

Professor Mihir Rakshit is an outstanding economist of our country, well-known for his deeply analytical approach and original theoretical formulations about the working of developing economies in general and the Indian economy in particular, especially in respect of the macro-economic and developmental aspects. He has an amazing ability to integrate diverse factual observations about the economy into sound and rigorous economic theorising. Professor Rakshit obtained his B. A. Honours and M. A. from Presidency College, Calcutta, and his Ph.D. in Economics from London School of Economics. On his return to India, he took up a teaching career at the Presidency College. After working as a Professor at the Presidency College from 1965 to 1991, he moved to National Institute for Public Finance and Policy during 1991-1992 and then to Indian Statistical Institute in Calcutta from 1992 to 1996 as Professor. He was invited as Visiting Professor at Delhi School of Economics in 1976 and at Erasmus University, Rotterdam in 1992-1993. Professor Rakshit worked as a member of the Working Group for Fiscal and Financial Policies for Tackling Unemployment, appointed by the Government of India in 1970-71 and as a member of the Core Group of the Global Macroeconomic Research Project of the World Institute of Development Economics Research, United Nations University, Helesinki in 1985-87. After his retirement, he was made Honorary Professor at the Indian Statistical Institute. At present, he is the Director of the ICRA Project on Money and Finance in India and has been working as the Editor-in-Chief of ICRA Bulletin on Money and Finance since 1996.

Professor Rakshit's pioneering analytical work on macroeconomics was published in 1982 as a book entitled "The Labour Surplus Economy: A Neo-Keynesian Approach". He edited a collection of some top-quality papers on Macroeconomics of Developing Countries in 1989 in the form of a book entitled "Studies in the Macroeconomics of Developing Countries". Earlier in 1983, Professor Rakshit had delivered a lecture in the prestigious series of R.C. Dutt Lectures on Political Economy. These lectures were subsequently published in 1993 under the title "Trade, Mercantile Capital and Economic Development". He also edited a book on "Planning and Public Policy in India" in 1994 and another on "Economic Theory and Public Policy" in 1997. Professor Rakshit has published a large number of papers in national and international journals, such as, Oxford Economic Papers, *Economica*, *Economic and Political Weekly*, etc. His recent writings in the ICRA Bulletin on Money and Finance present insightful analysis of the current monetary and financial developments in India, in other Asian countries and in the Latin American countries. Through his writings and his approach to the editing of this journal, he has established this journal in a short time as one which is eagerly sought after equally by academicians, students, policy makers and practitioners in business and finance.

**Post-Uruguay Round Trade Negotiations: A  
Developing Country Perspective**

**Mihir Rakshit**

**R R KALE MEMORIAL LECTURE, 1999**

**GOKHALE INSTITUTE OF POLITICS AND ECONOMICS  
(DEEMED TO BE A UNIVERSITY)  
PUNE - 411 004**

© Gokhale Institute of Politics and Economics  
Pune - 411 004

ENTERED IN DATABASE

Price: Rs. 30/-

PRINTED IN INDIA

by Ankush Kakade at Maharashtra Sahakari Mudranalaya, 915/2, Shivajinagar,  
Pune 411 004, edited and published by V S Chitre at the Gokhale Institute of  
Politics and Economics (Deemed to be a University) Pune 411 004 (India).

# Post-Uruguay Round Trade Negotiations: A Developing Country Perspective\*

Mihir Rakshit\*\*

I feel greatly honoured at being invited to deliver this year's Kale Memorial Lecture. The choice of the subject of my lecture today, let me confess, has been dictated by several considerations. Since in a public lecture I could not expect a captive audience of students as in a classroom, I did not want to drive prospective listeners away by speaking on an esoteric topic of little contemporary relevance. In the context of the dramatic disarray with which the Seattle ministerial meet, scheduled to draw up an agenda for post-Uruguay round trade negotiations, has just ended, I could hardly have chosen a more topical subject for my lecture. Second, not only is the subject of crucial importance for trading nations, both developed and developing, but it also involves interesting analytical and policy issues on which sharp differences seem to persist. The final reason behind my choice is rather personal. It is no modesty on my part to confess that in the areas I have been working on for the greater part of my academic career, I am yet to acquire the mastery required for lucid exposition of the topics. So far as trade theory and policy is concerned, though I am familiar with its rudiments, I have not done any serious research in this area and hence, am largely unaware of its complexities and nuances. Hence, I thought I could speak on the subject with some degree of confidence and clarity—qualities considered essential for a public lecture.

## Trade Negotiations: Some Puzzles

Before going into the economic significance of the contentious issues raised at the Seattle meet and the reasons behind its failure, it may be useful to start with a few general observations and puzzling features of trade negotiations among countries. When the General Agreement on Tariff and Trade (GATT) was set up in 1947, international trade was characterised by quantitative restrictions, high tariffs as also various types of non-tariff barriers. The avowed objective of the GATT and its successor, the World Trade Organisation (WTO), functioning from 1995, is to promote unhindered, multilateral trade, considered in mainstream economics as one of the most important factors contributing to allocative efficiency and growth of nations. However, despite the near unanimity among economists regarding the salubrious impact of free flow of goods and services across national frontiers, the history of successive rounds of trade negotiations since 1947 leaves little doubt that practically all governments still adhere to the mercantilist notion of international trade as a zero-sum game, with each country trying its utmost to secure an enlargement of its export market and to retain as far as possible its own tariff and non-tariff barriers to imports from the rest of the world.

In order to appreciate the yawning gap between theory and practice in the sphere of inter-country commerce consider the following rules enjoined by analytical considerations, rules which are honoured more by violation than observance when countries conduct their trade policies or enter into negotiations.

---

\* Text of Rao Bahadur R. R. Kale Memorial Lecture delivered at the Gokhale Institute of Politics and Economics, Pune, on 5<sup>th</sup> December, 1999.

\*\* Former Professor, Indian Statistical Institute, Calcutta; Director, Monetary Research Project and Editor-in-chief, Money and Finance, ICRA Limited, Calcutta.

First, if two trading nations simultaneously reduce their trade barriers, both will gain with larger cross-border flow of goods and services. Second and perhaps more important for the topic at hand, a *unilateral* lowering of import tariffs is beneficial to the country even though its trading partners also gain at the same time. In other words, contrary to the impression one gets from bargaining among nations, easing of import restrictions does not in general constitute "sacrifice" or "concession" on the part of the country. Third, serious objections to direct or indirect export subsidy on a product raised by its importing nations are difficult to appreciate in terms of general economic principles: after all, the gains from such subsidy accrue to the countries importing the product, while the cost is borne by the exporting nation.

### **Political Economy of Trade Policies**

We should not from what has just been said jump to the conclusion that governments take leave of their senses when they come to the trade negotiation table. More often than not there is some method in their madness and in order to clear the deck it is important to consider the major instances of trade restrictions which can be explained, if not justified, in terms of the conventional logic of political economy. This will help us to identify areas of congruence and conflicts of countries' interests, put forth a few suggestions for resolving the current impasse and indicate the type of issues on which negotiations may be fruitful and mutually beneficial.

The major instances of trade barriers and of countries' reluctance to lower or dismantle them unilaterally may be grouped under the following categories: (a) protection of "infant industries"; (b) tariff as a tool for securing monopoly or monopsony gains; (c) "beggar-thy-neighbour" policies for raising domestic output and employment; (d) trade barriers for mitigating adverse income distributional consequences; and (e) export subsidy or import restrictions for promoting group or sectional interests. A few comments on the nature and implications of these policies are in order at this stage.

### **Infant Industry Protection**

Since infant industry protection is ultimately beneficial for all countries, it should not *a priori* be a major source of dispute among nations. However, there are several reasons why such protections can turn out to be quite contentions. First, it is by no means easy to identify industries which deserve protection on this ground. It is generally through scale economies or "learning by doing", including endogenous technical improvements in the process of production, that a domestic industry enjoying the advantage of high tariffs is deemed to become more efficient and acquire competitive edge over time. However, in view of the widely divergent experiences of countries relating to productivity improvements in their protected industries and firms, it is extremely difficult to judge the long-run comparative advantage of particular countries in different lines of activities. Indeed, since protection to the wrong industry is harmful both to the country concerned and the rest of the world, discords in this connection arise not so much from genuine clashes of interest among countries, but more from differences in their perceptions, with hope triumphing over experience in one case and caution cum considerations of short-term sacrifice gaining upper hand over uncertain future gains in the other.

Indeed, the history of import-substituting strategy followed by many a developing country suggests that absence of external competition acts as a damper to cost-cutting efforts of domestic producers and makes them devote their energy and use their clout for ensuring continuation of import quotas or tariffs. Recall that infant industries are

pected to become adults through reaping the advantages of scale economies and learning by doing. Unsurprisingly, given the relatively small domestic market for most of these industries, protection is almost always followed by emergence of monopoly firms. In the absence of neither domestic nor foreign competition, the industries generally fail to become globally competitive and require indefinite support for their survival, to the detriment of both national and global welfare. Hence, arises the need for (i) close scrutiny of industries' potential before granting protection and (ii) sticking to a pre-announced time schedule of gradual withdrawal of protection. The point to note in this connection is that choosing the right industry for protection and gradually forcing it to face competition at the global level are mutually beneficial for the country giving protection and its trading partners.

However, there can be genuine clashes of national interests when countries, both developed and developing, try to provide direct and indirect support to industries which are marked by learning by doing, have strong spill-over effects or can act as vehicles for cumulative technological progress across a wide array of economic activities. Depending upon the type of industries supported by the government through tariffs or subsidies, the time profile of overall and sectoral productivity growth of the economy may thus be quite different. The long-run comparative advantage of a country, it is also relevant to note here, depends on inter-industry differential in productivity gains in the country *relatively* to that in others.

The implication is that the outcome of protection is not independent of different countries' choice of activities for according special support. This opens up the possibility of a country gaining relatively to others by fostering industries where productivity growth tends to be higher and the income-elasticity of demand for whose products is larger. No wonder, practically all countries try to promote investment in those areas which are deemed to be "sun rise", have large spill-over effects and act as a catalytic agent in the process of the economy's technical advancement. Under this scenario it is not very easy to come to an agreement regarding how far countries may be permitted to extend support to particular industries that has a direct impact on the pattern of trade. However, given the fact that in this regard the dice is already heavily loaded in favour of advanced countries, it is the developing countries who should in all fairness be granted the option of having time-bound, special dispensation for specific sectors of their economy.

### Monopolistic Trade Practices

There are unavoidable clashes of national interest in respect of trade policies designed to secure monopolistic or monopsonistic advantages. As the literature on optimum tariff suggests, a country accounting for a substantial part of world demand for a good can reap considerable benefit by turning the terms-of-trade in its favour through restrictions on the good's imports. Similarly, a large producer of some tradable can secure monopolistic gains at the expense of other countries by curbing its export (below the free trade level). An interesting asymmetry in treatment of such practices under the WTO arrangement is worth noting at this stage. In view of each country's overwhelming concern for promoting its exports and restricting imports, trade agreements are generally designed to circumscribe direct and indirect measures for curbing inflows, but not outflows of goods and services, though the latter are no less distortionary than the former). Agreements are no doubt difficult to reach in respect of trade practices where one country gains at the expense of others. However, it is important to recognise that the benefits accruing to a

country (or a group of countries) through exercise of its (their) monopoly or monopsony power are less than the loss suffered by its trading partners. Hence, even in such cases there is scope for negotiation and framing some agreed rules that could mitigate the damage and would appear "relatively fair" to the community of nations.

### **Beggar-thy-Neighbour Policies**

The least defensible of trade barriers are those through which a country tries to boost its aggregate domestic demand, the reason being that such measures amount to attempts on the part of the country to export unemployment to the rest of the world. Indeed, competitive devaluations and imposition of high tariffs by several countries in the wake of the 1929 crash contributed in no small measure to deepening of depression along with a sharp shrinkage in world trade and commerce during the 1930s. Corrections through effective demand failure should, therefore, be sought along the following lines.

To the extent depressionary tendencies in a country originate from a decline in domestic absorption, the solution lies in expansionary monetary or fiscal policies. Not only do such measures help restoration of full employment, but they also prevent a fall in the country's import and hence transmission of depressionary forces to the rest of the world. Nor should such steps land the country in balance of payments problems, remembering that the source of the initial trouble was a fall in internal, not export demand.

When a number of nations, having strong trading links with each other, suffer from a simultaneous demand shock, expansionary policies pursued by a single country will subject it to balance of payments difficulties. The problem does not arise and all countries gain if they simultaneously adopt measures for boosting domestic demand. In this case attempts by each country to reverse the depressionary tendencies through generation of an export surplus only aggravate the difficulties and constitute a negative-sum game. Macroeconomic policy coordination among countries is no doubt difficult to bring about and lies outside the scope of the WTO or any existing international organisation for that matter. However, apart from moderating the slide in global production and trade, rules forbidding beggar-thy-neighbour policies can hopefully induce countries to mount a serious search for a coordinated policy stance to tackle emergent problems.

### **Distributional Objectives**

Some of the trade distortionary policies, especially those adopted by developing countries, may be traced to distributional reasons. Permitting unhindered flow of goods and services across its frontiers enables a country to maximise the potential level of absorption and welfare. However, trade also involves, *a la* the Stolper-Samuelson theorem, a change in income distribution in favour of factors used more intensively in export industries at the expense of those which are employed mostly in production of importables. If the latter constitute the less well-off or more vulnerable sections of the society, governments may deem it necessary to impose import tariffs or export taxes, sacrificing some national income on grounds of equity.

The first best solution to the problem just considered lies in (i) dismantling all trade barriers and (ii) using a tax-cum-transfer scheme in order to effect the desired distribution of income. However, the distortionary effects of taxes and transfers are by no means insignificant. Given the narrow base of direct taxes in developing countries and

inefficiency-cum-venality characterising the government machinery, import restrictions may well constitute the second best optimum for these countries.

For advanced countries, where social safety nets are in place and the tax machinery is much more efficient, tariffs on distributional considerations cannot be justified on grounds of national interest. Even for developing nations it is important to recognise the short and long run deleterious impact of using trade policy as a means of promoting equitable distribution of income. What matters crucially for equity is inter-personal distribution of human and non-human resources. Endowment of these resources is not invariant and can over time be influenced significantly by government policies. Given this perspective it is not very difficult to appreciate that taking recourse primarily to trade restrictions for reducing income inequality or poverty can be quite costly in the long-run. Apart from reducing the country's capacity to invest and save, import curbs or export subsidies also emit wrong signals to economic agents, put a brake on capital accumulation in more productive sectors and prevent labourers from acquiring skills that would fetch them higher income under a more competitive trading regime. As in the case of infant industries here also protection, if deemed necessary, should be temporary and supplemented by other measures, the most important of which are (i) strong disincentives deterring investment in the protected sector and (ii) a crash programme of education and training for the indigent and vulnerable groups of population. In most instances it is the absence of these supplementary measures that accounts for the failure of restrictive trade policies to further income distributional objectives on an enduring basis. This is apart from the fact that some of the policies, with their bias against labour intensive industries, are in fact counterproductive on equity considerations. The case against such measures, we need hardly emphasise, is quite open and shut.

### **Special Interest Groups**

For completeness, we may also add that there are instances aplenty where trade restrictions cannot be accounted for by any of the four considerations we have just examined. Some of the policies are welfare reducing for both the country implementing them and the rest of the world. There are also measures which are damaging to the country's interests, but confer benefits on its trading partners, the most important example of such policies, as we have noted, being sale of exportables below their cost in the international market. Not only do such seemingly sadistic or altruistic policies run contrary to canonical principles of economics, but what is no less perplexing, countries standing to gain from these measures more often than not vehemently oppose their adoption: witness the proliferation of anti-dumping duties in recent years. The explanation of these puzzles lies mostly in the realm of political economy of public policy, or what the late Professor Olson called the logic of collective action. The pertinent point to recognise in such cases is that the behaviour of governments, even democratic ones, is very often dictated by lobbying from vocal and organised pressure groups, and not necessarily aimed at promoting the welfare of the silent and unorganised majority. This is a point to which I shall come back at a later stage while discussing issues requiring further negotiations among trading nations.

### **The Seattle Imbrolio**

Before examining the areas on which further trade negotiations may be fruitful, a few words on the reasons behind the Seattle setback are in order at this stage. Despite some none-too-unimportant differences in approach among advanced countries themselves,



they have been pushing hard for a new round of trade negotiation on a fairly wide range of issues. The developing countries on the other hand are strongly opposed to initiation of any fresh talks before the USA and other industrialised countries fulfil their commitments as per the WTO agreements. The intransigence of the LDCs in this regard may be explained by two sets of factors.

First, under the WTO regime the rich countries were expected to open up their markets to goods from developing countries in general and the least developed countries in particular. However, not only have the advanced nations been extremely reluctant to dismantle their pre-existing tariff and non-tariff barriers to imports of textiles, leather articles, marine products and other consumer goods supplied by the poorer countries of the world, but the USA and the European Union (EU) have in recent years also displayed growing protectionist proclivities by their frequent use of anti-dumping duties on and banning of particular items of imports—measures which have been directed exclusively against the third world and transitional economies. Nor has the European Union or Japan shown any sign of doing away with trade distortionary measures relating to agriculture. It is the emerging market economies which have, in fact, reduced trade restrictions to a much greater extent, especially since 1994. No wonder then that the United States and the EU have raised their share of world exports at the expense of developing nations: in 1999 the EU countries and the USA accounted for 55.7 per cent of global exports compared with 50.4 per cent recorded in 1993. Given such experience, the industrialised nations, developing countries fear, are unlikely to phase out all impediments to textile imports under Multi-Fibre Arrangement (MFA) by 2005, remembering that the substantial part of opening up is scheduled to occur only between 2000 and 2005. Hence, the insistence on the part of LDCs on removal of import barriers by developed countries before agreeing to enter into a new round of trade negotiations.

No less if not the more important factor behind this stand is related to the nature of issues advanced countries are trying to raise in the post-Uruguay round trade negotiations. Many of these issues, the developing countries believe, should not fall under the WTO jurisdiction and their inclusion in the new agenda is viewed as nothing but a covert attempt at perpetuating and strengthening import protection in developed nations. At the same time, most of the other issues sought to be included in the agenda are clearly intended to open up access of advanced country exporters and investors in emerging market economies. Unsurprisingly, the developing nations feel that they have little to gain and much to lose from the rules to be framed on these issues under a new round of talks.

### **Bones of Contention**

In order to appreciate the conflicting stands of advanced and developing countries regarding the need and nature of trade negotiations at the current juncture, let us consider the contentious issues raised at the Seattle meet and examine, in light of our earlier observations, whether they involve some conflicts of national interest, and if so, what would constitute a "fair" settlement. The issues we focus on are those which are of special concern for emerging market economies.

### **Social and Environmental Standards**

A major area of dispute between developed and developing countries has surfaced because of the attempt on the part of the former to incorporate environmental, labour or social standards in the new round of trade agreements. Abolition of child labour and

adherence to environmental standards, it may plausibly be argued, are in the long-run interest of developing countries themselves. However, in the absence of financial support from external sources, most developing countries will find it too costly to enforce these standards. Second, the objective of the GATT and its successor is not advancement of human well-being in all spheres, but promotion of mutually beneficial trade. There is considerable merit in the argument that the environmental and social objectives are served better through the ILO and other international organisations, including the World Bank and aid giving bodies which can influence domestic economic policies of LDCs. The point to note here is that when low social and environmental standards are common to a number of sectors and not limited to exportables, banning their imports by industrialised countries does not promote the desired goals and may even be counterproductive. Thus, a fall in wages of child labour may force parents make their children work wholtime (depriving them of opportunities of part-time learning) and prevent indigent families from escaping the poverty trap.

The widespread suspicion that inclusion of these items in the WTO agenda is an indirect means of furthering protectionism is strengthened by, among other things, the prolonged default of the richest nation in the world to honour its financial commitment to the United Nation—an act which has seriously impeded the work of the UNDP, WHO and FAO, engaged in providing succour to the most deprived sections of the humanity. No less striking is the US reluctance to reduce emission and failure of advanced countries to compensate LDCs for global environmental degradation or to assist medical and biotechnological research that would be of benefit to the most populous and poorest parts of the world. Perhaps the most telling evidence of insincerity of advanced countries in this regard lies in their refusal to eliminate barriers to imports from LDCs, which would have enabled these countries to tackle their social and environmental problems more effectively and on a sustained basis.

### **Impediments to Developing Country Exports**

From the viewpoint of the poorer nations of the world the most urgent need thus consists in trade agreements and rules under which they do not suffer from restrictions on their exports. The major obstacles to export growth of LDCs, especially the least developed ones, arise, as we have seen, from the reluctance of industrialised countries to lower their tariff and non-tariff barrier to imports from developing countries. A related obstacle comes from exclusion of these countries from the powerful trading groups like the EU, the North American Free Trade Agreement (NAFTA) and the Association of South East Asian Nations (ASEAN). Two things need emphasising in this connection. First, apart from the deleterious impact of trading blocks on the rest of the world, they run counter to the principle of free multilateral trade, and hence, have a welfare reducing impact at the global level.

Second, protectionist tendencies noted above cannot always be explained in terms of the clout exercised by influential pressure groups. Not only has the unemployment rate in both the United States and Europe been low and falling in recent years, but (barring agriculture) their domestic production of importables from developing countries is quite minor in relation to their GDP. Part of the explanation of the tendencies lies in the exercise of monopsonistic power on the part of advanced countries. The main reason however seems to be that even though freeing imports of most of these products are mutually beneficial, developed countries try to use tariffs as bargaining instruments to extract gains in some other areas. This explains their insistence on a relatively

comprehensive agenda for trade negotiations under which they may be willing to lower their import barriers in exchange for (a) greater access for their investors, including financial firms, to markets in developing countries, (b) agreement on the part of these countries to hasten strengthening laws relating to intellectual property rights, and (c) doing away with special and differential treatment developing countries enjoy in some spheres. Bargaining among countries to trade-off concessions across sectors and issues enhances no doubt possibilities of some agreement, but the outcome, as we shall note, may be neither "fair", nor efficient.

### Trade in Agriculture

Negotiations culminating in the WTO charter failed to produce an agreement for any significant lowering of protection of agriculture and this, it was expected, would be a major item in the post Uruguay round trade talks. Interestingly enough, unlike in the cases we have considered earlier, here there are conflicting stands among both the rich and poorer nations of the world. While the USA, Australia and Canada have long been insisting on liberalisation of agricultural trade, the EU and Japan are extremely averse to discontinue their substantial support to domestic farmers through direct subsidies along with tariff cum non-tariff barriers. Again, though agricultural goods figure more prominently in the export basket of developing countries, trade liberalisation in farm product may not in fact be of benefit to all of them.

Cost of supporting domestic agriculture is quite substantial for advanced countries and there is little economic logic behind such trade distortionary policies. Continuation of support to agriculture in these countries is due primarily to the strength of farmers' organisations, though preservation of the rural cultural heritage is one of the favourite arguments advanced by politicians of practically all hues. So far as the developing countries are concerned, the adverse impact of freeing agricultural trade operates mostly through an increase in the incidence of poverty. The point merits some discussion in view of its importance for the Indian economy.

Advanced countries' discontinuation of subsidies to or protection of farm products should no doubt provide a boost to agricultural output and income in all developing nations including India. Since the major part of our population is still dependent on agriculture for their livelihood and since poverty is much more pervasive in the country side than in urban areas, on both efficiency and equity grounds the case for free trade in agriculture appears open and shut. Such a judgement abstracts however from two major problems countries like India are faced with.

First, it is the small and marginal farmers (who are net buyers of foodgrains), landless labourers, artisans and urban casual workers who account for the overwhelming part of the people living below the poverty line, and larger exports of farm products and the associated increase in their prices cannot but worsen their lot. No wonder then that practically all empirical studies have confirmed a strong positive relationship between foodgrains prices and the incidence of poverty.

Second, increased production and prices of foodgrains do benefit farmers having a marketable surplus, and the magnitude of their gain, economic theory tells us, is larger than the loss suffered by others. However, this gain in the aggregate Gross Domestic Product is cold comfort to the country's indigent groups in the absence of income transfers from the richer to poorer sections of the community or of well-targetted food subsidy schemes—something which is beyond the capacity of government machinery in countries like India. Hence arises the negative impact of freeing agricultural trade and

withdrawal of food subsidy. It is in this context that one has to appreciate the need for making food security a central concern in any trade agreement relating to agriculture.

While there can be little disagreement on the need for framing policies with a view to eliminating poverty and ensuring food security, here also it is important to recognise the flip side of trade distortionary measures and examine how best to promote the objectives of growth and equity. Each country should no doubt have the inalienable right to determine the volume and composition of domestic consumption (and investment), and hence enjoy the freedom of choosing its tax-subsidy structure in consonance with its economic and social objectives. Nor does exercise of such freedom become trade distorting so long as the tax-subsidy system applies equally to all goods purchased by domestic buyers, irrespective of their sources of supply. Indeed, subsidising agricultural production or restricting export of foodgrains is not generally the best way of ensuring food security. When a well-functioning foodgrains market at the domestic and international level is in place, the optimum means of alleviating poverty consists in issue of foodstamps. When the market is highly imperfect or thin, as the international market for rice is, a food subsidy-cum-rationing scheme along with maintenance of an adequate buffer stock becomes necessary. Even in this case, however, the government should try to procure foodgrains from the cheapest market, domestic or foreign. These policies, we must add, should be supplemented by development of rural infrastructural facilities along with support to R&D specific to the country's agro-climatic conditions. Measures for promoting food security may not thus necessarily cause any distortion in world trade.

### **Multilateral Agreement on Investment (MAI)**

One of the major items in the industrialised countries' agenda for post Uruguay round trade negotiations is Multilateral Agreement on Investment (MAI). The objective is to remove all obstacles faced by their firms in investing in emerging market economies. Such investment should also, *a la* textbook principles, be of benefit to developing economies.

The first point to note in this regards is that trade in goods and services is not *directly* linked with transborder financial flows. Hence the WTO is not the proper forum for negotiations on MAI. Again, given the wide disparity among nations in respect of their economic structure, stages of financial development and efficacy of monetary and/or regulatory authorities, rules relating to foreign investment and control on capital movements should not be uniform everywhere. This is apart from the fact that there are sharp differences of opinion of economists, especially after the currency crises during the 1990s, on the costs and benefits of international capital mobility.

### **Directions of Future Negotiations and Policies**

Before passing judgement on the requirements and nature of a new round of trade negotiations, let us examine the case, if any, for special and differential treatment of developing countries under the WTO framework. Our analysis suggests that in most areas these countries require elimination of trade distortionary policies being followed by advanced nations, and not special or differential treatment. Indeed, continuation of quotas and high tariffs imposed by developing countries is not generally in their own interest either. Hence the need for moving towards free, multilateral trade in line with the GATT and WTO objectives. Bringing issues that are not primarily trade related, we have also emphasised, tends to defeat the basic objective of the WTO. The only justification for inclusion of these issues in a new agenda is that simultaneous negotiations on a wide set

of items permit possibilities of trade-offs and coming to some agreement where the outcome would perhaps be better than under the prevailing impasse. However, not only is the new settlement likely to be quite unfair for developing countries, but the new system will be a far cry from a trading regime characterised by unhindered flow of goods and services across national frontiers..

### **Concluding Observations**

Our conclusions may be summed up in following terms. Developing countries should stand firm in their opposition to a new agenda having items that are not directly related to trade. At the same time there is no point in their indulging in a strategic game by refusing to reduce their import barriers unless developed countries also do so—a game that is heavily loaded in favour of the latter. For the former, a unilateral reduction of import barrier is a better course of action in most cases, even if it confers unrequited gains on their trading partners as well.

This does not mean that developing countries need not try to modify the existing WTO arrangements or to seek special dispensation on any matter. In the context of frequent anti-dumping duties imposed by advanced nations, the poorer countries have found the WTO mechanism of dispute settlement quite costly and inadequate. They should therefore press for a simpler procedure of dispute settlement and subsidy on the cost involved in pursuing cases before the WTO, with the extent of the subsidy being linked to the per capita income of the country concerned.

We also feel that while there is in general no need for making exception to the WTO rules for the LDCs, they require special dispensation in the following instances: (a) Industries crucially dependent on some key infrastructural facilities may be given time bound protection while the facilities are being developed; (b) Protection may also be permitted for supporting some vulnerable groups. However, at the same time steps should be taken to discourage expansion of these industries; promote flow of resources to the more competitive sectors; and put in place a system of safety nets to mitigate transitional problems; (c) In lieu of enforcement of intellectual property rights by LDCs, advanced nations should provide financial assistance to research specific to solution of health and food problems bedevilling the poorer nations.

Note that while exceptions under (a) and (b) are designed to reduce the cost of serious disruptions and do not undermine the principle of free flow of goods and services, the *quid-pro-quo* suggested under (c) is for redressing the serious imbalance in the use of science for the benefit of mankind and should serve the long term interest of developed countries as well.

## R. B. R. R. KALE MEMORIAL LECTURES

<u>Lecturer</u>	<u>Subject</u>	<u>Year</u>
1. * V.G.Kale	Modern Tendencies in Economic Thought and Policy	1937
2. + G.S.GHURYE	The Social Process	1938
3. + B.R.AMBEDKAR	Federation Versus Freedom	1939
4. * K.T.SHAH	The Constituent Assembly	1940
5. + A.V.THAKKAR	The Problem of the Aborigines in India	1941
6. + V.L.MEHTA	A Plea for Planning in Co-operation	1942
7. S.G.VAZE	The Formation of the Federations	1943
8. * JOHN MATHAI	Economic Policy	1944
9. * S.R.DESHPANDE	A Statistical Approach to Vital Economic Problems	1945
10. * J.V.JOSHI	India's Sterling Balances	1946
11. + C.D.DESHMUKH	Central Banking in India: A Retrospect	1948
12. + D.G.KARVE	Public Administration in Democracy	1949
13. R.L.DEY	Policy of Protection in India	1950
14. M.VENKATRANGAIYA	Competitive and Co-operative Trends in Federalism	1951
15. A.D. GORWALA	The Role of the Administrator: Past, Present and Future	1952
16. * LAXMANSHASTRI JOSHI	Indian Nationalism	1953
17. + W.R.NATU	Public Administration and Economic Development	1954
18. * P.C.MAHALANOBIS	Some Thoughts on Planning in India	1955
19. + S.K.MURANJAN	Reflections on Economic Growth and Progress	1956
20. + B.K.MADAN	Financing the Second Five-Year Plan	1957
21. * V.K.R.V. RAO	Some Reflections on the Rate of Saving in Developing Economy	1958
22. K.P. CHATTOPADHYAY	Some Approaches to Study of Social Change	1959
23. B. VENKATAPPIAH	The Role of Reserve Bank of India in the Development of Credit Institutions	1960
24. B.N.GANGULI	Economic Integration: Regional, National and International	1961
25. A. APPADORAI	Dilemma in Modern Foreign Policy	1962
26. + H.M. PATEL	The Defence of India	1963
27. + M.L. DANTWALA	Agriculture in a Developing Economy: The Indian Experience (The Impact of Economic Development on the Agricultural Sector)	1964
28. * PITAMBAR PANT	Decades of Transition - Opportunities and Tasks	1965
29. + D.R.GADGIL	District Development Planning	1966
30. S.L.KIRLOSAR	Universities and the Training of Industrial and Business Management	1967
31. E.M.S. NAMHOODRIPAD	The Republican Constitution in the Struggle for Socialism	1968

32.	J.J.ANJARIA	Strategy of Economic Development	1969
33.	RAJANI KOTHARI	Political Economy of Development	1971
34.	* V.V. JOHN	Education as Investment	1972
35.	K.N. RAJ	The politics and Economics of "Intermediate Regimes"	1973
36.	H.K.PARANJAPE	India's Strategy for Industrial Growth: An Appraisal	1974
37.	ASHOK MITRA	Growth and Diseconomies	1975
38.	S.V.KOGEKAR	Revision of the Constitution	1976
39.	M.N. SRINIVAS	Science, Technology and Rural Development in India	1977
40.	J.P.NAIK	Educational Reform in India: A Historical Review	1978
41.	TARLOK SINGH	The Planning Process and Public Policy: A Reassessment	1979
42.	ALOO J. DASTUR	Problems of Indian Minorities	1980
43.	V.M. DANDEKAR	Measurement of Poverty	1981
44.	I.S. GULATI	IMF Conditionality and Low Income Countries	1982
45.	I.G. PATEL	Inflation - Should it be Cured or Endured?	1983
46.	M.P. REGE	Concepts of Justice and Equality in the Indian Tradition	1984
47.	ANDRE BETEILLE	Equality of Opportunity and the Equal Distribution of Benefits	1985
48.	MANMOHAN SINGH	The Quest for Equity in Development	1986
49.	K. R. RANADIVE	Town and Country in Economy in Transition	1987
50.	SUKHAMOY CHAKRAVARTI	Development of Development Thinking	1988
51.	MALCOLM S. ADISESHIAH	Eighth Plan Perspectives	1989
52.	D.T.LAKDAWALA	Indian Public Debt	1990
53.	B.S. MINHAS	Public Versus Private Sector: Neglect of Lessons of Economics in Indian Policy Formulation	1991
54.	V. KURIEN	Agricultural and Rural Development in the 1990s and Beyond: What Should India Do and Why?	1992
55.	RAJA J. CHELLIAH	An Essay on Fiscal Deficit	1993
56.	G. RAM REDDY	The Financing of Higher Education in India	1994
57.	MADHAV GADGIL	Patenting Life	1995
58.	A. M. AHMADI	Constitutional Values and the Indian Ethos	1996
59.	VASANT GOWARIKER	Something Happening in India that this Nation Should be Proud of	1997
60.	S. VENKITARAMANAN	Dilemmas of Development: The Indian Experience	1998

\* Not Published

+ Out of Print

No lecture was delivered in 1947 and 1970.