

Developing Countries and the World Trade Organization:

A foreign influence approach

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Abstract:

This paper aims at providing an analytical examination of the criticism that the WTO is unfair and hurts the weak, developing countries. We utilize a formal model with the following features: in both the powerful and weak economies, pressure groups lobby to influence their trade policies in their respective countries. We then allow the powerful country the exclusive ability to spend resources to facilitate the lobbying of one of the lobby groups in the weak country, thereby moving the trade policy of the developing country in favor of the powerful trading partner. Next we compare the effects of such asymmetric foreign influence in a world with no WTO and no multilateral principles (most-favored-nation principle MFN and the negotiation principle of reciprocity) to a situation with WTO and its associated nondiscrimination principles. We show that the weak, developing country will have less "unfair" concessions of market openings and in general will be better off with the WTO and with rules of nondiscrimination.