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Distinguished Lecture

What's at Stake for the LDCs, Now that the Uruguay Round Talks have been Suspended?

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I. INTRODUCTION

Until negotiations collapsed in early December, the Uruguay Round gave promise of being the most significant multilateral trade negotiation since 1947, when the General Agreement on Tariffs and Trade (GATT) was implemented and tariffs levels of the industrial countries were sharply cut. There are at least three reasons for this conclusion. First, by agreeing at the outset to bring both agriculture and textiles under GATT discipline, the participants created the opportunity for both rich and poor agricultural exporting nations and relatively low-wage, newly industrializing LDCs to benefit significantly from GATT-sponsored trade negotiations. Prior to the Uruguay Round, the benefits to these countries of such negotiations had been limited, since these two sectors were excluded from any significant liberalization.

Second, by agreeing to formulate new rules relating to trade in services, trade-related aspects of intellectual property rights, and trade-related investment issues, members took an important step in modernizing the GATT. As economic globalization has accelerated, there is a growing realization that arms-length merchandise transactions, the traditional concern of the GATT, are only one aspect of the real-side economic relations of current concern to national policy-makers and the economic interests they represent. Now international commercial activities also involve merchandise trade among multinational firms and their foreign affiliates, international trade in services among independent agents as well as among affiliated enterprises, foreign direct investment activities, production of goods and services in foreign affiliates for sale either abroad or at home, international flows of technology, and temporary movements of labour across borders. Although the so-called new issues in the Uruguay Round do not cover all of these matters, they go a considerable way in making the GATT more relevant for dealing with the problems of increasing internationalization. The notion that it is politically impossible to change

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the GATT to deal better with the international economic problems of the global economy has clearly been disproved by the negotiating developments of the last few years.

Third, as the negotiations have proceeded not only has the Cold War come to an end, but the people of Eastern Europe have decided to abandon communism and try a market-oriented approach to allocating economic resources. These changes have profoundly altered world political and economic conditions. To achieve the peace and political stability that these political developments promise, we must fashion an international economic order that provides real opportunities to raise living standards through the free market system to the countries of Eastern Europe and the many developing countries that have long been disillusioned by the present international economic regime. This requires such prosperous nations as the United States, the European Community, Japan, and even the Newly Industrializing Countries (NICs) to abandon the notion of perpetual protection for such industries as textiles and agriculture, to stop using the antidumping and countervailing duty laws more to protect weak industries than to offset unfair competition, to refrain from discriminating against countries who compete fairly but successfully, and to stop avoiding GATT responsibilities by using provisions of the agreement for purposes for which they were never intended. The Uruguay Round has provided an opportunity to modify the international trading order in a manner that would improve the chances for achieving the greater international political stability that the end of the Cold War promises.

The suspension of the Uruguay Round negotiations does not mean that these three benefits from a successful negotiation are irreparably lost, but it does mean that they are in serious jeopardy. Prompt action by the major players, including the developing countries, must be taken if the negotiations are not to terminate and the GATT is not to become progressively weaker [Schott (1990)]. The purpose of this paper is to assist in evaluating whether it is in the self-interest of the developing countries to engage in the compromise process needed to start the negotiations again. As background to a consideration of this issue, Section II examines the extent to which the developing countries have participated in the previous seven rounds of GATT-sponsored multilateral trade negotiations, the benefits they have received, and the costs they have incurred. Section III considers how the industrial countries are likely to try to achieve their trade policy goals if the Uruguay Round fails. Section IV then looks at some of the main negotiating issues affecting the developing countries and examines how these countries fare under the agreements being discussed on these issues. The last section examines the net benefits to the developing countries from these agreements and the additional benefits that be achieved by continuing the negotiations.

II. PREVIOUS LDC PARTICIPATION IN GATT NEGOTIATING ROUNDS

Interestingly, 11 of the 23 original signatories of the General Agreement were developing countries. However, from the outset they were not major players in the series of trade-liberalizing negotiations that followed the formation of the GATT. Their central goal was to increase their rates of economic development, and they thought this could best be accomplished by following a policy of maintaining high import barriers in order to foster domestic production of imported goods. Article 18 of the GATT permits low-income countries to adopt protective measures to promote economic development and also permits them to maintain quantitative restrictions on imports to cope with the balance-of-payments problems likely to be associated with import substitution programmes.

Near the end of the 1950s and especially in the early 1960s, some developing countries began to change their views about the best means for fostering more rapid growth. They began to appreciate the possibilities of accelerating development by increasing their exports to developed countries. Thus, improving market access in the industrial countries became an increasingly important trade-policy goal for the developing countries. At the same time, however, most of these countries did not want to undermine their import substitution policy by reducing their own trade barriers. Consequently, while calling upon the developed countries to give tariff preferences on exports of manufactured goods from developing countries, they pressed for negotiating rules whereby they would not have to provide reciprocal cuts in protection from the concessions they received from the developed nations [Hudec (1987), Ch. 3].

In the Kennedy Round of negotiations (1962–67), the developing countries succeeded in obtaining a provision in the Ministerial Agreement setting forth the framework for the negotiations stating that "... the developed countries cannot expect to receive reciprocity from the less-developed countries" [Preeg (1970), p. 70]. The developing countries also were successful in adding a new section to the General Agreement, namely, Part IV, that reiterated their special status. In addition, a rival organization, the United Nations Conference on Trade and Development (UNCTAD) was set up in 1964 which called for tariff preferences and other special trade advantages for the developing countries. The industrial countries gradually responded in the late 1960s and 1970s to the request for tariff preferences, the United States being the last to grant zero-duty treatment on a list of manufacturing exports from the LDCs.

The Tokyo Round (1974–79) continued the practice of treating the developing countries in a preferential manner. The Ministerial Declaration inaugurating the negotiations stated that the developing countries were to receive "special and differ-

ential" treatment and this principle was applied not only in the tariff negotiations but in framing the new codes covering such matters as subsidies, dumping, product standards, customs valuation, and government purchasing policies [Winham (1986), pp. 141-142]. A *de facto* amendment to Article I of the GATT, which deals with the most-favoured-nation principle, was also adopted giving permanent legal authorization for tariff preferences, more favourable treatment for developing countries on rules covering non-tariff trade matters, and especially favourable treatment for the least-developed countries.

The Uruguay Round (1986–90) Ministerial Declaration also called for special treatment for the developing nations. For example, as in the previous two negotiations, it was stated that the developed countries "do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries ...". However, another provision stated that the less-developed countries expect that their capacity to make contributions will improve with their development and they accordingly expect to participate more fully in the framework of rights and obligations of the GATT. Some developed countries, such as the United States, had already withdrawn their tariff preference schemes from the most successful developing countries.

In recent years most developing countries seem to have re-evaluated their views toward GATT negotiations. The view that the proper strategy is to demand special concessions from the developed nations, while refusing to make concessions themselves, is no longer the dominant one. One reason is the realization that the gains from this approach have not been as great as expected. Moreover, what gains that did come from this approach accrued mainly to only a small number of the more advanced LDCs, in particular, the newly industrializing countries. The gains were smaller than expected because the developed countries either excluded many manufactures of export interest to the LDCs from their preference schemes or quantitatively limited imports of these goods. Furthermore, they excluded these items from their lists of MFN tariff reductions.

Another reason is the growing acceptance on the part of developing countries of the view that import liberalization promotes economic growth by eliminating inefficient domestic industries, thereby permitting more efficient domestic sectors to serve the internal market, and by eliminating the penalties to export-oriented industries that import-substitution policies bring. There have been numerous case-studies over the last twenty years documenting the growth advantages to developing countries of liberal trade and exchange-rate policies compared with inward-looking protectionist policies. However, it has proved very difficult politically for many countries to abandon the import-substitution route, especially since powerful domestic vested interest are often hurt by a shift to the export-orientation approach.

Still another reason why more developing nations are modifying their traditional approach to GATT multilateral trade negotiations is a change in the attitude of the developed countries toward the developing countries. This change is the subject of the next section.

III. THE NEW VIEWS OF THE DEVELOPED COUNTRIES TOWARD THE LDCs

During the period from the end of World War II until about 1970, the trade policies of non-communist industrial countries toward the developing countries was motivated in large part by foreign policy considerations [see Baldwin (1990) for an elaboration of the themes in this section]. An important foreign policy goal was to strengthen the economies of the LDCs so they could better withstand the pressures from communism. The developed countries did not insist on reciprocal tariff cuts and were willing to grant zero-duty treatment on some items, not just for income-distribution reasons, but because they thought they gained foreign policy benefits from these actions.

This proposition can be illustrated by the behaviour of the United States. Until the mid-1960s the United States was the dominant or hegemonic power in the world economy. The other main industrial nations emerged from World War II in poor economic condition due either to the destruction or depletion of their economic infrastructure during the war. In contrast, the United States emerged with a much expanded infrastructure and new technological and managerial capabilities that greatly improved its international competitiveness. The so-called dollar shortage, which persisted until the late 1950s, attests to U. S. competitive abilities.

The threat of Soviet expansion into Western Europe in the late 1940s was the catalyst that mobilized support in the United States for a vigorous policy of economic assistance to the so-called free world. The strong U. S. competitive position meant that only a few industries were injured by increased imports and the argument that increased access to U. S. markets through lower U. S. tariffs helped the free world resist communism tended to dominate any arguments for protection on the grounds of increased imports.

In retrospect, it seems quite obvious that the dominant export position of the United States would come to an end as the other industrial powers rebuilt and modernized their industrial base. By the late 1950s most of these countries had regained their pre-war production levels and the U. S. trade position began to decline. In 1953, for example, the U. S. share of world exports of manufactured goods was 29.4 percent whereas by 1959 this share had dropped to 18.7 percent. By 1971 the share has fallen to 13.4 percent. An import surge in the United States in the late 1950s of such commodities as textiles, footwear, earthenware, TV sets and

some steel items was particularly disruptive and led to the introduction of protectionist legislation in Congress imposing quantitative import restrictions. However, this response was rejected after a lively national debate. Nevertheless, the view began to become widely held that much of the reason for the increased imports was unfair nontariff policies by foreign countries, such as subsidization and dumping.

Since U. S. political leaders still believed that an international approach through the GATT was the best way to handle trade problems, they called for a new multilateral trade negotiation aimed at strengthening the unfair trade provisions of the GATT. The U. S. Trade Act of 1974, which authorized U. S. participation in this round of negotiations (the Tokyo Round 1974–79), directed the president to seek "to harmonize, reduce, or eliminate" nontariff trade barriers and tighten various GATT rules on unfair trade practices. The result was a series of GATT codes covering such issues as subsidies, dumping, customs valuation, product standards, and government purchasing policy. Unfortunately, because of the significant differences in views among the participants about proper international behaviour in these areas, the language of the codes is very general and can be interpreted as supporting very different policies in these areas.

The United States was very disappointed with the early decisions of GATT panels established at U. S. initiative to judge the consistency of various foreign government practices relating to the subject-matter of the new codes. These decisions did not support the contention of the United States that many practices of other countries, especially in the subsidies area, should be declared inconsistent with the new codes and thus be phased out. The United States did not abandon the multilateral approach, however. At a GATT Ministerial Meeting in 1982, the United States asked members to convene a new general round of negotiations aimed not only at a further tightening of GATT rules on unfair trade practices but bringing such matters as trade in services, trade-related investment issues and intellectual property rights within the province of the GATT. But the U. S. initiative was rejected by such key participants as the European Community and most developing countries.

This rejection marks a turning point in U. S. trade policy. American trade officials deliberately decided to seek bilateral means, such as free trade agreements and special country-to-country negotiations, to achieve U. S. trade policy objectives and also to be more vigorous in taking unilateral action against foreign countries, a practice many members of Congress had long urged the executive branch to adopt. Earlier legislation had strengthened the president's ability to follow these routes. Both the 1974 and 1979 Trade Acts had, for example, made it easier to bring antidumping and countervailing duty actions successfully. The 1974 and 1979 Acts also included a provision (Section 301) enabling the president "to respond to any act, policy, or practice of a foreign country or instrumentality that is unjustifiable, unreasonable, or discriminatory and burdens or restricts United States commerce".

The 1974 Trade Act further authorized the president to enter into bilateral free trade agreements and have Congress approve them on a "fast track" basis, i.e., an up or down vote with no amendments permitted.

Not only did the perceived weaknesses in GATT rules on unfair trade practices cause U. S. trade negotiators to turn to non-multilateral trade-policy approaches, but the U. S. trade deficit that developed in the early 1980s acted to reinforce this trend. The deficit was due initially to a significant tightening of U. S. monetary policy (which was aimed at reducing the double-digit inflation of the late 1970s) coupled with tax cuts and an increase in government expenditures (mainly for defense purposes). A decline in private savings in the United States, relative stagnation in Europe, and the liberalization of capital controls in Japan further worsened the budget deficit and made U. S. assets attractive to foreign investors. This combination of policies and events caused the U. S. dollar to appreciate by over 30 percent in real terms from 1981 to 1985 and led to a shift in the U. S. current account position from a $ 14 billion surplus in 1981 to a $ 125 billion deficit in 1986.

As can well be imagined, the sharp appreciation of the dollar made it increasingly difficult for even traditionally competitive U. S. industries to maintain their world markets shares and led to significant increases in penetration of foreign producers into U. S. domestic markets. Yet in the early part of the decade, the Reagan Administration refused to take any major steps to reduce the twin (budget and trade) deficits. It would not raise taxes and maintained that, if any expenditures cuts were to be made, they must take place in social programmes.

Those hurt by the currency appreciation were able to gain a sympathetic government hear only from Congress, and Congress thus became the centre of efforts to reduce the trade deficit. However, being blocked by the president in raising taxes and unwilling to cut social spending, members of Congress increasingly began to blame unfair foreign trade practices as a major cause of the trade deficit. This had the politically beneficial effect of shifting the blame from domestic sources to foreign sources. By the second Reagan Administration the executive branch had also adopted this viewpoint and began to take action against various countries under Section 301. Bilateral negotiations aimed at providing greater access for U. S. exports were conducted with such countries as Japan, Korea, Taiwan, and Brazil.

One important outcome of congressional dissatisfaction with the way the Reagan Administration was handling the trade deficit problem was the enactment of the Omnibus Trade and Competitiveness Act of 1988, an act that further strengthened the ability of the executive branch to pursue unilateral and bilateral actions in achieving U. S. trade-policy objectives. For example, under a new section called "super 301" the U. S. Trade Representative is directed to identify countries that impose significant nontariff trade distorting measures against U. S. exports and undertake negotiations with these countries aimed at eliminating such measures

within a specified time period. If a satisfactory resolution is not reached within the time period, the Trade Representative can withdraw U. S. trade concessions to the countries and/or impose duties or other restrictions against their exports. Japan, Brazil and India were named under this provision in the first year after the act was approved.

However, U. S. trade-policy leaders did not abandon the multilateral route. After the disappointing Ministerial Meeting in 1982 the U. S. continued its efforts to persuade other countries of the merits of a new negotiation dealing with the new issues raised by the United States at that time. Gradually, more and more countries became convinced of the merits of the U. S. case and in 1986 the Uruguay Round was launched.

The greater willingness of U. S. and other industrial countries policies to use unilateral and bilateral means to achieve their trade-policy objectives is, however, of great significance if the Uruguay Round fails. In this case, it is likely that the United States and other industrial countries will be even more willing to take unilateral and bilateral trade-policy actions, especially against the developing countries, than they have been in the recent past. In other words, in judging the alternative to a successful Uruguay Round, one should not compare a successful outcome to the policies followed in recent years. A more nationalistic approach involving threats, retaliations, and resultant mini-trade wars is likely to be a common pattern of trade relations after a failed Uruguay Round.

IV. SELECTED ISSUES FACED BY THE LDCs IN THE URUGUAY ROUND

1. Agriculture

One negotiating area crucial to some developing countries in determining whether the Uruguay Round is or is not successful is agriculture. Agriculture is of special interest to the nine developing countries, namely, Argentina, Brazil, Chile, Columbia, Indonesia, Malaysia, Philippines, Thailand, and Uruguay, who are among the thirteen members of the so-called Cairns Group. (The other members are Australia, Canada, Hungary, and New Zealand.) Increased market access in the industrial countries, especially the European Community and Japan, and decreased export subsidization by these countries would provide an important development boost to these developing countries.

Failure to reach agreement in the agricultural group was the main reason the negotiations were suspended. The Cairns Group and the United States insisted that agreement in this sector be a prerequisite for the continuation of negotiations in other areas. The proposal of the Cairns Group and the United States are quite similar. Both call for explicit commitments to reduce internal supports, decrease export

subsidies, and increase import access (by turning quantitative import barriers into tariffs and then cutting these tariffs) over a ten-year period. The objective is to reduce internal supports and market access barriers in developed countries by 75 percent and export subsidies by 90 percent over this period. Developing countries would commit to about half the rate for developed countries and would be spread over a fifteen-year period. In contrast, the Community proposed to cut internal supports by 30 percent over a ten-year period, using a base year that gave them credit for half of this reduction already. The European Community (EC) rejects the concept of tariffication and proposes a scheme that the Cairns Group and the United States believe will merely legitimatize the variable levy approach and still put foreign goods at a price disadvantage to EC production. Furthermore, the EC proposal contains no specific commitment to reduce export subsidies or to increase access to EC markets. The proposals from such countries as Japan, Korea, and India are also very modest.

During the Brussels meeting the United States and the Cairns Group did agree to accept the text of the proposal set forth by the Chairperson of the agricultural group as the basis of the negotiation. This called for a 45 percent cut in domestic supports, market access barriers and export subsidies over the ten-year period. However, the EC refused to modify its 30 percent proposal. The key question that the EC, Japan, and other anti-liberalization countries, on the one hand, and the United States, the Cairns Group, and other pro-liberalization countries, on the other hand, must face is whether to risk the complete failure of the Uruguay Round by failing to compromise on their initial positions. The United States now says that it is primarily interested in negotiating on specific commitments to liberalize in the areas of internal supports, market access, and export subsidies and is not committed to any specific percentage reduction. Member governments of the EC have directed their agricultural ministers to again consider their proposal with a view to deciding whether it can be improved.

U. S. and Cairns Group negotiators seem to have ignored one of the key lessons of both the Kennedy Round and the Tokyo Round, namely, that it is not possible to pressure major economic powers such as the European Community and Japan into implementing proposals they strongly oppose. In the Kennedy Round, for example, the EC finally yielded to U. S. pressures and accepted the 50 percent linear cut rule, but then proceeded to get around it with many exceptions to tariff cuts and by insisting on a special rule for so-called tariff disparities, i.e., large differences in tariffs among countries. The outcome of the negotiations on subsidies in the Tokyo Round illustrates the same point. In the end it was necessary to combine the language of the United States, which wanted to reduce domestic subsidies significantly, and that of the European Community, which wanted to be able to continue

to subsidize in most areas. The result was a Subsidies Code that is weak and ineffective.

It is appropriate to use both a "carrot and stick" approach in negotiating with other countries, but it must always be remembered that sovereign nations are very unlikely to carry out actions they strongly oppose, no matter what they agree to in a particular negotiation. The United States has deliberately put itself in the position where it cannot accept an agricultural agreement unless the EC backs away from its last position. Hopefully, this will be the case. But I would predict that any EC proposal to negotiate on specific reductions in market access barriers and export subsidies will be modest and, what is more important, will not be carried out in a meaningful manner. Thus, little will have been gained by the United States and the Cairns Group from suspending the negotiations. However, the cost in terms of the resources and time that might have been spent on other issues and the belief that there was no sense in trying to reach final settlements on these other matters until agriculture was settled seems considerable. Moreover, even if the negotiations are resumed, less is likely to accomplished in the negotiations because the atmosphere will be more confrontational than otherwise would have been the case.

While the agricultural concession made by the EC, Japan and other industrial countries are not likely to be substantial, just getting agriculture on the negotiating agenda is a victory for agricultural exporting countries such as those in the Cairns Group. Hopefully, it means that in future negotiations additional cuts in domestic supports and export subsidies will be made so that eventually the benefits to developing countries who export agricultural products will be significant.

2. Textiles

Textiles is another crucial area for many developing countries. The existence of the Multi-Fiber Arrangement (MFA) with its quantitative restrictions on imports of textile and apparel products into the internal markets of the developed countries has blocked a major potential means of growth for the developing countries. Thus, to get the developed countries to agree at the initial Ministerial Meeting to the eventual integration of this sector into the GATT was a victory for these developing countries.

Thus far in the negotiations, participants have agreed to phase out existing bilateral quotas under the MFA over a ten-year period. Discussion continue over whether 45 percent or 60 percent of existing quotas will be removed by the end of that period. This, of course, leaves a large proportion of trade to be liberalized in the last year – a very unlikely outcome. Furthermore, a provision permitting the reimposition of quotas on market disruption grounds during the transitional period raises the distinct possibility that even the first stage of liberalization may not be signifi-

cant. Even the growth permitted under the various categories is modest. Most experts in the field believe that at the end of the ten-year period the level of protection will be about the same as it is now. Still, the agreement is much better than what textile producers have been pressing for in the developed countries, and, like the agricultural agreement, does improve the chances for future liberalization. It should be noted, however, that agreement by the EC and the United States on textile liberalization is contingent upon acceptance of their negotiating aims in such areas as safeguards, rules regarding developing country participation in the trading system, remedies against subsidies and dumping, and intellectual property rights.

3. Subsidies and Countervailing Duties

Participants have agreed on a three-fold classification of subsidies: prohibited subsidies, actionable subsidies, and non-actionable subsidies. Prohibited subsidies cover mainly export subsidies and subsidies contingent upon the use of domestic over imported materials. A panel of experts would decide on the appropriateness of any subsidy in this category and authorize appropriate countermeasures if they determine it to fit the definition of a prohibited subsidy. In the text submitted to the Brussels meeting by the chairperson of the subsidies group, non-actionable subsidies cover assistance for research and development, structural adjustment assistance, assistance for adapting existing facilities to new environmental requirements, and assistance to disadvantaged regions. If a signatory believes any other subsidies causes injury to a domestic industry, nullifies or impairs the benefits accruing to it under the GATT, or results in serious prejudice to its interests, the signatory can initiate a consultation process that eventually leads to a decision by a panel of experts on the consistency of the measure with GATT rules. If the panel decides that the subsidy was inconsistent with GATT rules, it authorizes appropriate countermeasures on the part of the affected signatory. Developing countries receive special and differential treatment under this code, especially in being permitted to phase out their export subsidies gradually and in making it easier to maintain actionable subsidies.

The United States is isolated in these negotiations because of its condemnation of almost all forms of subsidies. (Only subsidies for research seem to be acceptable to U. S. negotiators.) The EC, many other developed countries, and almost all developing countries are much more willing to accept subsidies. In my view, the U. S. position is too extreme and should continue to be opposed by the developing countries.

On the matter of countervailing duties, the U. S. is pressing for circumvention measures and improved procedural provisions, while most other nations seek to include automatic sunset provisions, mandatory proof that the petitioner represents a

majority of the industry, inclusion of a public interest review, and tighter injury standards. There does seem to be the basis for mutually beneficial trade-off in this area, namely, the introduction of some new provisions preventing blatant circumvention and also new provisions making it more difficult to use countervailing duties as an easy way to gain protection.

4. Antidumping

No text on antidumping was reported to Brussels due to the lack of agreement among the participants in this group. Both the United States and the EC have been sharply criticized for their current antidumping practices, which many countries believe are being used to provide protection to non-competitive industries. These countries seek such changes as permitting forward (life cycle) and business cycle pricing, toughening injury standards, and establishing sunset provisions and automatic reviews. The U. S. is greatly concerned about preventing circumvention and repeat dumping and has offered provisions making it more difficult to avoid the penalties of dumping. For their part, however, most other countries fear that these measures will make the code even more of a haven for protectionists.

As in the subsidies area, there seems to be merit on both sides of the issue and mutually beneficial compromise should be possible.

5. Safeguards

The key issue in this area is whether to permit selectivity, i.e., the imposition of tariffs or quotas against only a selected set of countries rather than following the so-called most-favoured-nation principle, which is current GATT practice and requires that all importing countries be covered in a non-discriminatory manner. The EC strongly supports selectivity, while the United States also seems prepared to accept this principle. The developing countries and most other industrial nations strongly oppose selectivity.

In my view, the developing countries should continue their opposition to selectivity. While selective protection is permitted under GATT rules when injury-causing import increases are due to unfair practices, such as dumping and subsidization, discriminatory actions are not allowed when there is no evidence of unfair competition.

Since the exporting countries against whom selective protection is practiced would have to agree to this action under the proposal, the burden of the change would fall disproportionately on small countries, especially the developing countries, who are least able to stand up against protectionist pressures from the large industrial trading nations.

Not only is this unfair, but the change would unfairly hurt those in the injured

domestic industry that the protection is purportedly designed to help. As U. S. experience with country-selective protection in such sectors as footwear, colour television sets, and automobiles demonstrates, quantitatively limiting the exports of one or two countries is often quite ineffective in raising output and employment in the injured domestic industry. Producers in uncontrolled countries simply expand their exports as the targeted country reduces its exports. For example, when Korean and Taiwanese exports of nonrubber footwear to the United States were quantitatively limited in 1977, the very next year nonrubber footwear exports from other countries increased to match the reduction from Korea and Taiwan.

Controlled suppliers also upgrade the quality of their product so that the value of their exports declines less than the quantity. It has been estimated, for example, that two-thirds of the inflation-adjusted 8 percent price increase in Japanese cars caused by Japan agreeing in 1981 to restrain auto exports to the United States was due to quality upgrading. Both this quality response and the expansion of exports by noncontrolled countries invariably result in fewer displaced workers in the injured industry being rehired than expected. Furthermore, when the injured industry finally succeeds in obtaining selective protection against those suppliers who have increased their exports as a result of the initial protection, suppliers in other countries take their place so that the plight of the displaced workers drags on.

Since levelling a uniform tariff against all foreign suppliers would avoid these undesirable outcomes, one wonders why the European Community seeks a change in GATT safeguard rules and why the United States is willing to consider such a change seriously. One legitimate reason is to minimize the compensatory reductions in protection against other products that must now be provided under GATT rules to countries against whom protection is increased. To deal with this concern, New Zealand and others have proposed that the compensation/retaliatory requirement be waived under the present non-discriminatory rules for a reasonable period, e.g., three or five years, during which adjustment in the injured industry could reasonably be expected to occur. The United States apparently is prepared to accept either this proposal or the one permitting selectivity.

The main reason for the EC push for selectivity is the Community's reluctance to modify its existing selective export restraint agreements in such sectors as steel, semiconductors, automobiles, video tape recorders, and machine tools. Rather than bring these protective measures into conformity with GATT rules, as agreed upon in the Ministerial Resolution launching the Uruguay Round, the EC seeks to change these rules.

Government officials have found it much easier to respond favourably to protectionist pressures from domestic interest groups, if the protection takes the form of quantitative export limits on selected exporters. This procedure eliminates the objections to increased protection from other countries whose exports of the

product have not been increasing significantly. (Interestingly, however, these have not been the countries lobbying for selectivity.) Even the countries subject to the quantitative export limits sometimes do not object too strongly, since they reap a windfall gain (equivalent to what the importing country would get itself as import duty revenues, if protection takes the form of tariffs) as their export prices rise due to the required reduction in their supply.

Still, these countries deeply resent the discrimination, and there is little doubt but that such actions worsen international political relations. Modifying the system of checks and balances embodied in present GATT rules by condoning selective protection is also likely to increase overall protectionism in the world economy, since government officials will increasingly adopt this easy route rather than press for meaningful domestic adjustment measures. Furthermore, making it easier to prevent a country from increasing its exports is likely to come back to haunt the United States in the future as it faces the need to expand exports to service its rapidly growing net international debt. In short, the selectivity proposal is not only unfair, it is foolish for the United States to consider it seriously.

6. Tariffs and Non-tariff Measures

Unlike the previous two negotiating rounds, the participants are following an offer/request approach to cutting tariffs rather than applying a tariff-cutting formula. The objective is to cut duties by about one-third, including agricultural tariffs. The United States has tabled a set of offers that would reduce its tariffs by about 40 percent, if its so-called zero for zero proposal is accepted. In nine sectors, fish, beer, non-ferrous metals, wood, paper, electronics, construction equipment, pharmaceutical, and steel, the United States is prepared to reduce its duties to zero, if others do the same. The EC's offer amounts to an average cut of between 30 and 33 percent in manufactures but only about 5 percent in agriculture. Japan has proposed eliminating tariffs on some 3,000 items, provided enough other countries do the same.

The developing countries are expected to contribute to the tariff liberalization process and most have put duty-cutting offers on the negotiating table. They also will receive credit for earlier unilateral cuts. The developed countries have stated that their final offers in the areas of interest to the developing countries will depend on how much they liberalize their import restrictions. It is unclear at this time just how successful the tariff negotiations will be, but they do have the potential for important mutual benefits to all the participants.

Little is likely to be accomplished in reducing non-tariff barriers, but there is an effort to obtain agreement on a protocol that would establish procedures for binding reductions in such barriers.

7. Dispute Settlement Procedures

As developing countries participate more fully in the benefits and responsibilities of the GATT, it is important from their viewpoint that there be effective dispute settlement procedures. Unfortunately, while important improvements were made at the Mid-Term Review, there are still serious drawbacks to existing dispute settlement mechanisms. Specifically, a losing party is able to block adoption of panel reports; there is no effective procedure to ensure prompt compliance with panel findings; and a losing party can block a winning party's request to retaliate in the absence of compliance.

Fortunately, it appears that these drawbacks will be remedied if the Uruguay Round negotiations continue. For example, under the agreement proposed to the Ministers in Brussels, a request for a panel would be granted unless there is a consensus of the members against it, thus, in effect, ensuring the establishment of a panel. Similarly, if a party to a dispute disagrees with the panel decision, it cannot block it but must appeal to an appellate body whose decision will be binding unless rejected by consensus by the members. Losers in a panel decision must also adopt the panel's recommendation within a reasonable time. Another important change supported by most countries other than the United States is that GATT dispute settlement procedures must be followed before resorting to the use of Section 301-type actions.

8. The New Issues: Intellectual Property Rights, Services and Trade-related Investment Issues

Developed-country participants, especially the United States, are the ones pressing most strongly for new GATT rules in these areas, which they believe would increase their foreign revenues substantially. It has been estimated, for example, that U. S. firms lose over $ 8 billion annually from patent and copyright infringements [Benko (1987)]. Domestic regulations such as prohibiting certain type of services from being supplied by foreign-owned firms and requiring foreign affiliates to export a certain proportion of their output or purchase a certain minimum of domestic goods for use as intermediate inputs are also viewed as very costly in terms of lost potential revenue.

It is argued that the protection of intellectual property is necessary to ensure that inventors will be rewarded for the fruits of their research. It is often difficult for those who create new knowledge to appropriate to themselves what consumers are willing to pay for the products embodying the new knowledge. Others may acquire the new knowledge easily because its nature can be discerned by observing the products or the manner in which the products are produced. But unless the knowledge creators receive a return sufficient to cover the costs of their research, they will not

be able to continue their activities and thus enable the world economy to benefit from technological progress.

There is another side of the knowledge creation issue, however. Once created, knowledge has the characteristic of a public good, that is, the use of new knowledge by one party does not exclude its simultaneous use by other parties at no additional cost. This means that it is socially efficient for the dissemination of new knowledge to be as wide as possible [Baldwin (1988)].

The patent and other intellectually property laws are an attempt to reach an acceptable compromise between these two conflicting objectives. The developed countries believe existing laws do not provide their inventors sufficient rewards. They are particularly concerned about the weak enforcement of intellectual property rights laws in the developing countries. On the other hand, most of these latter countries, who are not significant creators of new knowledge themselves, believe that they should not have to pay for the right to use new technology because of the adverse effects this requirement would have on their already low level of development.

In the services area, developed countries are urging the adoption of a framework agreement aimed at liberalizing not only cross-border services trade but the provision of services by foreign firms located in the country where the service is consumed. However, the developing countries fear that their markets will be penetrated much more by developed country service providers than the markets of developed countries by their service producers. Consequently, while willing to negotiate on a framework agreement, they are insisting upon the right to limit the extent to which their services markets are opened.

Pre-Brussels negotiations on trade-related investment measures revealed such a degree of divergence in views between developed and developing countries that only a brief statement outlining the areas of disagreement was submitted to the Ministers. For example, the participants could not agree on whether certain measures should be prohibited, e.g., local content requirements, or whether the trade effects of such a measure should be considered on a case by case basis. The participants also could not agree on whether restrictive business practices of private enterprises should be addressed in the negotiations. Again, the developed countries argued for tight rules, while the developing countries wanted to continue their existing practices.

IV. THE LDCs NEGOTIATING BALANCE SHEET AND OPTIONS FOR FURTHER NEGOTIATIONS

As noted earlier, unless the EC makes some further concessions on agriculture, the United States and the Cairns Group will be forced to stop the negotiations

because of their threat at the time the talks were suspended. Hopefully this will not happen. But, as noted earlier, I think any additional offer of the EC in this area will be modest. It will provide some benefits for the LDC agricultural exporters, but the main significance of the agreement will be the prospect of further liberalization in the future.

If an agricultural agreement can be worked out that prevents the entire Uruguay Round negotiations from completely collapsing, I would urge the developing countries and other participants to extend the negotiations for another year or so rather than try to wind up the Round in a few weeks. The attention given to agriculture by the negotiators has retarded negotiations in many other areas. Considerably more progress could be made in these areas that would benefit both developed and developing countries, if negotiators had more time. Most countries can easily extend the authority of their negotiators, but U. S. officials would have to ask Congress for extension of the fast-track authority.

Textiles is an area where the LDCs might well be able to improve on the current offers of textile-producing developed countries. The benefits for the LDCs under the agreement being discussed are quite modest. In view of the concessions that the LDCs are making in the areas of intellectual property rights and services trade, these countries should press harder for greater liberalization. Specifically, they should negotiate for higher growth rates in the quota categories and a greater degree of liberalization by the tenth year.

It is unlikely that other developed-country participants in the negotiations on subsidies will accede to the U. S. proposal to include only research subsidies in the category of non-actionable subsidies. However, the developing countries should, in my view, joint these other countries in opposing the U. S. proposal, since it is not based on sound economics nor an appreciation of the need in some situations for redistributive government measures. They should also insist on a tightening of the injury standard.

Antidumping is another area in which the developing countries should seek reform. For example, they should insist that product cycle and business cycle pricing that results in prices being temporarily below average costs not be considered dumping. Futhermore, these countries should join with others in demanding changes in such administrative practices as comparing individual domestic prices with the average of foreign prices and requiring information from foreign firms to be presented in a highly technical format. At the same time, they should be willing to accept a tightening of rules aimed at preventing blatant circumvention of antidumping duties.

On the subject of safeguards, the main danger to the interests of the developing countries is the acceptance of the notion of selectivity. If permitted, it is likely to result in a biased use against these countries. The LDCs should insist on the

continued use of the most-favoured-nation principle. However, to induce developed countries to use the safeguards route rather than the dumping or subsidies routes when seeking protection, they should agree to the temporary lifting of the compensation or retaliation requirement.

The negotiations over tariffs are a good example of an area where more time is needed to reach the stage where all mutually beneficial duty reductions have been explored. The offer/request procedure being followed require long, tough negotiations to be productive, as GATT-sponsored negotiations prior to the Kennedy Round clearly demonstrated. Since many developing countries are unilaterally reducing many of their own duties, they should seek reciprocal reductions in developed-country tariffs, especially in labour-intensive product lines where many have a strong comparative advantage.

As noted earlier, it is on the so-called new issues where the developing countries perceive they are making the greatest short-run concessions. Although there are numerous provisions in the agreements on intellectual property rights and services under discussion limiting the commitments of the developing countries, there seems little doubt but that the earnings of the developed countries in these areas from the developing countries will rise more than those of the developing countries from the developed countries. It is by no means evident that benefits to the developing countries of the likely liberalization in agriculture and textiles balance their concessions on the new issues.

This is still another reason for extending the negotiations. With additional time, the developing countries are likely to be able to improve their net balance of concessions, especially through further negotiations in the areas of subsidies-countervailing duties, antidumping, and market access, i.e., reductions in tariffs and non-tariff measures. It should be remembered, however, that trading powers such as the United States and the EC may resist making concessions in some of these areas because of the belief that they can take unilateral actions to gain their objectives. This attitude makes all the more important for the developing countries to work hard for the strengthening of the GATT. Without the protection of a multilateral organization, they are likely to be pressured into granting trade concessions without receiving much in return.

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Comments on*
"What's at Stake for the LDCs, Now that the Uruguay Round Talks have been Suspended?"

After Professor Baldwin's thorough, lengthy but convincing presentation and indeed Dr Gamani Corea's insightful comments on this subject, I feel there is little left to be discussed on this topic. My comments, therefore, will be brief.

Let me start my comments on Professor Baldwin's paper by quoting from what two well-known economists, Lester Thurow and Jagdish Bhagwati, said on the future prospects of GATT. Lester Thurow with a pessimistic tone noted at the Annual Meeting in Davos in 1988:

"The GATT is dead".

To this, [Bhagwati's (1990), p. 29] response was:

"Long live the GATT."

Although the Uruguay Round Talks on GATT have been suspended, at least for the time being since the December of 1990, Professor Baldwin and other experts in this area continue to argue it is still *not* dead. In fact, to be able to survive and flourish in a changing world economy and also to profit from its four decades of experience, GATT, as an institution, is greatly in need of repair and reconstruction. Thus, in this context, Professor Baldwin's paper is timely and important. Not only does he raise many crucial issues, but he also provides many useful suggestions. More importantly, his fair and honest views about the future success of the "Uruguay Round Talks" and its ensuing impact on developing economies is worth mentioning.

I totally agree with Professor Baldwin's suggestion of extending the negotiations and that developing countries should show more flexibility in the negotiation process. The general presumption was that the bargain may 'struck' a deal by developing countries offering developed nations some concession in the *new sectors* and *issues* – primarily by accepting discipline in services namely TRIPs (trade-related intellectual property) and TRIMs (trade-related investment measures) – and trading them for concessions in the so-called old sectors i.e., textiles and agriculture. Of course, this would imply eventually foregoing *Multi-Fibre Agreements*, liberalizing agriculture and ensuring greater discipline in the use of safeguard protection.

*Owing to unavoidable circumstances, first discussant's comments on this paper have not been received.

Bhagwati (1990), however, argues that this kind of deal may be unrealistic and that the trade-offs may not be clearcut for the reasons that agriculture liberalization would certainly benefit the United States in the short-run and would harm the importing developing countries.

An alternative deal was proposed by Bhagwati (1990) which the developing countries might find attractive and which would offer the developed countries substantial gains and progress to explore in the new areas. He felt that it would be 'useful to strike a firm bargain within goods, the traditional province of the GATT; but, on the new sectors and issues, take a more flexible approach'.

Let me point out why, in my opinion, developing countries should take a more flexible approach to this problem. Two major developments in the area of regional trading arrangements, namely, the 1988 US-Canada *Free Trade Agreement* and the *European Community* move to dismantle impediments to the free flow of goods, services, capital and labour among member states by the end of 1992, will have long-term implications on the multilateral free market trade. Not only that, the initiative by the U. S. to bring Mexico and, perhaps, Brazil at some future date into the North American Free Trade Arrangement and the possible integration of the Eastern Europe countries into the European Community (EC) may be a hindrance towards multilateral free market trade. This may have unfavourable consequences on trade flows of the developing countries.

To conclude my comments on Professor Baldwin's paper, let me quote from [Bhagwati (1990), p. 30]:

> *Acceptance of this flexible approach, extended to TRIMs as well, would require creative leadership from all the negotiators (both developed and less developed nations), particularly the United States ... . It is certainly within the (U. S.) administration's means to "sell" the necessity of a flexible approach to some of the country's less compromising business lobbies. Doing so would mark a significant step toward the complex, and necessarily circumspect, reconstruction of the GATT as we enter the 21st century.*

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