrated Framework (IF) is the most important institutional mechanism for the delivery of trade-related technical assistance to least developed countries (LDCs)[33]. In addition, several developed countries supported the creation of the Advisory Center on WTO Law that will assist developing and LDC members to utilize the dispute settlement procedures in order to promote adherence to WTO provisions.

Market-access improvements---- Since 1974, major developed countries have provided unilateral duty-free treatment to a number of goods from developing countries (GSP). Some of the GSP programmes have recently been extended; the EU's Everything But Arms (EBA) programme; the US's African and Caribbean access programmes; and Japan's 99% initiative for industrial products[34]. Even if these preferential treatments were provided, however, developing countries and LDCs lack the domestic capacity to utilize the market-access opportunities that would allow the expansion of the trade-related sectors in their economies. Thus, advanced industrial states have also provided bilateral assistance programmes in order to help the capacity-building efforts in these areas.

Foregoing "special and differential treatments" and technical assistances do not mean that there exists the essential disagreement between developed and developing countries about the desirable economic system nor about the importance of the norms and principles of the international trading regime. In order to accomplish the primary function of global integration and harmonization of economic systems and policies, the regime implicitly obliges advanced industrial states to provide technical assistances and preferential treatments to developing and (former-)socialist states so that they would be able to manage the market-oriented economic policies more effectively, to comply with and make use of WTO laws more properly, and to put more confidence in the regime[35]. Without the assistance and differentiation, policymakers in those states would find it very hard to fulfill the same obligations as those of advanced industrial states, which would eventuate in the disintegration and breakdown of the regime itself. Therefore, the necessity of providing these measures can be regarded as the indispensable "complementary" function of the regime, which supports the "primary" function, that is, the integration and harmonization. In this regard, the dual functions of the international trading regime after the systemic changes may seem similar to the dual functions before transformation, but the causal relationship between each function is completely opposite.

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[33] The IF is originated in October 1997 under the auspice of six agencies, namely ITC, IMF, UNCTAD, UNDP, World Bank, and WTO. The major steps of the IF are to prepare a multi-year country programme, to hold a Round Table meeting, and to evaluate the result regularly by the staff of the six agencies and officials of the developing countries.

[34] WTO 2001, pp.41-42.

[35] Cullet also argues that "differential treatment is mostly based on mutually accepted non-reciprocity" whose eventual aim is the "empowerment of weaker actors." See Cullet 1999, pp.553-558. In addition, he notes that "differential treatment … is no longer linked to the call for an overhaul of the economic and legal system. … In practice, differential treatment has thus become the price to be paid to ensure universal participation in …agreements concerned with global problems." *Ibid*., pp.570-571.

Phases of divergence

The previous section examined the functional implications of the international trading regime which have been observed more or less commonly in each step of democratizing and liberalizing reforms in the developing and (former-)socialist states. In reality, however, the way each state have liberalized and democratized its economic and political systems varies significantly. Each country or region has its own historical backgrounds, political circumstances, comparative advantages in production, and political-economic ties with other countries or regions. These characteristics and particularities have diversified the processes and outcomes of the democratizing and liberalizing reforms of each country or region. The international trading regime, on the one hand, offering the opportunities of multilateral negotiations and the common frame of references, contributes to ensure the homogeneity of the otherwise infinitely diversified processes and outcomes of liberalization and democratization. What if it were not for the regime? The functions of the regime to bring convergent aspects described in the previous section would go away, and the processes and outcomes of reforms would be far more diverse and complicated. On the other hand, however, the regime in some respects enables, or even encourages, the characteristic, path-dependent, and diversified forms of reforms in each country or region. This section briefly examines how and to what extent the regime contributes to such divergences.

Divergence among issue areas

The developing and (former-)socialist states as a whole by no means shares the common interests for all issue areas on the negotiation table of liberalization. The disintegrated interests among these countries emerged during the process of the UR. They have tended to rely increasingly on regional positions or sectoral coalitions such as textiles and clothing or agriculture[36]. A new range of bargaining options has emerged allowing a selection of partners on an issue-specific basis[37].

The problem of agricultural trade liberalization created the issue-specific coalition in the process of the UR, namely the Cairns Group in which developed and developing countries crossed old boundaries and converged[38]. Agricultural products had been granted special treatments under the GATT; export subsidies and quantitative restrictions were permitted under Article XVI and Article XI, respectively. The net-exporting countries of agricultural products that were eager to liberalize the rules of the regime assembled to strengthen the bargaining positions. On the other hand, policymakers in other countries who are politically responsible for protecting their inefficient agricultural sectors desperately fought to avoid such rapid liberalization. In this regard, since there were both exporting and importing countries of agricultural products within developing countries, they could not share the common interests on the issue.

[36] Jara 1993, p.11.
[37] Tussie 1993b, p.183.
[38] The group consisted of Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

As for the “new issues” mentioned in the previous section, the East Asian NICs rather welcomed to introduce these issues into the GATT regime. Since NICs had abandoned the import-substituting policies in the early 1960s, and pursued the export-led growth by utilizing the public and private foreign capitals. Considering the necessity of attracting the foreign investments continuously, policymakers in NICs had to liberalize and rationalize their economic regulations and policies as soon as possible. In addition, multilateral disciplines were desirable for these countries which had been increasingly threatened by the bilateral pressure from the United States over new issues. On the other hand, those countries that clung to the traditional import-substituting strategies and extensive state-interventionism (India and Brazil, in particular), including socialist governments (Cuba, Yugoslavia, Nicaragua, Tanzania), labeled the G10, contended that lots of Tokyo Round issues such as safeguards, textiles, and agriculture were unfinished, and that the negotiation on the new issues would be premature[39]. Many developing countries supported the NICs approach[40], and the G10 faced the disintegration.

These heterogeneities of the issue-specific interests of each developing and (former-)socialist state or region represent the divergence in past developmental strategies, comparative advantages in products, or relationship with advanced industrial states, particularly with the United States. Trade liberalization did not necessarily mean the simple, homogeneous, and mutually profitable process for all developing and (former-)socialist states. Then, how the international trading regime and multilateral trade negotiations under the auspices of the regime can encourage the appearance of the divergence among these countries? First, the international trading regime has let enormous kinds of issues enter into the forum of multinational negotiations. Second, the “single undertaking” principle enabled the package-dealing negotiation, exchanging concessions across the several issue areas. Therefore, despite the heterogeneities of the issue-specific interests among those states, policymakers of each country could seek to obtain the most important concessions for their country at the expense of many other issue areas, which tolerated and encouraged the divergence among issue areas.

Divergence among regions

Regional agreements are often one of the most powerful driving forces for trade liberalization. As multilateral trade negotiations have become more and more difficult with the multiplied members and issues, policymakers in each country feel more inclined to regional cooperation which can be negotiated with decreased numbers in states and issues and increased similarities in historical experiences, geographical situations, and economic systems.

The international trading regime basically permits such a regional cooperation as long as it does not preclude multilateral liberalizing efforts. Article XXIV of GATT provides the rules about the free trade zones and customs unions. But such disciplines of the free trade areas as the restriction of discriminatory and trade-diverting effects have been

[39] About the history, argument, and implications of the activities of G10, see Kumar 1993.
[40] These countries were regarded as G20, which played a major role in generating a negotiating text for the Punta del Este meeting of GATT in September 1986. See Haggard 1995, p.43.

unilaterally interpreted and seriously distorted[41]. In fact, a regional cooperation usually has intense discriminatory and trade-diverting effects against the rest of the world.

Moreover, some regional regime can influence the democratizing processes of member states, as seen in the EU-accession requirements on Eastern and Central European states. Thus the varieties in regional locations of each developing and (former-)socialist state will provide quite unique democratizing and liberalizing path, substantially different from other states in other regions. The international trading regime, having been tolerant toward various forms of regionalism, has surely played a part in the expansion of such regional divergences.

Divergence among domestic political conditions

Domestic political circumstances and institutions can affect the decision-making process and policy outcome about democratization and liberalization. In a country which is on the way to democratizing its former authoritarian regime, policymakers will be placed in the complicated relations to traditionally benefited groups, such as subsidized industries or protected farmers. Some democratizing government may have political ability to pursue drastic liberalizing reforms, holding relatively large autonomy in relation to the state-interventionist groups, while other government may be necessitated to give in to some of protectionist demands, in order to keep stable political foundations and to make liberalizing reforms proceed incrementally without causing serious distributional conflicts.

Because the international trading regime has enabled each member state since its establishment to choose “compromised” style of trade liberalization, particularly in the form of elaborate provisions of trade remedies law which permit members to protect seriously endangered domestic industries from competition from abroad, developing and (former-)socialist states can launch into trade liberalizing reforms, while protecting, if necessary, some economically uncompetitive but politically powerful industries in a GATT-legal or WTO-legal manner. Increased use of antidumping measures[42] or safeguards by developing countries reflects incremental political processes of “compromised” trade liberalization.

Therefore, we can say the highly flexible character of the international trading regime has provided each country various courses to achieve liberal trade, corresponding with its own democratizing path which creates diverse patterns of political environment around policymakers.

[41] Jara 1993, p.24.

[42] In 1999, the number of the initiation of antidumping investigations by developing countries is no less than that of advanced industrial states. The European Union and India each reported the highest number of initiations, at 68. Canada and Australia initiated 18 and 23 investigations respectively, while Brazil and South Africa each initiated 16 investigations.

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