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Developing Countries and the Uruguay Round of Trade Negotiations

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This paper, which summarizes recent developments in the Uruguay Round of multilateral trade negotiations, addresses the key questions developing countries must consider in their negotiating: What are the trade and welfare costs and benefits of protection for developing countries? How will developing countries be affected by, and what might they concede in connection with, tariffs and tariff escalation, the protection of textiles and apparel, such market access issues as antidumping and countervailing duties, and such "gray area" measures as voluntary export restraints? What concessions should they want—and be willing to make? What do they stand to gain or lose from the so-called new themes of the Uruguay Round: trade-related investment measures, intellectual property, and services? What do net importers of food products stand to lose or gain from reduced agricultural protection? How will dismantling the Multifibre Arrangement affect developing countries? How will overall trade liberalization affect them? And should trade issues be negotiated in isolation from such factors as the debt crisis and conditions imposed by international agencies?

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The aim of this paper is to assess the effect of protectionist policies, in both industrial and developing countries, on the interests and influence of developing countries in the current Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT).

I. Overview

The GATT rests on three pillars. Two of them—the most favored nation principle (MFN), which automatically extends bilateral concessions to all GATT participants, and the prohibition of nontariff trade restrictions—are well in line with theoretical requirements. But the third—the principle of reciprocal concessions (in effect the "balancing" of reductions in import tax revenues)—has no adequate rationale in trade theory. Indeed, this principle encourages negotiating tactics that in some respects impede liberalization.

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The first pillar—the MFN clause—has been eroded by the organization of free trade or preferential trade zones. The second—the "tariffs only" principle—was shaken right from the start by article XI:2(c) of the original rules, which allowed imposition of quantitative restrictions on imports of agricultural products (see Abreu and Fritsch 1987, pp. 24–29). This explicit breach of GATT principles reflected the Geneva negotiators' need to reconcile their drive for free trade with the widespread commitment of industrial country governments (notably the United States) to price support programs, export subsidies, and import restrictions for temperate zone products.

The original GATT rules did not do the same for manufactures. Controls were only permitted under circumstances either of exceptional balance of payments difficulties or of "disruptive" import growth—the so-called injury clause imposed by the U.S. Congress as a condition for approval to negotiate the postwar trade treaties (see Gardner 1969, p. 159). Thus, once balance of payments conditions stabilized in Europe in the late 1950s, it was through the "injury" argument that most restrictive practices against manufacturing imports crept in. A landmark in the process was the U.S.-sponsored Long Term Agreement in cotton textiles in the early 1960s, a quantitative trade restrictive agreement that totally contradicted GATT principles. This was the beginning of a long history of textile and clothing protection which culminated in a series of Multifibre Arrangements (MFAS). More recently, such inherently illegal quantitative restrictions negotiated outside the GATT have been generalized and thinly disguised as "voluntary export restraints" (VERS).

The third pillar of the GATT—the principle of reciprocity—has remained in place, and it remains a problem. Although successive multilateral trade negotiations (MTNS) achieved impressive results in reforming tariffs until the mid-1960s, it became increasingly clear that in practice the operation of the liberal and formally equitable rules of the GATT was distributing the benefits of trade liberalization unevenly. The traditional approach has been to measure the value of tariff concessions as equivalent to import volumes in a given year multiplied by the tariff rate changes granted on those products. This practice implied that in the "reciprocal bargaining" process established at MTNS, the substantive concessions favored industrial nations or trading blocs (which exchanged bilateral concessions that were generalized through the MFN clause), and excluded products of export interest to developing countries because they were not interesting as a basis for exchanging concessions between developing countries (see UNCTAD 1968, p. 94; GATT 1979, pp. 120–22). GATT came thus to be seen as a rich men's club from which developing countries derived little advantage.

Although such deficiencies, identified by the Haberler Report (GATT 1958, pp. 8–12) were formally on the GATT agenda by the late 1950s, no practical changes were immediately forthcoming. The only noticeable change was the rather formal recognition, inserted under a new Part IV in 1965, of the possibility of special treatment for developing countries. The developing countries' growing disillusionment gradually undermined the GATT's position as a forum for the discussion

of North-South trade relations, finding expression at the first U.N. Conference on Trade and Development (UNCTAD) in 1964 in demands that industrial countries extend a Generalized System of Preferences (GSP) to all developing countries. Beginning in 1971, all industrial countries introduced GSP schemes by 1976.

Developing countries, which had been marginal participants in the Kennedy Round (1964–67) were more active in the Tokyo Round (1973–79). The Tokyo Round brought tariff reductions, codes on nontariff barriers, and the "framework agreement." The framework agreement, on which the developing countries were especially active, provided through its "enabling clause" a standing legal basis for GSP to breach the most favored nation principle. The agreement also made it easier for developing countries to adopt trade measures to foster particular industries. In return, developing countries agreed to a "graduation" principle which related the capacity to make concessions to level of development (see Winham 1986, pp. 141–46, 274–80).

The codes negotiated in the Tokyo Round to counter rising nontariff protection ended up by undermining the MFN clause because the principle of MFN conditionality was raised to try to limit MFN treatment to signatories of specific codes. The rights of nonsignatories to MFN were explicitly recognized by the GATT in 1979, but the trade policies of some contracting parties did not seem to reflect this decision (see Hudec 1987, pp. 81 ff., and Winham 1986, pp. 355–60).

For many years the trade policy interests of the group of developing countries could be reasonably described as convergent. But as the economic structure of many of these countries has grown more heterogeneous, so has their trade structure. Many developing countries are still basically producers of commodities, but quite a few are not. Their agenda for trade negotiation therefore differs. Even between primary producers, differing commodity export structure—for instance, between temperate and tropical agricultural commodities—can mean conflicting aims for trade policy. Discriminating preferential treatment results in divisive tensions between developing countries with a similar export structure. This paper tries to take these differences into account.

II. GATT Negotiations in the 1980s

The balance of priorities reflected in the 1982 GATT Ministerial Declaration—the forerunner of the Uruguay Round of MTNs—had shifted quite drastically by the launching of a new round in 1986. A backlog of unresolved issues—nontariff barriers, agricultural subsidies, and other problems relating to trade in goods—had originally headed the agenda. By 1986 these had yielded the limelight to the "new themes"—a set of issues selected by the United States in a strategic move to adapt the rules governing direct investment and intellectual property rights to a changing environment affecting the growth opportunities and the competitive edge of U.S. firms.

New Themes: TRIPs, TRIMs, and Trade in Services

The new themes were a somewhat heterogeneous bunch of issues, some of which had been only marginally treated by the GATT in the past, covering trade-related aspects of intellectual property rights (TRIPS), trade-related investment measures (TRIMS), and trade in services (for more detailed discussion, see Abreu and Fritsch 1988). ("High technology" goods, initially included, were dropped from the list of "new themes," as it turned out to be difficult to show how they differed from other goods from the point of view of GATT rules.) With the support of Japan, and more equivocal backing from the other industrial countries, the United States pressed for the inclusion of the new themes in the agenda for the next MTNS. Some developing countries resisted all three; most opposed inclusion of trade in services.

TRIPS—regulated mainly by international conventions under the jurisdiction of such agencies as the World Intellectual Property Organization (WIPO) and UNESCO—had traditionally been of little interest to GATT. Dissatisfied with the enforcement of the rules and with their allegedly increasing infringement, especially in semi-industrialized countries, the industrial countries included TRIPS in the 1982 Ministerial Declaration with a view to bringing them under the aegis of GATT rules and enforcement capabilities. This early initiative met with strong developing-country resistance in a clash of views that has continued and is unlikely to be soon resolved.

TRIMS. GATT discussions on TRIMS centered on the legality of national regulations that require foreign firms to export a given amount of their output, or to purchase a given amount of their inputs or equipment from domestic suppliers. A GATT panel established in 1984 concluded that the export performance regulations are not inconsistent with GATT rules, but that the import content obligations were inconsistent with Article III:4. Developing countries have reserved their position.

Trade in services. In the 1982 ministerial session, the United States pressed hard for discussion of enlarging GATT to cover trade in services to be included in the work program. Opposition from many developing and even some industrial countries, on grounds of insufficient information, deferred discussion of the issue until the 1984 session, to give time for national studies and stimulate the exchange of information.

Placing trade in services within the GATT framework was initially the most divisive of the new themes. Developing countries felt that the unresolved traditional issues that originally headed the agenda in the 1982 Ministerial Declaration should not have been displaced by the debate on services. And they feared that the issue was likely to strengthen the hand of the industrial countries in the new round of negotiations. Developing-country misgivings were shared by some members of the European Community (EC), whose support for putting services into the GATT framework was less than wholehearted because of the complex legal and technical problems involved, and because the theme covers

a large number of sector-specific issues that encroach on the territory of other international organizations.

The Negotiations: 1986–1989

When the ministers arrived in Punta del Este in September 1986, they had before them two formal agenda proposals. One, tabled by Colombia and Switzerland—with overwhelming support from developed countries and substantial support from developing countries—included all the new themes in a single track. The other, tabled by the G-10 coalition—a group of developing countries formed by Argentina, Brazil, Cuba, the Arab Republic of Egypt, India, Nicaragua, Nigeria, Peru, Tanzania, and Yugoslavia—included none of them.

The Colombian-Swiss proposal had in fact foundered before Punta del Este, when the EC withdrew its support to the wording on agriculture. The eventual compromise reached at Punta del Este in the Uruguay Round Declaration (GATT 1986) distinguished trade in services from the other subjects formally encompassed in the negotiations, including the other new themes. With GATT Secretariat support, the ministers established a special Group on Negotiations on Services to carry out negotiations in this area and make recommendations to the Trade Negotiations Committee. This arrangement, however, has little hope of heading off developing countries from exchanging concessions in services for concessions in the trade of goods.

Other negotiating groups were to deal with: tariffs; nontariff measures; products based on natural resources; textiles and clothing; agriculture; tropical products; GATT articles; MTN agreements and arrangements; safeguards, subsidies, and countervailing measures; trade-related aspects of intellectual property rights, including trade in counterfeit goods; trade-related investment measures; dispute settlement; and functioning of the GATT system.

The results of two years of negotiations were presented to the Montreal Mid-Term Ministerial meeting of December 1988 (see GATT 1988a, 1988b). The meeting ended deadlocked on four issues: agriculture, intellectual property, textiles and clothing, and reform of the safeguards system.

On *agriculture*, the U.S. position that all trade-distorting subsidies affecting agricultural products should be eliminated within a specified time frame was unacceptable to the EC (predictably, in view of earlier French-inspired intransigence on export subsidies, and continuing EC insistence on maintaining a dual price system with different prices for exports and home consumption). The deadlock in agriculture galvanized Argentina and the other Latin American members of the Cairns group of agricultural free traders (see section III) into action. Their activities eventually achieved agreement to shelve the results so far obtained by eleven negotiating groups, pending the results of further consultations and negotiations to be held in early April 1989. In April the deadlock on agriculture was broken by U.S. acceptance of the EC refusal to commit themselves

to ending subsidies, and more flexibility from the EC on the freezing of protection in the short term.

On *intellectual property*, as on agriculture, the gap between the extreme positions after Montreal was wide. The industrial countries continued to urge that GATT's rules and disciplines in this area be enlarged, and enforcement as well as dispute settlement improved, while the large developing countries—Brazil and India—insisted that WIPO was the proper forum to deal with the matter. The industrial countries' views prevailed in April 1989: it was decided that negotiations should proceed in the GATT, and that discussion of which international organization would be in charge would be postponed to the end of the Round.

As the *safeguard issue* was disposed of through an agreement on the negotiating group's program of work, pressure mounted on the developing countries to reach agreement on textiles and clothing.

The outcome of negotiations on *textiles and clothing* was disappointing: it was agreed that within the time frame of the Uruguay Round a decision will be reached on modalities of integration of this sector into the GATT. This is to include the MFA (see *News of the Uruguay Round* 1989, pp. 8, 21).

Ironically, divergences among industrial countries at Montreal over agriculture troubled the negotiations more than the differing stands of developed and developing countries at Montreal on the new themes. On the prime bone of contention—services—negotiations advanced steadily, to the visible delight of the director general of GATT (interview, *MOCI* 1989). The inclusion of the principle of national treatment of foreign suppliers in the agreed Mid-Term text is a major breakthrough and an important concession by the developing-country G-10 coalition on services. The developed countries for their part have toned down their insistence on a multilateral framework for trade in services by accepting the proviso that before such a framework is accepted "concepts, principles and rules will have to be examined with regard to their applicability to individual sectors and types of transactions to be covered by the multilateral framework" (see *News of the Uruguay Round* 1988, pp. 40–43).

Results in Montreal in other groups under the Group of Negotiations on Goods were mixed. Some of the "successful" groups owed their achievement more to the elaborate ambiguity of agreed drafts than to any substantive advance in negotiations. Main results of interest to developing countries seem to be taking shape in relation to tropical products involving $25 billion (all dollars are U.S. dollars; billion = 1,000 million) in trade, tariff reduction on the order of 30 percent, and the transformation of nontariff into tariff barriers. Some advance is to be expected on more institutional GATT issues, such as the improvement of dispute settlement machinery and the functioning of the GATT system. The latter will involve efforts to improve the GATT trade policy review mechanism and to strengthen its links with other multilateral organizations such as the World Bank and the International Monetary Fund (IMF) and will entail greater ministerial involvement in the GATT (see *News of the Uruguay Round* 1988, pp. 26–39).

III. The Economic Interests at Stake: The Costs of Protection

The most relevant costs of protection for developing countries as a whole relate to the value of forgone exports, displaced by protection in industrial countries, and the deadweight losses entailed by protection of their own domestic markets, which distorts production and consumption decisions. (See Bhagwati 1987a on why the computation of deadweight losses is likely to underestimate the costs of protection.) But specific issues raise differing concerns for different developing countries. The discussion is thus organized thematically in subsections covering the main issues that affect the interests of developing countries, and the main areas where concessions might be exchanged.

Tariffs, Tariff Escalation, and Preferences

Tariffs have become less important in industrial countries owing to agreed reductions in previous MTNs—they now average around 5 percent. But this decline has been at least partly offset by the rise in nontariff barriers, and the average nominal tariff hides important variations that in general tend to hurt the trade interests of developing countries most. The effect of tariff peaks, high internal taxes, and tariff escalation on processed tropical products is well known.

If a 10 percent ceiling were set for tariffs, imports of developed countries would rise by 1.5 percent, as against 4.9 percent if all tariffs were eliminated (see Erzan and Karsenty 1987). Internal taxes on tropical products in developed countries amounted to $5 billion in 1983, excluding $22 billion on tobacco (see Commonwealth Secretariat 1987, p. 14). The processing of tropical products in developing countries is heavily penalized by the escalation of tariffs (and nontariff measures) in developed countries. The result is increased protection of value added, which twists the worldwide distribution of value added along processing chains in favor of the industrial countries. This has prompted compensating export taxation by developing-country exporters in a cumulative trend that restricts the market for tropical goods (see Cable 1987b, tables 22-1 and 22-2; Yeats 1987). Trade and welfare gains related to some processed tropical products such as roasted coffee are likely to be significant (see Valdés and Zietz 1980, p. 34).

Many exporters of tropical products enjoy preferential entry in developed markets. Tariff reduction, which erodes these advantages, may thus be opposed by participants in preferential arrangements, though concessions such as those on internal taxes in the EC may avoid such difficulties.

Despite its institutional drawbacks (for example, its limited inclusion of textiles and agricultural products and its restrictive safeguards and rules of origin) the General System of Preferences (GSP) is important to the expansion of developing-country exports—more because it creates trade than because it diverts it (see Karsenty and Laird 1986). It mainly benefits the larger developing economies such as Brazil, Hong Kong, Korea, and Taiwan. The major donor countries have

instituted a policy of graduating country-product pairs as a direct consequence of the enabling clause of the framework agreement of 1979. Their argument is that the distribution of GSP should be equitable and that, as some developing countries become competitive, their preferential treatment should be withdrawn in favor of the least developed countries. The argument is contradicted by the evidence that trade in graduated products tends to be diverted either to developed countries or to the more advanced developing countries (see MacPhee 1986, pp. 10–12). Experience has repeatedly (and not surprisingly) shown that the developing countries who enjoy best access to developed markets are those relatively less able to supply the products, and vice versa. As developed countries increasingly emphasize full reciprocity, some of the large developing countries seem to be reconsidering their interest in GSP, as they feel the balance of benefits and costs shifting against them.

The proliferation of preferential trade agreements among the major trading nations is increasingly undermining the GATT. Such arrangements are traditional EC policy, and have spread over former colonies, the Mediterranean Basin, and countries of the European Free Trade Association (EFTA). U.S. preferential agreements have been with Caribbean countries, and the more recently negotiated free trade area with Canada. The possibility looms of preferential arrangements between the United States, Japan, and the Asian newly industrialized economies as an alternative to a stalemate in the GATT. These would probably provoke defensive preferential arrangements by the EC and other major trading blocs, and they could lead to the disintegration of the multilateral system (see Fritsch 1989; Luyten 1988).

Levels of tariff protection in developing countries are generally very high (see Laird and Yeats 1987, table 13-2), but consideration of these costs is deferred to the section on quantitative restrictions and administrative controls below, because these play a much more important role than tariffs.

Agricultural Protectionism

In the current negotiations, the discussion of agricultural protectionism centers on industrial-country policies that disrupt trade in temperate agricultural goods. Developing-country exports of agricultural raw materials and tropical agricultural commodities which do not compete with the output of developed countries are relatively unaffected by such measures and thus fall outside the area of agriculture in the GATT. The highly protectionist agricultural policies of the developed countries strangle efficient agriculture not only by providing closed markets for inefficient producers—mainly through variable levies and quantitative restrictions—but also through export subsidies required to dispose of surplus production. These policies depress world prices of agricultural products significantly. Their costs in the large countries belonging to the Organisation for Economic Co-operation and Development (OECD) in 1984–86 averaged $216 billion yearly; the United States and the EC spent about $80 billion each and Japan $50 billion. Consumers mostly bear these costs in the EC and Japan; in

the United States it is mainly the taxpayer who pays the bill (see OECD estimates quoted in Kelly and others 1988, p. 140).

Nominal rates of protection in developed countries are high, especially in Europe and Japan. Weighted averages for consumer prices yield nominal protection coefficients of 1.56 for the EC, 1.81 for other European countries, 2.08 for Japan, and 1.17 for the United States (see World Bank 1986, pp. 112–113). Recent estimates of producer subsidy equivalents (PSEs) (which try to encompass a wide spectrum of distorting measures to calculate the subsidy required to maintain constant farmers' incomes) were 14.5 percent for Australia, 68.9 percent for Canada, 40.1 percent for the EC, and 28.3 percent for the United States (see Kelly and others 1988, p. 141; on PSEs and variants see Josling and Tangermann 1988).

Inefficient agriculture is endemic in the EC, Japan, and many small European economies, but the United States is also far from blameless in its protection of inefficient production of rice, sugar, wool, cotton, certain processed meats, and dairy products. And the United States has a long-standing bad record of market disrupting activities, recently worsened by the introduction of the Export Enhancement Program in answer to competitive pressures from EC agricultural exports.[1]

By contrast, economic policy in developing countries tends to have an anti-agricultural bias. The distortions come from a variety of policies: artificially low prices paid by marketing boards, taxation of exports, inefficient domestic production of inputs, and overvalued exchange rates that reduce the cost of competitive imports. This bias is the rule in many small developing economies, and is reflected in the PSEs of Argentina (50.1 percent) and Nigeria (44 percent) (World Bank 1986). Some of the more advanced developing countries, for instance Brazil (PSE 4.2 percent), have adopted more balanced policies, or even policies biased, like those of developed countries, in the opposite direction (for instance, Indonesia, Korea, and Mexico with PSEs of 38.3, 58.5, and 39.5 percent respectively).

Agricultural protectionism in developed countries has serious consequences for prices, trade volume, and welfare, as does the very different intervention of the developing countries. (Estimates of these impacts are known to be very sensitive to model specifications, but the general picture of what liberalization would bring is nevertheless clear. See Valdés 1987, p. 575). The impact on prices and trade volumes of a hypothetical end to intervention in certain commodities (table 1) illustrates the point.

The figures on how the trade benefits and losses from agricultural liberalization in the developed countries will be distributed among developing countries

1. Warley's remark (Warley 1976, p.322) remains valid: "America's enthusiasm for a liberal trade regime for farm products is not only a late conversion but is also highly selective. It focuses on those commodities in which the United States is an exporter."

Table 1. *The Effects of Liberalization of Selected Commodities on International Prices and Trade Volume in Specific Countries or Groups of Countries, 1985*
(percent)

Impact	Wheat	Coarse grains	Rice	Beef and veal	Dairy	Sugar
Price change						
EC	1	3	1	10	12	3
Japan	0	0	4	4	12	3
United States	1	3	0	0	5	1
OECD	2	1	5	16	27	5
Developing countries	7	3	12	0	36	3
All	9	4	8	16	67	8
Trade-volume change						
EC	0	4	0	107	34	5
Japan	0	3	30	57	28	1
United States	0	14	2	14	50	3
OECD	1	19	32	195	95	2
Developing countries	7	12	75	68	330	60
All	6	30	97	235	190	60

Note: This includes the effect of an end of intervention in agricultural markets and not only trade intervention.
Source: World Bank (1986, p. 129).

are fragile and not necessarily compatible with the best aggregate estimates. If developed countries liberalized all trade measures affecting agriculture, agricultural exports by developing countries of beef, wheat, sugar, and maize would increase by 533 percent, 146 percent, 103 percent, and 52 percent, respectively (Zietz and Valdés 1986, p. 43). Estimates for a 50 percent reduction by developed countries of trade barriers on temperate agricultural products other than those mentioned above suggest that the impact is not very significant, except for wine (see Valdés and Zietz 1980, p. 34).

Table 2. *Efficiency Gains of Different Economic Blocs from Different Agricultural Liberalizations of Selected Commodities, 1985*
(billions of dollars)

	Liberalization in:		
Efficiency gains in	*Industrial countries*	*Developing countries*	*All countries*
Developing countries	11.8	28.2	18.3
Industrial countries	48.5	10.2	45.9
East European nonmarket economies	11.1	13.1	23.1
All	25.6	4.9	41.1

Source: World Bank (1986, p. 131).

But the gains are not evenly distributed. A crucial finding of recent research is that liberalization of trade in agriculture, if restricted to developed countries, would hurt the developing countries as a whole (table 2). The winners when liberalization is restricted to developed countries are a few of the large developing countries, such as Argentina and Brazil; the main losers are Korea, Sub-Saharan Africa, and some countries of the Middle East. It is liberalization in developing countries themselves that improves their welfare as a group.

How a country—developed or developing—stands on the issue of protection for temperate products will vary according to its efficiency, income per capita, whether it is a net importer or a net exporter, and the importance of such goods in its total exports. Australia and New Zealand—efficient developed agricultural producers—are hurt by the rise of protection. The United States is a mixed case, inefficient in some agricultural activities and competitive in others. Developed economies that are inefficient producers can be classified into two types: those that protect domestic output and disrupt world agricultural markets by heavily subsidizing exports (for instance, the EC and, for rice, Japan) and those that do not export their inefficient output (typically, EFTA members).

Developing countries too can be roughly divided into two groups: net exporters (of varying degrees of efficiency and dependence on agricultural exports, ranging from such efficient and dependent countries as Argentina to such less efficient and less dependent ones as Brazil) and net importers, which will continue to enjoy low import prices if agricultural protection remains unassailed.

The Cairns group of "free trading" developing and developed countries formed in August 1986 is one manifestation of this fragmentation of interests. The members—Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand, and Uruguay—are mainly net exporters of temperate agricultural products that have consistently pressed to dismantle agricultural protectionism.

Textiles and Clothing

The present Multifibre Arrangement (MFA IV), to run until 1991, has a long history. Since 1959, successive arrangements in the GATT have de facto legitimized textile and clothing protection, allowing industrial countries to impose quantitative restrictions on an increasing range of such exports from developing countries. The justification was that these exports were damaging output and employment in the developed countries. In fact, capital deepening, made possible by economic rents generated by import restraints and investment subsidies, is more to blame for contraction of these industries (see Silberston 1984, chap. 7).

Even inhibited by the MFA, the share of exports of textiles and clothing from developing countries in the relevant world markets has increased. The share of textile exports has increased less than that of clothing because the competitive position of developed countries in the more capital-intensive textile industry is much stronger. Developing countries (including China) in 1985 supplied $29.5 billion in textiles and clothing to the developed countries, that is, roughly 40

percent of the latter's imports (gross of intra-EC and intra-EFTA trade). MFA rules have been circumvented by upgrading exports or "quota hopping"—investing in nonquota developing countries. Developing countries imported about $30 billion in 1985, of which 40 percent was from developed countries. The high tariffs or quantitative restrictions generally imposed on these imports are based on claims of balance of payments difficulties. (See Cable 1987a, especially p. 620; 631–32 on imports into developed countries; and Kelly and others 1988, pp. 74–75 for protection in developing countries.)

The protectionist lobby in the importing countries is helped by the fact that some developing countries are often lukewarm about a return to competition. In countries where quotas are distributed according to past performance, or where export licenses are auctioned, exporters or governments reap the rents generated by artificial scarcity. This freezing of potential comparative advantage means that some developing countries actually oppose a return to competition, fearing reductions in market shares that have been sustained by the inertial rules of the MFA.

Considerable empirical work on the impact of the MFA, mainly based on partial equilibrium analysis, suggests substantial benefits from liberalizing trade in textiles and clothing. Kirmani, Molajoni, and Mayer (1984) estimated that, if all trade barriers were removed, developing-country exports would expand by 82 percent (textiles) and 93 percent (clothing)—results roughly in line with those obtained by UNCTAD. About half the trade expansion generated by removing restrictions in developed countries would be in textile and clothing products (Laird and Yeats 1986, p. 29). Consumer costs of protection in the United States alone, including losses in consumer surpluses and higher prices for imports as well as domestic output, were estimated at nearly $20 billion, and net welfare costs at about $8.1 billion in 1985 (see Cline 1987, p. 191; for other estimates, see World Bank 1987, p. 151).

Traditionally, analysts have suggested, on the basis of comparative production costs, that dismantling MFA restrictions would hurt relatively high-wage, middle-income countries without well-developed textile and clothing industries. Production would become concentrated in countries with low labor costs, locational advantages (the Mediterranean and Eastern Europe for the EC; the Caribbean and Central America for the United States), or with high technology complemented by relatively low labor costs and flexibility in fashion updating (Hong Kong) (see Cable 1986, pp. 29–30). But the empirical basis for these arguments is tenuous: experiments with a free market for textile and clothing products have been few. For example, Norway did not participate in MFA II and MFA III, and textile and clothing imports were regulated only by global (not country-specific) arrangements: it is interesting that Hong Kong maintained its market share in Norway between 1978 and 1982 (around 7–8 percent) and that the only other developing country to have a market share above 1 percent during this period was China.

More recent "general equilibrium" work suggests that such views should be

dramatically revised: developing economies as a group would gain from an abolition of MFA (see Trela and Whalley 1988, especially tables 5 and 6). For several economies, welfare gains would exceed $1 billion: Brazil ($1.03 billion), China ($2.34 billion), Korea ($2.09 billion), and Taiwan ($1.4 billion). India's and Sri Lanka's gains would be surprisingly insignificant, and if liberalization were restricted to MFA quotas, Hong Kong would suffer substantial welfare losses, and Macao, Pakistan, Singapore, and Thailand very minor ones.

The implication is that countries that fear absolute export contraction and displacement from the dismantling of the MFA would in fact experience welfare gains. So textile and clothing protectionism tends to depend for survival on domestic rent reapers in developed countries and not on the fears of high-cost textile and clothing exporters among the developing countries.

Speedy dismantling of the MFA is politically unrealistic. But liberalization could begin with globalization of quotas across countries or products or (through different methods) a gradual (but scheduled) liberalization of small suppliers first (see Raffaelli 1989).

GATT Article XVIII: Balance of Payments Difficulties and Infant Industry Protection

Article XVIII(b) of the GATT allows developing countries to impose quantitative import restrictions if they face balance of payments difficulties. The use of this provision to block imports has been facilitated by rather perfunctory GATT surveillance of whether such measures were indeed warranted by balance of payments difficulties or were disguising a virtually permanent absolute protection of inefficient sectors (see Anjaria 1987, sections I and II). So easy has it been for developing countries to use article XVIII(b) that in recent years they have rarely had to resort to actions under article XVIII(c) (protecting infant industries).

Under this umbrella, protectionism in developing countries has flourished. Nontariff measures affect 40 percent of tariff lines in developing countries (see Kelly and others 1988), in comparison with 22.6 percent for nonoil imports in developed countries. The literature tends to present the costs of protection in developing countries in terms of forgone economic growth. Such evaluations are flawed by the difficulty of disentangling the costs of protection from the costs of other economic policies, and of comparing different national experiences in different historical moments. Another method of evaluating costs is the measurement of effective protection rates which underline the distortions in existence in developing countries (see World Bank 1987, pp. 88–89). The results from both methods of estimation show clearly that many developing countries protected their domestic industry well beyond the time needed to make infant industries competitive.

The well-established GATT principle of special and differential treatment (S&D) has been much criticized recently. (For a guarded condemnation, see the Leutwiler Report, GATT 1985, pp. 44–45. For more radical critical views, see Wolf

1987.) The critics argue that the S&D principle does developing countries a disservice first in allowing them to avoid making reciprocal concessions to developed countries and thus not participate in the GATT system; and second in enabling them to block imports on balance of payments or infant industry grounds.

The argument is based on the contention that liberalization, even if unilateral, is better than protection. Its proponents suggest that the advantages for developing countries of removing the S&D principle would not come from reciprocal concessions by industrial countries as their "influence . . . is transparently negligible": they should strive for "a fuller and more equal participation" in the GATT, but the main advantage would be to make it easier to liberalize at home (see Wolf 1987, pp. 661–65).

"Modernization" of article XVIII has been urged, to take into account the "new role" of fluctuating exchange rates since the early 1970s. If this reasoning were accepted with no qualification, it would mean erasing article XVIII(b), and if it were applied to other GATT articles in order to make them compatible with economic theory very little of the present charter would be left standing. Radical reform of the charter was not on the Punta del Este agenda, and it is not in the cards in the foreseeable future.

Market Access

The access of exports of developing-country manufactures to industrial countries' markets is hindered by many barriers: antidumping duties (ADs), subsidy countervailing duties (CVDs), safeguards, and indeterminate measures such as voluntary export restraints (VERs).

The increasing use of ADs and CVDs against developing-country exports since the early 1980s is well documented (see Finger and Nogués 1987; Nam 1987; Laird and Nogués 1988). There is wide agreement that ADs and CVs are used in place of safeguard measures, that their harassment content is important, and that at least in the United States preliminary determinations may be biased toward affirmative findings. The concept of constructed price is open to criticism (see Kelly and others 1988, pp. 10–11). Filing an unfair trade petition is commonly a first step in a process which leads to a U.S. demand that a VER be imposed. The economics of the legislation is faulty in concentrating on injury to domestic producers rather than the advantage to consumers of cheaper imports. In practice, it favors pricing policies based on full cost, and thus it fosters rather than prevents predatory pricing policies. And the argument that the legislation prevents pricing policies that might in the future exploit consumers in industrial countries is unconvincing in a world with a plurality of prospective suppliers (see Finger 1987, p. 156ff.)

Article XIX of the GATT states the rules for emergency action on imports of products that are injuring or threatening to injure domestic producers. Restrictions that apply under the most favored nation principle (MFN) are allowed, but affected suppliers should be compensated. These legal safeguards have rarely

been applied. Instead, arrangements such as voluntary export restrictions are used, which formally preserve GATT legality by apparently being voluntary rather than being initiated by the "injured party."

There are a great many VERs: 95 in September 1986, of which 30 affected developing-country exports. The percentage of imports of developed countries from all sources affected by VERs increased between 1981 and 1986 from 6.6 percent to 45.2 percent for iron and steel products, and it remained more or less unchanged at about 9 percent for other manufactures. The cost of VERs to consumers is well documented. Less is known about the net costs to exporters because contraction of import volume is offset by rents. For clothing alone, the rents of VERs were as high as 1.4 percent of Hong Kong's gross domestic product (GDP) in 1981–83 (see Sampson 1988b, pp. 139–40; World Bank 1987, pp. 149–50).

ADs, CVDs, and VERs affect the more industrialized developing economies: Brazil, Hong Kong, Korea, Mexico, and Taiwan. The least developed countries are much less interested in such issues, because their main constraint is supply response rather than market availability.

These arrangements create vested interests—protected inefficient domestic producers obviously, but also export quota holders who prefer a stable market unrelated to dynamic comparative advantage and enjoy the economic rents generated by the restrictions. In fact, the developing countries may be better off with VERs than without them: restricting countries may, for instance, be willing to pay enough for a VER to make exporters better off than in the pre-VER situation, because the alternative article XIX safeguard would have to be applied to all suppliers (see Hindley 1987, pp. 698–99).

The industrial countries have consistently made their return to GATT discipline away from "gray area" protective devices conditional on "selectivity." Selectivity—authorization to apply safeguards to specific suppliers—would blatantly undermine the GATT; the only alternative suggested (loosening the disciplines of article XIX, including abolishing compensation) would entail the loss of rents by exporters and lessen market access (see Hindley 1987).

A revival of the Uruguay-Brazil Plan of the 1960s may be an effective replacement for the cumbersome retaliation provision of article XIX if VERs are to be discontinued. The proposal established the principle of financial payments by developed to developing countries for violations of the General Agreement. While the number and incidence of trade restrictions will stay much the same whether the loss is paid for by the party causing it or the party suffering it, exporters will benefit from the former approach (see Dam 1970, pp. 268–70).

The New Themes: TRIPs, TRIMs, and Trade in Services

Of the three new themes, TRIPs (trade-related intellectual property rights) have vied with services for first place as the principal bone of contention between industrial and developing countries. Developing-country resistance to discussion of new themes has mostly been a reaction to U.S. pressure to bring trade and

foreign investment rules applicable to services into the GATT, but since the stalemate on services was broken, TRIPS have been leading the field by a narrow margin. TRIMS (trade-related investment measures) now seem the least likely candidate for a sustained confrontation, partly because the political and technical costs of enlarging the GATT to deal with them seem prohibitive and partly because some of the TRIM issues would in any case be covered by negotiations on trade in services. This discussion of the new themes will therefore be confined to TRIPS and trade in services.[2]

TRIPS. Intellectual property rights are crucial to developed countries for the strategic reasons already mentioned. The United States has increasingly used the issue to justify unilateral pressure, especially on the more advanced developing countries, to obtain (preferential) changes in their property rights legislation. (A recent example is the imposition by the United States of trade-restrictive measures on Brazilian products following an investigation under Section 301 of the U.S. Trade Act concerning alleged infringement of U.S. pharmaceutical patents.)

Developed countries are increasingly dissatisfied with the shortcomings of the regime for regulating intellectual property, both in its coverage and enforcement in general, and in its inadequate protection of patent and copyright, particularly in new fields like biotechnology, semiconductor chips, and software (see Benko 1988, p. 221ff.)

At stake is whether regulation of intellectual property rights will be transferred to the GATT from such organizations as the World Intellectual Property Organization (WIPO) or UNESCO. Developed countries see the Punta del Este negotiations mandate as justifying the transfer; developing countries have stressed that the trade-related aspects are limited. Beyond their political opposition to a transfer they consider against their interests, the developing countries feel that property rights legislation overprotects monopoly rights at the expense of issues vital to themselves, such as access to technology and limitation of exports.

The interests of the several groups of developing countries differ on the TRIPS issue. Some, like Hong Kong, favor policies similar to those advocated by developed countries. Among those more disposed to negotiate some, such as Argentina and Colombia, are mainly interested in the issue as a pawn in other negotiations; for others (Korea and Mexico) the issue is important in itself. Brazil, Egypt, and India are particularly reluctant to see the GATT setting and enforcing rules in this field.

As with services, discussion of the issue is hampered by the lack of reliable estimates of the economic impacts: the principal U.S. document on the issue (U.S. ITC 1988) reports total "losses" of $23.8 billion—an unchecked figure reported by U.S. firms using unknown procedures. Lack of credible evidence tends to concentrate the negotiations on principles and frustrates any progress towards consensus.

2. For a detailed treatment of the TRIMS issues at stake in the Uruguay Round, see Commonwealth Secretariat (1988).

It has been suggested that developing countries, rather than resisting the proposed intellectual property agenda and trying to maintain the present position as one of equilibrium, should take into account that, if there is no GATT agreement on TRIPS, the present position will deteriorate, because developed countries will become much more aggressive in their rule-enforcing bilateral efforts. A closely related argument is that a new arrangement will be reached irrespective of developing-country resistance, if need be on the fringes of GATT and based on conditional MFN rules. Such initiatives must menace progress in other negotiating groups and, more generally, further threaten the major GATT principles. Breakthrough in this difficult area probably depends on cross-issue negotiations, since developing countries stand to gain little otherwise.

Services. The U.S. emphasis on liberalizing trade in services arises from significant structural changes taking place in industrial countries in the producer services—telecommunications; engineering; financial and legal consultancy; insurance, banking, and other financial services; advertising; distribution; and data processing. Advances in communication and information technology have had a profound impact on the competitiveness and foreign expansion of firms that provide such services. U.S. firms want to expand and compete abroad, and they can only do so by being near the customer (U.S. Congress 1986, p. 43). But most countries restrict the foreign provision of services.

The misgivings of the developing countries—particularly those G-10 countries such as Brazil, Egypt, India, and Yugoslavia that have a substantive and immediate interest in the issue, both as importers and exporters—are rooted in two distinct sets of arguments. The first set concerns the backlog of unfinished business on trade in goods. Developing countries argue that this backlog should be tackled before proceeding to the services negotiation, so as to avoid cross bargains which are bound to weaken their bargaining position on the traditional themes. And the G-10 countries point out that discussion of services (apart from the strictly legal point that services are clearly outside the scope of the General Agreement), is bound to raise questions about right of establishment, national treatment, and other complex and politically sensitive issues. In fact, the introduction of the discussion on services in the GATT was seen as a blatantly one-sided approach to issues relating to foreign direct investment crucial to developing countries, such as right of access to technology in the developed countries and a code on restrictive business practices by transnational corporations. The contradictory U.S. stance on these themes in the United Nations, where the United States has effectively blocked discussion of a code of conduct for transnational corporations, has also been noted (see Maciel 1986, p. 90). Last but not least, the agenda initially proposed by developed countries concentrated unduly on capital-related services and excluded labor-intensive services that are of much more interest for developing countries.

The second set of arguments put forward by G-10 countries (see Batista 1987, p. 1) is that too little is known about transactions in international services to predict the implications of trade liberalization. Trade and industrial policies

toward the rapidly changing producer-services sectors are clearly crucial for economic development. First, as intermediate inputs, the provision of these services at internationally competitive prices is important to maintain efficiency and export growth. Second, these new activities have important backward linkages with the production of hardware and technological capability in the domestic industrial sector.

Assessing the benefits a particular country might gain from liberalizing transactions in services is hampered by conceptual problems and the paucity of data on the structure of protection and the prevalence of nonprice restraints. The developing countries' stand against trade liberalization in this area has been built on the assumption that static gains will be unevenly distributed, since comparative advantage is concentrated in a few developed countries and developing countries would be thwarted from realizing their comparative advantage (see Nayyar 1986).

Understanding of what is at stake has advanced in the last few years: the stand of countries such as Brazil and India is no longer seen as mere filibuster. The opposing views have acted as a powerful stimulant to clearer thinking on how to advance negotiations. But empirical work on the advantages of liberalization has not kept pace with these advances. Estimates of the costs of protection are almost as fragmentary and incomplete as they were when the United States started to press for inclusion of the issue in the agenda of the new round.

Sectoral lobbies in the developed countries, especially the United States, responding positively to the initiative of a handful of more active developing countries, have begun to lay the groundwork for the developed countries to develop a more balanced proposal, in line with the Punta del Este decision that the multilateral rules on trade in services should promote economic growth for all and contribute to the growth of developing countries (see Richardson 1988, p. 9). Signs of receptiveness in developed countries to proposals freeing the flow of labor services, and proposals mentioning the need to assure an adequate flow of technologies, suggest that there are grounds for developing countries to begin to believe that there is something to negotiate.

Developing countries may, as many have noted, pay a high price for abstaining from negotiating (see Bhagwati 1987b, p. 565ff.). As merely obstructive negotiating tactics began to lose momentum, through repeated use or flagging support in the capitals, and the uncompromising stand of developed countries began to thaw, the idea that developing countries should assume a position of *demandeurs* gained strength (see Sampson 1988a, p. 108). The demands in question relate to specific sectors, such as the possibility of technological absorption through joint ventures as well as improved market access. The advantages of improved availability of services for competitiveness in the supply of goods could be another basis for negotiation. There is scope for cooperation in establishing new rules that would fulfill the Punta del Este mandate in its entirety. (See, for instance, for proposed principles of behavior by producers, appropriate regulation, and development compatibility, Richardson 1988, pp. 8–10.)

IV. Coalitions: Old and New

Together, developing countries constitute a more important market than the United States: if united, they would obviously be a force to reckon with in the GATT negotiations. But though coalition formation by developing countries has a long history in other multilateral agencies, coalitions have been less common in the GATT, where informal consensus rather than United Nations–style divided vote is the usual procedure for reaching a decision. And a coalition encompassing all developing countries would be harder to achieve than in the past, when the interests of developing countries were much more homogeneous than they are today. In fact, the only defined coalition of exclusively developing countries to emerge in the 1980s has been the G-10 Group, whose objective was to block the inclusion of services in the new Round's agenda.

An active coalition since Punta del Este, as noted above, has been the Cairns Group of countries against agricultural protectionism, an issue-based group of both industrial and developing countries.[3] But hopes that other issue-based coalitions would follow this example have proved unfounded. The so-called Hotel de la Paix group, whose membership roughly coincides with the group supporting the Swiss-Colombian draft in 1986, is by no means based on issues, and while joint proposals have been presented in certain GATT negotiating groups (those on safeguards and natural resources), these initiatives do not seem to presage more formal coalition formation. (See Hamilton and Whalley 1988, pp. 36–37.)

The prospects for developing-country coalitions based on concrete economic aims can be gauged by examining their convergent interests (for a previous attempt, see Kahler and Odell 1988). Developing countries are *demandeurs* in four major GATT fields: textiles, tropical products, agriculture, and market access; they may become *demandeurs* in services but are unlikely to do so for the other new themes. As *demandeurs* in services, the core G-10 countries probably have reasons to revive their coalition.

Textile liberalization is the only issue that, according to new evidence, would interest all developing countries (though not with the same intensity). Major economies to benefit include Brazil, China, Indonesia, Korea, Singapore, and Taiwan, but surprisingly not India. Unfortunately, substantive discussion of this vital issue has been delayed by the renewal of MFA to 1991.

Developing countries are divided on both tropical products and agriculture. Countries that are members of preferential trading areas are less interested in liberalizing tropical products than nonmembers, since liberalization would erode their preferences. Interests diverge even more over agriculture. Food importers such as Korea, Sub-Saharan Africa, and some countries of the Middle East would lose from liberalization. Their trade losses are not very significant if compared

3. Differences of views within the Cairns Group should not be underestimated, especially in connection with S&D.

with gains by major suppliers, but net welfare losses in connection with grains are substantial. Liberalizing trade in agriculture would benefit a few large developing countries such as Argentina and Brazil.

Improving market access in developed countries for imports of manufactures from developing countries interests mainly the Asian newly industrialized economies and a few Latin American countries (for instance, Brazil and Mexico). But even here interests are not necessarily entirely convergent, since the products affected tend to differ, the Asian exports being concentrated in more technologically sophisticated goods.

A GATT-related issue of interest for a large group of developing countries is the foreign debt constraint. Trade-debt links in the current negotiations are now restricted to the awkward issue of article XVIII(b) and tangentially to the monitoring of commercial policies being discussed in relation to the functioning of the GATT system. Highly indebted countries, especially in Latin America and Africa, would like to see their foreign debt servicing eased by debtor-country concessions over market access, but such developments are unlikely.

Such fragmentation of interests makes a strong coalition of developing countries unlikely, unless the more advanced developing countries decide that the advantages of such a coalition are worth the costs of making some concessions. The more diversified the interests of a country, the more active it is likely to be in searching for such a coalition.

V. GATT Negotiations in a Global Perspective

Developing-country commitment to trade policies that enhance market efficiency is growing, partly as a result of conviction, partly in response to conditions imposed by multilateral agencies. Developed countries emphasize liberalization of obstacles to the flow of services and foreign investment, rather than to trade in goods. Only for agricultural goods is there a major trading country—the United States—with a special interest in liberalizing trade, and even here the U.S. initiative is likely to be impeded by the protectionist interests of the EC, Japan, and the smaller European economies.

Besides showing a patent disinclination to tackle the backlog of unresolved GATT issues, developed countries, especially the United States, have been shifting their policy in a direction that short-circuits the multilateral trade system through a net of bilaterally negotiated preferential arrangements. Conversely, the idea of a "level playing field" for all GATT members raises the specter of full reciprocity—as opposed to what has been called first-difference reciprocity (see Bhagwati 1987b, p. 564)—with S&D as a main target, and it threatens developing countries' claims that, since so much of the protection backlog consists of de facto disrespect of GATT law by developed countries, it should be rolled back at no cost in terms of new concessions by developing countries.

The present multilateral system is a direct consequence of U.S. trade policies since 1934, and U.S. emphasis on the most favored nation clause. The system

is far from perfect, but has on balance permitted considerable reduction of trade barriers and fast growth of trade. A host of illegal, barely legal, and legal exceptions to the rules have been allowed from the start. At present, the multilateral system is under serious threat from the U.S. Omnibus Trade Bill, with its mercantilist emphasis on the need to redress unbalanced trade through bilateral trade instruments that do not conform with GATT rules. Unless the U.S. government modifies this legislation, the multilateral system is in grave danger.

The interest of developing countries is best served by strengthening the GATT, not undermining it. Developing-country commitment to GATT's legal framework is not, as is sometimes claimed, lip service. It is in line with their fragile bargaining position with their major industrialized trade partners.

Uneven distribution of gains and losses among different developing countries creates vested interests against negotiating liberalizing policies in the GATT. Such difficulties can only be surmounted if all parties gain something in the process.

Developing countries are *demandeurs* in tropical products, and likely to obtain concessions. Substantial advance in reducing agricultural protectionism is essential for advance in negotiations as a whole. The losses suffered by the small developing countries will have to be considered and compensated either directly or indirectly. Textiles and clothing are too important to be left out of the negotiations. The developed countries are in a very weak position to ask developing countries to liberalize tariffs if they are not prepared to reciprocate with a long-term commitment to discontinue the MFA and reduce the relevant tariffs. In a constructive negotiation, developed countries would need to concede something on article XVIII over the market access issue—certainly on disciplines concerning parts (b) and (c) and possibly a time restriction on the use of quantitative restrictions and a legalization of the use of nondiscriminatory tariff surcharges. Article XIX is perhaps the most intriguing pending issue in the GATT, since the avoidance of safeguards has consolidated a low-level equilibrium and no party feels strongly enough to press for the reform of the rules.

It is not altogether clear how to evaluate changes in GATT institutional matters. In principle, improvement in enforcement and dispute settlement should assure balanced application of such new provisions and consequently the support of those contracting parties more interested in strengthening the GATT.

In TRIPS and TRIMS, the developed countries are *demandeurs*, and it is difficult to see how developing countries could be lured from their defensive position since they do not stand to gain from rule setting and enforcement. Much will depend on how much developed countries offer concessions in other negotiating groups. Services, however, seem to leave scope for an exchange of concessions involving detailed negotiations on a sector by sector basis.

A trade liberalization in developed countries in 1983 would have increased their imports by about 12 percent (roughly $30 billion) (Laird and Yeats 1986, p. 29). It is easy to imagine fluctuations of exchange rates, interest rates, and the level of economic activity in the developed countries having a similar impact on the exports of developing countries. The drawbacks of restricting negotiations

to trade topics, to the exclusion of related issues (such as the debt problem) that are crucial to many developing countries, need to be considered.

The matter of linking trade and debt questions is certainly vexing. In 1985 the authoritative Leutwiler Report (GATT 1985, p. 49) stated that "the health and even the maintenance of the trading system . . . are linked to a satisfactory resolution of the world debt problem . . ." In the early days of the debt crisis it was naively thought that the debtors' leverage in obtaining access to the creditor countries' markets would increase. In the event, commercial banks not only refrained from lobbying to improve market access for debtor countries' exports, they even turned initial ideas about the trade-debt link upside down by backing U.S. insistence on obtaining rights to establish service industries in developing countries. Another trade-debt complication is the apparent contradiction between GATT's traditional reciprocal basis of negotiation, and unilateral liberalization arising from conditions imposed on borrowers by multilateral lending agencies. These tariff reductions even if not bound are unlikely to be taken into account as concessions in the future. Export performance in some of these indebted economies since the beginning of the decade has been at least as good as those of the Asian newly industrializing economies, but their GDP per capita stagnated.

Views on liberalization tend to differ over timing and sectoral distribution rather than its inherent validity. Trade liberalization by highly indebted developing countries without a corresponding liberalization by developed countries requires bigger devaluations than a concerted move by both. (Sachs 1987 has cogently advanced the prior claims of fiscal equilibrium and price stability over trade liberalization, stressing the impact of devaluation on the public deficit and on the level of inflation.) Or the reduction in trade surpluses could be compensated by much larger transitory financial support for liberalization reform than is envisaged at present. (Anjaria 1987 finds trade liberalization a worthy justification for conceding fresh foreign finance, but he believes that this role is already played by the IMF.) The debt question is paramount for many GATT members. For them to participate meaningfully in the Round, the present unstable debt position needs to be settled in such a way as to segregate old and new debt and start the process of restoring normalcy to world financial markets.

Fragmentation of the GATT and the multilateral trading system based on the MFN principle would not be in the interest of developing countries. The weakest have most to fear from the abandonment of rule. To strengthen the GATT, developing countries need to launch more positive negotiating programs, and more often adopt the position of *demandeurs*. The need to liberalize and restructure is by no means restricted to developing countries. There is scope for mutually beneficial negotiation.

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Comment on "Developing Countries and the Uruguay Round of Trade Negotiations," by Abreu

Andrzej Olechowski

I always find it very exciting to discuss the GATT and the Uruguay Round, and I do so whenever I am in Geneva or Washington. I rarely do it in Warsaw. The irony is that I am heading a department which in the Polish administration is responsible for GATT issues.

This observation sets the tenor of my intervention. I would like in these brief comments to look at the issues cogently discussed by Professor Abreu specifically from the point of view of Poland—that is, from the point of view of a country that is medium-size, developing, heavily indebted, and undergoing a major political and economic reform aimed at internal and external liberalization.

Given the above characteristics, the GATT should be very important for Poland. First, it should secure free access for Polish products to the major export markets. Second, through article XIX it should protect our exporters from unrestrained protective actions in the importing countries—a feature particularly important for a middle-income country, which, to a large extent, exports products and services considered "sensitive" by the importing countries (such as steel, shipbuilding, petrochemicals). Third, it should provide guidelines for domestic policies and regulations, and impose discipline on the ways trade policy is carried out.

Thus, in Poland we see the GATT the same way as its founding fathers—as a strong commitment by each participating country to keep its markets open to imports. The safeguard clause provides a way to maintain this general commitment in the face of unusual trade developments affecting isolated industries.

In practice, the GATT is not effective in fulfilling its role. Owing to certain features of Poland's protocol of accession, the most favored nation (MFN) treatment in some countries—notably the United States and the European Community countries, or major trading partners—is viewed as a unilateral concession and therefore open to political maneuvering. Secondly, the GATT safeguard procedures do not shield our exports from import-restrictive actions in the form of "voluntary" export restraints (VERS). Poland, after Japan, is subject to the largest number of VERS, which cover many agricultural, textile, steel, and other industrial

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products. Finally, because of these restrictions and the general lack of international discipline, "GATT consistency" is not a persuasive argument when decisions on domestic policies and regulations are made. It is often adhered to only superficially, while substance and practice remain in conflict with GATT principles.

How, in this context, do the politicians and the general public in Poland view the Uruguay Round? I believe that the prime minister has only a vague idea of what the Round is about, not to mention the president or the public. But two issues could attract considerable attention and make a significant impact on the Polish economy: agriculture and services.

Both sectors are facing radical reform in Poland in the shape of a thorough demonopolization and extensive privatization. The reform is meeting strong resistance from pressure groups who cite short-term decline in production and uncertainty about external conditions as the main grounds for their opposition. Their resistance would be much easier to overcome if there were (even tentative) Uruguay Round agreements as to the principal future conditions for international trade in these sectors. The agreements would need to be accompanied by strengthened commitment to the safeguard rules. Otherwise, guided by past experience, politicians would hesitate to risk opening domestic markets for agricultural products and services to external competition, with no guarantee that other countries would do the same.

These considerations are also germane to some other developing countries. Many of them, faced by the collapse of the central planning concept and attracted by the successes of the market economies, are rethinking their economic systems and development strategies. In many respects, many developing countries are now at the same stage that industrial countries were when the GATT was formulated. Unfortunately, the developed countries have moved on to a stage where (often very narrow) reciprocity has become the dominant issue.

Comment on "Developing Countries and the Uruguay Round of Trade Negotiations," by Abreu

Gary P. Sampson

As mentioned in Professor Abreu's useful and comprehensive review, the December 1988 Mid-Term Ministerial Review in Montreal did not reach consensus in four of the fifteen Uruguay Round negotiating groups: agriculture, textiles, intellectual property, and safeguards. All these areas are important to developing countries for different reasons. Because the Uruguay Round is a political undertaking, the process was put "on hold." Agreement in the outstanding areas was finally reached at a meeting of the Trade Negotiations Committee in April 1989. Since Professor Abreu completed his paper before the April meeting, my comments supplement his paper and report on the current state of play.

With respect to agriculture, at Montreal, the United States and the Cairns Group (four developed and ten developing countries) proposed the long-term elimination of restrictions on market access and other trade-distorting policies, such as subsidies. The Cairns Group also proposed that in 1989 and 1990, short-term measures should be adopted to freeze and gradually reduce farm support measures. The European Community, however, emphasized the need for short-term measures based on existing policies to reduce support for agriculture. For the United States, agreement on long-term measures to eliminate farm support was a prerequisite for any discussion of such short-term measures. As for the long term, the European Community proposed to stabilize world markets by reducing the negative effects of agricultural support measures and rebalancing external protection policies. This fell short of the U.S. proposal for long-term elimination of farm support.

Not surprisingly, the agreement reached in April represents a compromise: in the long term, the objective is a "substantial progressive reduction in agricultural support." Commitments are to be negotiated for import access, subsidies and export competition, and export prohibitions and restrictions. In the short term, farm support is to be frozen at current levels of domestic and export support and protection.

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Governments are to come forward with negotiating proposals by the end of 1989 on a list of topics that represents a formidable research agenda for policy-oriented agricultural economists. Topics include ways to adapt existing farm support (for instance, moving to tariffs and decoupling income support from production levels), how to take account of the possible harm the reform process might do to developing countries that are net importers of food, and the form of and use to which measures of aggregate farm support will be put. The task is daunting. The complexity of interest groups involved within and across countries is staggering, and most known intervention measures are currently being employed in this sector.

It seems fair to say that there were four breakthroughs in the negotiations on agriculture. First, for the first time in the negotiating history of the General Agreement on Tariffs and Trade (GATT) all forms of agricultural protection are now on the table. Second, there is definitely scope for the special status of agriculture to disappear over time. Third, there is agreement to freeze existing levels of protection and reduce them in the future. Fourth, and in some respects most important, governments are now engaged in a permanent state of negotiation.

As for textiles, negotiators at Montreal faced the issue of how far governments were prepared to commit themselves to dismantling the Multifibre Arrangement (MFA) and in what period of time. In the April agreement there is, for the first time, a clear commitment to negotiate an end to the MFA and to start phasing out the network of bilateral restraint arrangements in 1991.

I would tend to take issue with Abreu's assessment that textiles are unlikely to play a prominent role in the Uruguay Round because the present Multi-Fibre Arrangement is to end only in 1991. It could be argued that the expiration date of the present MFA allows countries to make a negotiated removal of the MFA part of the total negotiating package. In fact this was a consideration when the last expiration date was negotiated.

The challenge is to find a mechanism that would permit the gradual undoing of the damage from three decades of bilateral restraint arrangements and the return of textile trade to an open, liberal trading system in which decisions to produce and consume respond to relative prices rather than bilaterally negotiated limits on quantitative restraints. This may seem a good topic for an undergraduate term paper, but the issues are complex. Many participating countries see the existing arrangement as representing some balance of perceived interests in the importing and exporting countries. To be acceptable, the proposed mechanism should maintain this balance during the phaseout period.

As Abreu notes, a principal issue in negotiations about trade-related aspects of intellectual property rights (including trade in counterfeit goods) is the institutional question of whether a new set of rules involving enforcement and settlement of disputes will be negotiated in the GATT in spite of the previous role of organizations such as the World Intellectual Property Organization. The fundamental point is that different countries see their interests as better repre-

sented in one institution or the other. The compromise struck in April was to continue the GATT negotiations but to decide at the end of the Uruguay Round which institutions should implement the rules.

I agree with Professor Abreu that in many ways negotiating a new safeguards clause (Article XIX) is "the most intriguing pending issue in GATT." Indeed, for any self-respecting economist the goal should be to establish under what circumstances sudden surges of imports may be legitimately restrained for a short period without damaging the long-term interests of the economy. The procedures should avoid insulating producers from market forces that herald the need for healthy changes in patterns of production and consumption. The management of world trade in textile products provides clear evidence that such insulation only creates vested interest groups and exacerbates long-term adjustment problems. As Abreu notes, issues such as selectivity (selective application of safeguard protection to specific countries) prevail, and are a major concern for some developing countries that see themselves as potential candidates for such selective treatment. The compromise in the April Mid-Term text is largely procedural; it was agreed that a draft text was to be prepared by the chairman of the Negotiating Group on Safeguards in conjunction with the GATT Secretariat and presented to the Negotiating Group by June 1989.

It is hard to think of new theoretical or empirical research on safeguards which would be useful. Generations of economists have argued that market disturbances reflecting changing patterns of comparative advantage are all part of the normal workings of the market, while market disturbances related to dumping and subsidies can be dealt with through other procedures. If there is to be government intervention on import surges, it should be designed to facilitate rather than retard the process of market-led structural change.

I would like to make a few comments on the area of my own responsibility in GATT: negotiations to create a multilateral framework for trade in services in order to progressively liberalize this trade and promote the economic growth of all trading partners and the growth of developing countries. I will concentrate on three issues of importance to developing countries that emerged in the Montreal discussions.

First, there is no clear definition of what constitutes trade in services (variously described as trade in invisibles, intangibles, and so on), so the nature of transactions to which the multilateral framework will apply is something to be negotiated. One way of defining trade in services is to draw a parallel with trade in goods—that is, something (presumably the service itself) must cross the border for trade to take place (as when some telecommunications services are traded). A definition at the other end of the spectrum would embrace those service transactions that require a foreign presence and a cross-border movement of factors of production (labor and capital) to be marketed internationally (for example, retail banking services). Some developing countries seem to have been of two minds. Opting for a narrow definition would meet some concerns. For example, it would minimize the impact of foreign firms on nascent infrastructural

industries that for a variety of reasons some countries wish to maintain even if they are internationally uncompetitive. At the same time, only a broad definition would ensure the flow of resources and technology necessary to promote development and therefore fulfill the negotiating objectives of the Punta del Este Declaration. Not surprisingly, lines tended to be drawn according to whether individual countries preferred outward or inward development strategies. The question was not settled at Montreal, but the door was certainly opened to a broad definition of trade in services. The text provides that future work in the negotiating group will proceed on the basis of trade in services involving cross-border movement of services, of consumers (as in tourism), and of factors of production, where this is essential to sell the service abroad.

A second issue important to developing countries is sectoral coverage of the multilateral framework in services. Some developing countries have been under the impression that sectors in which they possess a comparative advantage will not be covered either because of sensitivities (for example, about labor mobility in construction services) or because little can be done in such an arrangement to help expand their trade (such as tourism). In Montreal, the question of coverage was dealt with by agreeing not only that no sector would be excluded from the arrangement but also that sectors of export interest to developing countries should be specifically included in the arrangement.

Third, with respect to a point raised in the paper, some developing countries have been reluctant to engage in negotiations to liberalize trade in services. I agree that "opposing views concerning trade in services negotiations acted as a powerful stimulant to clearer thinking concerning ways to advance the negotiations." Abreu points out some reasons for this resistance, but basically the varying degrees of enthusiasm probably reflect the fact that some countries consider the link between liberalization and development to be tenuous at best. In the view of these countries, a framework supportive of development would need provisions that take account of the difficulties developing countries face in immediately implementing full obligations under the arrangement, and that introduce concepts that would strengthen the link between liberalization and development.

The Montreal text opens the way for introducing concepts that will minimize the damage of rapid liberalization in developing countries. It recognizes, for example, the need for rules and procedures for developing countries to extend market access progressively in line with their development situation. And the door is also open for provisions to increase the developing countries' participation in world trade in services and expand their own exports of services by strengthening their domestic capacity in services and making the sector more efficient and competitive.

The challenge facing negotiators from developing countries today is clear. What provisions can be written into the multilateral framework to ensure that developing countries become more efficient and competitive in providing services via the negotiated progressive liberalization of service activities in their countries?

Given the dearth of information on which to base conclusions, there is certainly scope for imaginative thinking.

Finally, the diversity of developing countries' interests, which Professor Abreu stresses in a more general context, is also apparent in the services negotiations. But all developing countries seem to agree on one important point: any development provisions should be an integral part of the agreement itself and not an addendum (as with Part IV of the GATT) or a list of exemptions from obligations (such as special and differential provisions).

Floor Discussion of Abreu Paper

One participant suggested that making debt an essential element of the GATT negotiations would overload already complex negotiations. Presumably the debt crisis will be resolved by another mechanism (guided by the World Bank and the International Monetary Fund) in the next two or three years, he said. The point of the Uruguay Round negotiations, on the other hand, is to establish rules governing trade in the last years of this century and the first years of the next. Abreu responded that steps taken to coordinate efforts in the Bank and the IMF were inadequate in an explosive situation.

Abreu's paper maintained that tariff reductions as part of conditionalities imposed on countries borrowing from the World Bank are unlikely to be considered as concessions later. To the participant who suggested that this is not true if the tariffs are bound, Abreu pointed out that in many countries tariffs cannot be bound because the governments committing themselves to liberalization are not credible. Another participant suggested that if nontariff barriers aren't addressed, it doesn't matter if tariffs are bound. Abreu agreed that it is useless to bind tariffs if GATT Article 18-B provides developing countries an easy way out. To discuss protectionism in the developing countries, he said, something must be done about Article 18-B. As for the thorny question of a tradeoff between Articles 18 and 19, Abreu said it is unclear what Article 19 offers or how that deadlock will be broken, because of vested interests in maintaining voluntary export restraints.

Sampson (discussant) said that solutions proposed to deal with the problem of nontariff barriers include (1) retariffication to replace voluntary export restraints and (2) temporary tariff quotas with a quantitative restriction (imports could be brought in if the penalty tariff were paid, but the penalty tariff would eventually be phased out and replaced by a tariff-based system that would eventually be bound).

On the points raised by Sampson in his comments on Abreu's paper, Abreu agreed that something is being done about textiles in the GATT—but too little and too late. He reemphasized that new evidence suggests that all developing countries would gain from a termination of the Multifibre Arrangement (MFA). A member of the audience commented that it is a big jump from the observation that everybody has something to gain from abolishing the MFA to the conclusion that there is room for a coalition.

This session was chaired by Herminio Blanco, undersecretary of trade, government of Mexico.

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Abreu said that the evidence about textiles breaks new ground but is still controversial, and even he wonders whether Brazil would benefit from a phaseout of the MFA. He noted that this represented an opportunity for somebody to do some careful empirical work that would suggest a more traditional division of interests on textiles—for example, with China and India for, and Hong Kong, the Republic of Korea, and Taiwan against dismantling the MFA.

On the point about the prospects for a timed phaseout of the MFA, one participant stated that only the threat of other kinds of measures—typically safeguard actions—propel developing countries into these voluntarily negotiated agreements. To make predictions about something concrete happening in textiles, he said, we must look at what else is happening in the trading system in the safeguards area—so observing what happens to safeguards such as steel antidumping measures becomes important.

Phasing the MFA out in such a way that countries feel they are getting a fair deal is crucial to the phaseout's success, said Sampson. For example, some countries extract rent in the trading transaction. Giving that up means trading it off against something else, such as expanded market access elsewhere. Those devising a plan to phase out the MFA are trying to find an objective way to estimate the value of nontariff measures as a basis for negotiating change. The ultimate objective—a bound, nondiscriminatory, most-favored-nation tariff—would be considerably less restrictive than the voluntary export restraint arrangements now in place.

One participant commented on how much more active developing countries had been in this Round compared with the Kennedy and Tokyo Rounds, and how much they had been able to influence the agenda. Sampson agreed, saying that five developing countries—Argentina, Brazil, Chile, Colombia, and Peru—were able to put the negotiations on hold in Montreal. In the services-negotiating group Sampson thought this an important development, because a number of developed countries think that over time the developing countries will be unable to live up to the obligations that come out of the agreed text and will drop out. Sampson did not think that was the way the negotiations would develop. If they do, it would be a bitter fight, because the developing countries were wedded to the Montreal Text—and the far-reaching Montreal Text on services was not put on hold.

Several members of the audience were less optimistic than Abreu and (especially) Sampson about the results of the Uruguay Round. One asked what global mechanisms were being put in place to ensure that all of this was not an exercise in futility—observing that little seemed to have changed since the Tokyo and Kennedy Rounds. Another asked what would happen if the real action took place among the United States, Japan, and the European Community (EC). In the same vein, a third suggested that actions speak louder than words and that the actions of the three major actors in the game suggested that regional trading arrangements are going to be more important than a multilateral trading arrangement within GATT.

Sampson admitted that discipline of the multilateral trading system could be eroded by actions of the Super-301 type, Europe in 1992, the U.S.-Canada bilateral trade agreement, regional liberalization, and an equivalent of the Organisation for Economic Co-operation and Development for the Pacific Rim countries. But he felt that many people believed these possibilities were one way to apply pressure to revive the multilateral trading system. Only time would tell. According to Sampson, in the negotiating group on services the real fight would probably not be about North-South issues but about such issues as whether liberalization in financial services will be on the basis of reciprocity or national treatment between the United States and the EC; or whether the major telecommunication country suppliers will be able to maintain their state monopolies; or, in civil aviation, whether the extensive network of bilateral restraint arrangements will remain or will be replaced by some sort of multilateral agreement. We have signs, Sampson said, that the fight will be fought at a high political level. But he also thought that everyone, at least in the services talks, hoped to make existing agreements conform with whatever emerges successfully from the Uruguay Round.

Olechowski (discussant) said that he was not particularly optimistic about the outcome of the negotiations. Furthermore, he had difficulty in reconciling what one participant said about the Uruguay Round framing rules for the next century and Sampson's comment that once the rules are agreed upon, the current policies will be made to conform to them.

Responding to participants' comments about misplaced optimism, Abreu said that his paper implies that the behavior of the U.S. trade negotiators is slightly schizophrenic and that their bilateral and multilateral policies are contradictory. He exhorted the United States to lead the way toward multilateral trade liberalization, because it is too much to ask a high-inflation indebted country to adjust to unilateral liberalization.

One participant asked Abreu how all of this would help us decide the things we have to decide tomorrow, or next week, or by the end of the century? He asked Abreu to provide an analytical framework to help people at the World Bank decide which approaches on specific issues would strengthen and reform—or weaken and destroy—the GATT system.

Abreu responded that it is not easy to translate the paper into immediate policy actions, but that the World Bank could help deepen understanding of many of the issues being negotiated, particularly the so-called new themes. The basic U.S. document on intellectual property is fundamentally weak, because it is merely a summary of what the industry claims about losses incurred in counterfeiting and the like. Abreu felt that establishing an intellectual property system on the fringes of GATT might weaken GATT, but that he was walking on thin ice with this view.

Similarly, Abreu felt that a lot more had to be learned about services. In 1982, the United States had difficulty convincing people that services should have an important position on the agenda. Abreu thought GATT should include services,

because no international organization was doing the job globally, although UNCTAD had been involved in some aspects of services. He believed there would probably be a big political wrangle about intellectual property rights, because the World Intellectual Property Organization would probably fight. And although the developed countries felt that GATT was the ideal venue for intellectual property, the developing countries did not.

It is not easy to know whether extending GATT discipline to services and intellectual property will advance GATT rules. The first obligation, Abreu felt, was to restore GATT legality over trade in goods. The contracting parties had, of course, decided that inclusion of new themes should not be made conditional on solution of the backlog; but Abreu nonetheless felt that the backlog must be dealt with.

Abreu suggested that the Bank should analyze the long-term effects of liberalization in a country such as Brazil, taking into account the possibility that liberalization could backfire and strengthen protectionist lobbies. This line was not being followed in the establishment of conditionalities.

One participant saw negotiations and actual liberalization in services as two very different issues. He argued that it would be extremely difficult to find meaningful criteria to selectively choose services to liberalize. If to do business globally you have to have factor mobility, national treatment, and the right to establish enterprises, and therefore services should be liberalized, then you are really changing the rules of the game and discussing something far beyond GATT. At one extreme, it could imply that the nation-state is no longer relevant in resource allocation and decisionmaking. The issue of whether nation-states should give up their sovereignty to allow national treatment and full factor mobility across all borders is much more important than GATT. What is the use of firms in developed countries having access and national treatment on services, he continued, if currencies aren't convertible, if they can't repatriate their profits, and so on. To make this workable we will have to change the conditions for doing business.

Some countries are not prepared to accept the pure application of GATT rules and principles to services, Sampson responded. For example, it makes sense, and there is a very specific reason, to apply national treatment to goods (under Article 3, a concession granted at the border, such as tariff reduction, should not be negated by a government restriction once inside the border); but services don't pass through customs houses, so offering national treatment to providers of services amounts effectively to free trade—with very different implications.

Sampson agreed that the problem of selective liberalization of services must be dealt with. The Montreal Text indicates that specificity of purpose, discreteness of transaction, and limited duration are to be considered in determining, sector by sector, what will or will not be a service transaction. Overriding all these considerations is the understanding that national policy objectives will be respected; but there is also the sense that countries should not unilaterally erect

obstacles to trade that they consider appropriate for their own national objectives.

Blanco (chair) concluded that more theoretical work is needed to design ways for those countries undertaking unilateral liberalization to get automatic recognition and credit from GATT—so that a country coming to the negotiating table with a 100-percent tariff would not have more negotiating power than a country which has independently reduced its tariff to 20 percent. Trade gains would be speeded up if the reaction to unilateral liberalization efforts were automatic liberalization from other countries. Political pressures from domestic interest groups could be neutralized if a country knew it would receive automatic credit and recognition for liberalization.

Blanco recommended that the World Bank support theoretical work on the following:

- The new issues—services and intellectual property rights.
- The implications of the most-favored-nations principle for block formation, country size, and negotiating possibilities for small and large countries.
- How much have developing countries gained by special and differential treatment? What operating methods are available to make this clause work for each negotiating group?

Finally, the chair thought that GATT should be encouraged to do more theoretical work on how to cease creating acronyms such as FOGS, TRIMS, and TRIPS.