



## How Do Cultural Differences Affect Trade Reciprocity between Developed and Developing Countries?

J. P. Singh

*Cultural distance in this Brief refers to the gap between development narratives promoted from the developed world—from experts, policymakers, and international organizations—versus political-economy practices in the developing world. The cultural distance analyzed here focuses on paternalistic factors in advanced countries contributing to trade barriers facing developing countries. Gradual moves toward reciprocal rather than discriminatory preferential access, as well as export diversification, can benefit the developing world.*

This *Research & Policy Brief* analyzes the link between international trade and development through the lens of culture: the values, beliefs, and symbols that contribute to collective consciousness. Cultural distance refers to the gap between the way developmental values and beliefs were posited among officials and experts in the developed world, including great powers and international organizations, versus practices in the developing world.

In the postcolonial era, powerful and historical ‘top-down’ narratives shaped the international development agenda (table 1). Trade theory and European history provided the rationale for industrialization and free trade, but the cultural distances between great powers and their former colonies influenced trade practices that followed. The history of European industrialization shaped the push for a similar trajectory in the developing world, until the instruments were altered to provide for more balanced growth that included agriculture (Hirschman 2014) and in the last generation for a more encompassing and human view of development (Sen 1999). Interestingly, none of these narratives—industrialization, agriculture, human capabilities—reflected the way the developing world was incorporated in the postwar trading order. As detailed in the discussion that follows, trade patterns may actually have thwarted industrialization and

diversification. Instead, the developed world provided side-payments and limited trade concessions to the developing world. Recent writings have praised Western paternalism and global hierarchies for securing the needs of the developing world (Lake 2009; Barnett 2005). The following evidence demonstrates otherwise: first, through a historical analysis of trade relations between developed and developing countries, and subsequently with reference to quantitative models linking Western paternalism with the lack of trade concessions to the world’s poor.

### Historical Context

Historically, the developing world received nonreciprocal trade preferences from the developed world, which not only affixed them in a position of “definitional inferiority” (Zartman 1971, ix), but produced long-term dependencies on these carve-outs, such as the specialized and differential treatment (Bagwell and Staiger 2001, 2013). Definitional inferiority, a position at the bottom of the hierarchy of power and wealth in the international system, entails great powers dictating the terms of political-economic interaction. The chief instrument for this definitional inferiority in the context of this *Research & Policy Brief* was a historical paternalism, a leftover from colonialism, defined here as an infantilizing and exploitative discourse about the developing world

Table 1. Development Organizations and Top-Down Narratives

	WTO	World Bank	UNDP	UNESCO
<b>Main objective</b>	Trade liberalization	Development loans	Technical assistance	Culture of Peace
<b>Main narrative</b>	Trade causes growth	Institutions and markets cause growth	Human development	Cultural and human rights approaches
<b>Theoretical exemplars</b>	Neoclassical trade theory	Institutional political economy, Randomized Control Trials (RCTs)*	Amartya Sen, Mahbub ul Haq	World Commission on Culture and Development
<b>Subsidiary narrative</b>	Special and differential treatment, capacity building	Community development, participatory development	Markets and technology: instruments of change	Think-tank of the world
<b>Practices</b>	Negotiating and enforcing rules	Providing ideas, implementing development projects	Providing ideas, implementing development projects	Promulgating norms
<b>Main practitioners</b>	Economists, government ministries	Economists, a few social scientists, government ministries, NGOs	Economists, development scholars, UN bureaucrats, government officials, a few NGOs	Intellectuals, UN bureaucrats, government agencies, a few NGOs

Note: NGOs = nongovernmental organizations; UN = United Nations; UNDP= United Nations Development Programme; UNESCO = United Nations Educational, Scientific, and Cultural Organization; WTO = World Trade Organization.

\*Randomized Control Trials (RCTs) randomly assign participants to a ‘treatment’ and a ‘control’ group and analyze the effects of a development intervention. See J-PAL: <https://www.povertyactionlab.org/>

*Affiliation: Schar School of Policy and Government, George Mason University, and Robert Bosch Academy. Email address: jsingh19@gmu.edu.*

*Acknowledgement: This Research & Policy Brief is based on the author’s keynote speech at the conference Globalization: Contents and Discontents (World Bank, Kuala Lumpur, January 15-16, 2019). Young Eun Kim, Norman Loayza, Vijayendra Rao, and conference participants contributed with comments and suggestions to this brief. Nancy Morrison provided editorial assistance.*

*Objective and disclaimer: Research & Policy Briefs synthesize existing research and data to shed light on a useful and interesting question for policy debate. Research & Policy Briefs carry the names of the authors and should be cited accordingly. The findings, interpretations, and conclusions are entirely those of the authors. They do not necessarily represent the views of the World Bank Group, its Executive Directors, or the governments they represent.*

**Table 2. Tariff Rates in U.S. and Western Europe Commodities and Stages of Processing, 1960 (percent)**

Commodity	Stage of processing	EEC	United Kingdom	United States
<b>Copper</b>	Mattes, unwrought copper, waste and scrap	0	0–10	7–8
	Tube and pipe fittings	15	20	21–24
<b>Cotton</b>	Cotton not carded or combed	0	0–10	0–8
	Fabrics of standard type	17	23	25
<b>Iron and steel</b>	Iron ore	0	0	0
	Pipes and fittings	13.5	17.5	10

Source: Adapted from Curzon 1969, 229–30.  
Note: EEC = European Economic Community.

resulting from a position of economic and political strength and cultural differences. The assumption in these discourses was that the formerly colonial paternal powers would “provide” the promised public good of a fair multilateral trading order.

In practice, the multilateral trading order functioned with a coerced or assumed cooperation from the developing world and the promise remained unfulfilled. The needs of the colonial or newly emergent postcolonial countries were ignored at the emergence of the General Agreements on Tariffs and Trade (GATT). The chief topic of concern in negotiations in the 1940s that led to the creation of GATT was the system of imperial preferences, which at that time were important to the colonizers (Irwin 2008). In 1938, 49.9 percent of British exports and 40.4 percent of British imports were to countries within the British empire (Feis 1946, 668). The United Kingdom defended these preferences, including Tories who directly linked them to the continuation of an empire. With nearly negligible colonies, the United States viewed these preferences as trade protectionism that excluded U.S. products. The developing world’s articulation of its interests was different. The few (Keynesian) trade negotiators from the developing world argued for infant-industry protections, to enable industrialization. GATT Article XVIII (c) allowed such protections, but restrictively. The United States was dismissive of developing country concerns for industrialization. It was not until the 1960s that the developing world was allowed these industrial instruments after strident advocacy and the formation of the United Nations Conference on Trade and Development (UNCTAD).

The developing world also faced tariff differentials for its products (Table 2). In 1957, GATT appointed Committee III to examine trade barriers for the developing world. Distinguished economist Gottfried Haberler headed the committee, which included other notable economists such as Roberto de Oliveira Campos, James Meade, and Jan Tinbergen. The subsequent report, popularly termed the Haberler Report, concluded that trade protectionism in the developed world impeded exports from the developing world (GATT 1958). Imperial preferences were “predominantly trade diverting and not trade creating” (p. 120). In terms of tariff differentials, Committee III found that tariffs became higher if developing countries added any value or processing to raw materials. In summary, the developing world faced many barriers in realizing any gains from trade, industrialization, and growth. Several other economists attributed this to tariff differentials (Grubel and Johnson 1967; Balassa 1965).

An unfortunate convergence of interests from the European Economic Community (EEC) and developing world led to a system of systematized preferential access for the latter building on imperial preferences that produced further dependencies, rather

than tariff concessions or reciprocity. Following the Committee III findings and the formation of UNCTAD, developing world advocacy was at its height. Economist Raúl Prebisch, the architect of UNCTAD, supported nonmarket mechanisms such as preferential access and price controls for products from the developing world. Meanwhile, the moves toward the EEC, and the birth of Common Agricultural Policy in 1962 to encourage European agriculture, meant that exports from the former colonies could be reduced. The EEC could protect its agriculture if it provided partial access to the developing world, while arguing paternalistically that this access was preferential. While the United States remained opposed to imperial preferences, by the late-1960s the developed countries moved toward and accepted a multilateral system of preferences that would be governed through GATT.

A 10-year GATT waiver for preferences was worked out in 1971. The Generalized System of Preferences (GSP), implemented by several developed countries through GATT, granted zero or low nonreciprocal tariff preferences to specific products from designated developing countries. At GATT’s next set of multilateral negotiations (1973–79), the Tokyo Round Declaration in 1973 made special mention of the GSP (GATT 1973, 2–3). The Enabling Clause of 1979 institutionalized this understanding as part of the Tokyo Round’s Framework Agreement. It allowed market access for the developing world on nonreciprocal and nondiscriminatory bases, favorable treatment with respect to nontariff barriers, special provisions for least-developed countries, and acceptance of preferential trade among developing countries. For the United States, the Enabling Clause would supersede the European Community’s preference schemes, which it had long been opposed.

The implementation of GSP reveals that it resulted in paltry benefits to the developing world. Hudec’s (1987, 116) straightforward assessment is that GSP was a “tool used to win friends and punish enemies.” Meier (1980) characterizes it as an instance of trade diversion and protection, and notes that the developed countries granted these preferences “begudgingly.” Developed countries slipped in exceptions, escape clauses, and quantitative restrictions to undercut them. An early study (Karsenty and Laird 1987) showed that GSP exports to the “donor” countries were only 2 percent higher than what they would have been without the preferences. In 1996, GSP in the U.S. applied to 4,500 products from 140 countries with a total value of \$16.9 billion—less than 2 percent of the total U.S. trade but 16 percent of the total imports from developing countries (Holliday 1997, 8–11).

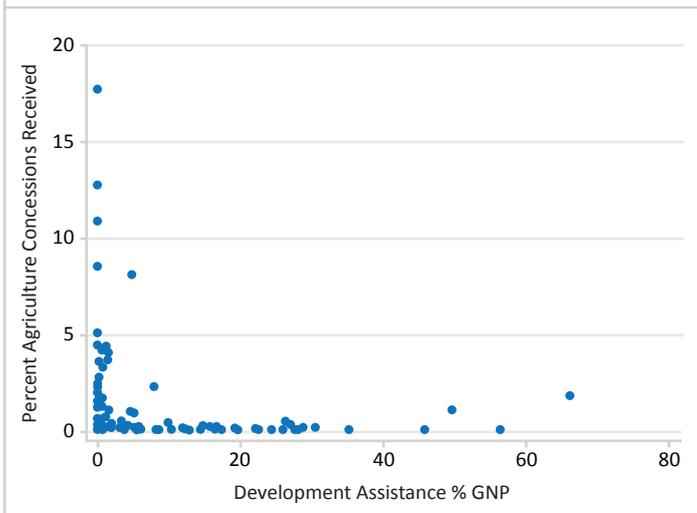
In opting for GSP, the developing countries, misguidedly, stepped out of the GATT system, T. N. Srinivasan (1998, 27) notes:

**Table 3. Paternalism versus Trade Liberalization Concessions**

Paternalistic handouts	Combination: Paternalism and trade concessions handouts	Negotiated trade liberalization concessions
<ul style="list-style-type: none"> <li>• Side payments</li> <li>• Moral statements</li> <li>• Trade capacity-building assistance</li> <li>• Affixing developing world in dependency narratives</li> <li>• Foreign aid</li> </ul>	<ul style="list-style-type: none"> <li>• Preferential schemes (often negotiated)</li> <li>• Special and differential treatment</li> <li>• Some forms of quotas (e.g. sugar)</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction of subsidies</li> <li>• Decreasing tariffs</li> <li>• Eliminating quotas</li> <li>• Elimination of other tariff and nontariff barriers</li> </ul>

Source: Adapted from Singh 2010.

**Figure 1. Agriculture Concessions Received and Official Development Assistance (percent of GNP) at GATT's Uruguay Round (1986-94)**



“Instead of demanding and receiving crumbs from the rich man’s table, such as GSP and a permanent status of inferiority under the ‘special and differential’ treatment clause, had they participated fully, vigorously, and on equal terms with the developed countries in the GATT and had they adopted an outward-oriented development strategy, they could have achieved far faster and better growth.”

By the time of the Uruguay Round of trade talks (1986–94), GSP had produced two sets of developing world actors: ones that received rents from this system of protections and grew dependent on them (for example, the Group of 77) and efficient producers that advocated for reductions in tariffs (Cairns Group). Collectively the developing world was now realizing that its agricultural and manufactured products faced increasing barriers. In 1995, the World Trade Organization (WTO) replaced the GATT, and has continued to perpetuate similar barriers to exports from the developing world.

### Cultural Distances and the Uruguay Round

This section draws upon a study correlating the lack of concessions developing countries received with the cultural distance between the developed and developing worlds (Singh 2017). Specifically, cultural distance was measured through a paternalism index (explained later) to capture the presence of cultural continuities between the colonial and postcolonial experiences. Table 3 lists the differences in outcomes that may result from paternalistic versus reciprocal concessions. In addition, figure 1 shows how foreign aid in particular has been employed as a side payment in lieu of trade concessions in agriculture that the developing world desperately needs. The almost perfect hyperbola posits an inverse relationship between trade concessions received in agriculture and official development assistance.

Developing countries participated substantially for the first time in GATT negotiations at the Uruguay Round (1986–94). Until then, their role had been relegated to agreeing to trade agreements signed among the great powers. During the Uruguay Round, developing countries formed coalitions among themselves, and also with European Community (EC), and forwarded their interests through technical groups. However, at the end of the Uruguay Round they had few benefits to show: in two issues of importance—agriculture and textiles—the developing world was supposed to have struck a Faustian bargain, gaining concessions in exchange for agreeing to new frameworks on high-tech services and intellectual property. Practice and empirical results indicate that this trade-off was limited.

An index for paternalistic strength was constructed to show how cultural distance affects trade reciprocity. Paternalism implies the strong helping the weak with concessions or protection. Conceptually, paternalistic power implies economic strength or prosperity, political domination, and cultural distance from paternalized countries. A factor analysis of three different indexes dealing with economic and political strength and cultural distance yields the paternalism strength index (PSI). These are the export market concentration index; values of the affinity index for the United States in the UN General Assembly measuring how countries follow the dominant leader; and cultural distance for a “hybrid colonizer” from other countries.

Factor analysis is particularly useful for examining concepts that are hard to measure. The factor analysis here outlines a latent measure of postcolonial relationships that is common to a group of variables, not the distinct variables by themselves. The export market concentration index from the World Integrated Trade Solutions database of the World Bank, examines the dispersion of products across trading partners, and measures paternalistic economic strength: classic colonial relations would entail trade within the colonizer’s trading sphere and in a few products. For political paternalism, PSI includes affinity votes with the United States taken from “United Nations General Assembly Voting Data,” compiled by Anton Strezhnev and Erik Voeten (2009). The United States, as the agenda-setter hegemon in trade, is used as a proxy for the developed world.

Finally, PSI factors in Hofstede's four-part criteria measuring cultural distances of countries from one another on a scale of 0 to 100 (Hofstede 2015). To measure the cultural distance of a developing country, the analysis first developed a “hybrid colonizer” that provides the value for seven colonizers (Britain, France, Germany, Netherland, Portugal, Spain, and the United States) and then calculated the cultural distance of every country from this hybrid colony. The cultural distance scores from the hybrid colonizer vary from 12.2 for Luxembourg to 84.6 for Guatemala in the data set. The assumption in Hofstede’s scores, based on a survey of 117,000 IBM employees around the world between 1967 and 1973, is that cultures change slowly and, therefore, the values remain relevant. They are especially relevant for this Research & Policy Brief evaluating paternalism in the 1970s and 1980s before the Uruguay Round. Table 4 lists sample values of PSI for a few countries.

There is no benevolence in paternalism. The PSI and its subindex, export market concentration (diversification), provide statistically significant and positive correlations with receiving tariff concessions in agriculture, manufacturing, services, and intellectual property (for full results, see Singh 2017, chapters 4–7; data on tariffs from Finger et al 1996). Separately, being a European colony in the twentieth century is also statistically significant and negatively correlated with receiving concessions. 3

Table 4. Paternalism Strength Index (sample values)

Paternalistic countries		Less paternalistic countries	
United States	3.170	China	-0.083
France	2.480	Brazil	-0.248
United Kingdom	2.340	India	-0.307
Japan	1.160	Singapore	-0.470
Canada	0.936	Kenya	-0.500
Sweden	0.497	Mexico	-0.550

The Uruguay Round featured many developing country coalitions. However, the results are mixed: The dummy for Cairns group countries that argued for agricultural liberalization is significant and positively correlated with concessions for agriculture. Of the major coalitions, the Association of Southeast Asian Nations (ASEAN) received concessions in manufacturing, suggesting a trade-off with intellectual property—an area in which they were pressured through Section 301 sanction of the 1974 U.S. Trade Act. India and Brazil formed a hardline coalition through the Group of Ten (G10) to advance developing country interests, but the coalition does not seem to have received any concessions. The sign for G10 coefficients in all models is negative. Although not statistically significant, it suggests that coalition members may have been punished instead of receiving concessions. In terms of domestic audience costs for undertaking liberalization measures—especially in democratic societies (measured through Polity IV data) and economic prosperity alone (measured through GNP per capita)—the correlations are not statistically significant, except in a couple of models. Overall, the paternalistic strength of the developed world and being a colonizer explain the lack of concessions to the developing world.

After the Uruguay Round, the developing world continued to argue for opening markets in the developed world, especially in agriculture and manufacturing. In 2008, the Doha Round of trade negotiations stalled over the issue of agriculture. The United States has variously blamed India and China, while the developing world in general has pointed out agricultural market protections in the developed world. The cotton dispute between the United States and Brazil is illustrative of paternalism. The 2014 settlement reached after a decade of Brazilian legal victories at the World Trade Organization (WTO) let the United States maintain its domestic subsidies in exchange for a \$300 million payment to the Brazil Cotton Institute for technical assistance to developing world

farmers in cotton. This is consistent with paternalistic handouts presented in table 3.

### Policy Implications

In the long run, all countries will need to reexamine the cultural beliefs and historical continuities that have affixed the developing world in an inferior position in global trade. Developing countries need to gradually cut the umbilical cord of preferential treatment that produces dependencies and inefficient production practices and weakens their hand in international negotiations (Bagwell and Staiger 2013). This is particularly hard for least developed countries, whose export regimes are now beholden to preferential access. For the developed world, an equitable commitment to liberalization would start with access to its heavily protected and subsidized agricultural markets.

A complex case is China, a middle-income country that is now the world's biggest exporter, generating massive trade surpluses, and the world's biggest subsidizer in agriculture: this shifts the agricultural subsidy dispute from a North-South conflict to one between United States and China (Hopewell 2019). Technically, WTO rules should entail China's classification as a nonmarket economy because of the heavy subsidies to state-owned enterprises, but China continually cites its developing world status in defense, often to the detriment of the latter.

Overall, the multilateral trading order offers little hope at present to the developing world for getting trade concessions. Arguably, it never did. But there are ways in which the developing world can improve its negotiation advantage. The first is through diversifying its export markets—a policy that multilateral institutions such as the World Bank often emphasize. Export market diversification improves bargaining advantages and is positively related to receiving tariff concessions. These results hold even when controlling for low-income economies (measured with annual per capita incomes of less than \$5000 and \$2000): those with higher values on the export market concentration index received higher concessions (Singh 2017, chapter 7). WTO reform seems politically out of question right now but would start with tariff concessions from the developed world, and a pragmatic and gradual reduction of preferential access for products from the developing world. Reducing preferential access without providing tariff concessions continues patterns with which the developing world is made worse off in the international trade regime.

### References

- Bagwell, Kyle, and Robert W. Staiger. 2002. *The Economics of the World Trading System*. Cambridge, MA: MIT Press.
- . 2013. "Can the Doha Round Be a Development Round? Setting A Place at the Table." In *Globalization in an Age of Crisis: Multilateral Economic Cooperation in the Twenty-First Century*, edited by Robert C. Feenstra and Alan M. Taylor, 91–124. Chicago: University of Chicago Press.
- Balassa, Bela. 1965. "Tariff Protection in Industrial Countries: An Evaluation." *The Journal of Political Economy* 73 (6): 573–94.
- Barnett, Michael N. 2011. *Empire of Humanity: A History of Humanitarianism*. Ithaca, NY: Cornell University Press.
- Curzon, Gerard. 1969. *Multilateral Commercial Diplomacy: The General Agreement on Tariffs and Trade and Its Impact on National Commercial Policies and Techniques*. New York: Frederick A Praeger.
- Finger, J. Michael, Merlinda D. Ingco, and Ulrich Reincke. 1996. *The Uruguay Round: Statistics on Tariff Concessions Given and Received*. Washington, DC: World Bank.
- Feis, Herbert. 1946. "The Future of British Imperial Preferences." *Foreign Affairs* 24(4): 661-674
- GATT (General Agreement on Tariffs and Trade). 1958. *Trends in International Trade: Report by a Panel of Experts*. Geneva.
- . 1973. "Ministerial Meeting, Tokyo, 12–14 September 1973: Declaration." Press Release GATT/1134, September 14, Geneva.
- Grubel, Herbert G., and Harry G. Johnson. 1967. "Nominal Tariffs, Indirect Taxes and Effective Rates of Protection: The Common Market Countries 1959." *The Economic Journal* 77 (308): 761–76.
- Hirschman, Albert O. 2014. *Development Projects Observed*. Washington, DC: Brookings Institution Press.
- Hofstede, Geert. 2015. *Dimension Data Matrix*. <http://www.geerthofstede.nl/dimension-data-matrix> (accessed March 1, 2015).
- Holliday, George D. 1996. *Generalized System of Preferences*. Washington, DC: Congressional Research Service, Library of Congress.
- Hopewell, Kristen. 2019. "US-China Conflict in Global Trade Governance: The New Politics of Agricultural Subsidies at the WTO." *Review of International Political Economy* 26 (2): 207–31.
- Hudec, Robert E. 1987. *Developing Countries in the GATT Legal System*. London: Trade Policy Research Centre.
- Irwin, Douglas A. 2008. *The Genesis of the GATT*. Cambridge, UK: Cambridge University Press.
- Karsenty, Guy, and Sam Laird. 1987. "The GSP, Policy Options and the New Round." *Weltwirtschaftliches Archiv* 123 (2): 262–96.
- Lake, David A. 2009. *Hierarchy in International Relations*. Ithaca, NY: Cornell University Press.
- Meier, Gerald M. 1980. "The Tokyo Round of Multilateral Trade Negotiations and the Developing Countries." *Cornell International Law Journal* 13: 239–56.
- Sen, Amartya. 1999. *Development as Freedom*. New York: Anchor Books.
- Singh, J. P. 2010. "Development Objectives and Trade Negotiations: Moralistic Foreign Policy or Negotiated Trade Concessions?" *International Negotiation* 15 (3): 367–89.
- . 2017. *Sweet Talk: Paternalism and Collective Action in North-South Trade Relations*. Stanford, CA: Stanford University Press.
- Voeten, Erik; Strezhnev, Anton; Bailey, Michael, 2009. "United Nations General Assembly Voting Data". <https://doi.org/10.7910/DVN/LEJUQZ>, Harvard Dataverse.
- Srinivasan, Thirukodikaval N. 1998. *Developing Countries and the Multilateral Trading System: From the GATT to the Uruguay Round and the Future*. Boulder, CO: Westview Press.
- Zartman, I. William. 1971. *The Politics of Trade Negotiations between Africa and the European Economic Community: The Weak Confront the Strong*. Princeton, NJ: Princeton University Press.