

## Running Head

Broad-based liberalization is in the interests of developing countries.

## Cover Summary

The overriding interest of the developing countries in a new round continues to lie in assuring the healthy expansion of an open multilateral trading system. Developing countries should seek across-the-board liberalization, rather than zero-for-zero reductions that tend to favor the interests of developed countries and diminish the support for further cuts. Agricultural trade liberalization provides important opportunities. A number of areas of services trade are of particular interest, including areas such as movement of construction workers. Care is needed to ensure that labor standards are not used to stifle competition from labor-abundant developing countries and that excessively high product standards are not imposed. The leverage of developing countries could be increased substantially by forming coalitions based on common interests in a range of areas.

## The Developing Countries and the Next Round of Multilateral Trade Negotiations

Anne O. Krueger

This paper assesses the stake of the developing countries in a next round of multilateral trade negotiations under the WTO. It is well known that the developing countries became full-fledged participants in multilateral trade negotiations only with the Uruguay Round, and achieved striking success in several dimensions. These included bringing agriculture into the GATT/WTO, reaching agreement to phase out the Multi Fiber Agreement within ten years, beginning work on services, and much more.

The overriding interest of the developing countries in a new round continues to lie in assuring the healthy expansion of an open multilateral trading system. The willingness of the developing countries to de-emphasize the Generalized System of Preferences in the Uruguay

Round was clearly in their interest. For a new round, achieving further trade liberalization across the board is the paramount issue from the perspective of developing countries.

There are a number of issues in which the developing countries have particularly strong interests. These include achieving across-the-board, and not zero-for-zero negotiation, to assure that developed countries do not focus on those sectors in which they have comparative advantage (and remove the political pressures those sectors can provide for liberalization of import restrictions elsewhere).

It is also highly in their interest that any agreement regarding labor standards not raise the costs of unskilled labor in those countries whose comparative advantage lies in exporting products that use unskilled labor intensively. Environmental issues present a host of difficulties, and developing countries need to balance their interests in this area carefully against their other interests in the trading system before deciding on a negotiation position. In an ideal world, environmental concerns would be dealt with outside of the WTO.

Developing countries have a considerable stake in further progress in agriculture, including the reduction of agricultural protection and subsidies and the prohibition of agricultural taxes and export quotas. While there are differences of interests among exporters of tropical and temperate agriculture, and also between net exporters and net importers of agricultural commodities, the scope for potential gain is sufficient that it should be possible to form an alliance with developed countries with similar interests as happened successfully with the Cairns group in the Uruguay Round.

There is also a strong interest in moving forward agreements covering services, particularly those involving the movement of natural persons, as for example with construction. Achieving agreement on means to permit temporary immigration for construction should benefit a large number of labor-abundant developing countries.

There are a number of issues where developing countries' positions are not likely to determine the outcome, but where, should the question arise, their support could be valuable. These include the improved definition of rules of origin for preferential trading agreements, and the achievement of a multilateral investment code under the WTO. As new entrants onto the world trading scene, developing countries' interests are strongly against measures (such as imposition of strong standards) which entrench the interests of existing producers.

Quantitatively, less important, but perhaps easier to achieve, will be some lesser issues of particular concern. These include the status of the least developed countries, and technical support for their participation in the WTO, credit for past unilateral liberalization, insuring that Uruguay Round agreements are fully implemented, and reduction of some tariff peaks.

Issues such as competition policy are ones in which the immediate interests of developing countries are not large, but where their support could be traded for achieving better terms for areas in which the developing countries do have a strong interest.

Coalitions across developing countries would, of course, improve bargaining power, but coalitions are more likely to be effective when there are genuinely common interests at stake. For that reason, it is likely that a strategy of joining coalitions on interests of common concern will be effective.

## THE DEVELOPING COUNTRIES AND THE NEXT ROUND OF MULTILATERAL TRADE NEGOTIATIONS

Until the Uruguay Round of multilateral trade negotiations, the developing countries were generally observers. They benefited as “free riders” from whatever reductions in trade barriers were negotiated among the developed countries, while simultaneously they argued for, and to some degree received, special and differential (S&D) treatment, both through the Generalized System of Preferences (GSP) and through the automaticity with which the balance of payments exception was used to permit them to continue reliance upon quantitative restrictions and other protectionist measures.

All that changed with the Uruguay Round. By that time, many policy-makers and development economists had become convinced that the highly protectionist policies followed by developing countries in the name of import substitution were inimical to sustained economic growth, and that outer-oriented policies and integration with the international economy offered a better hope for rapid development. For the first time, developing countries participated not as observers but as full-scale members of the GATT, and achieved some considerable successes.<sup>1</sup> Not only was the participation of some key countries in the Cairns group critical to getting agriculture into the Round, but the developing countries were able to bargain for the phasing out of the Multifiber Arrangement, which was the single most costly trade restriction against them.

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<sup>1</sup> See Raed Safadi and Sam Laird, 1996, “The Uruguay Round Agreements: Impact on Developing Countries”, World Development, Vol. 24, No. 7, Pp. 1223-1242 for a survey of the various estimates of the likely increases in world trade due to the Uruguay Round and the effects of the round on developing countries.

On balance, developing countries gained a lot more out of the Uruguay Round than could possibly have been anticipated in advance.<sup>2</sup>

During the period when the Uruguay Round was being negotiated, and subsequently as the WTO came into being and undertakings from the Round have been implemented, developing countries were simultaneously engaged in liberalizing their own trade regimes, generally unilaterally. As they have done so, the importance of the international economy to them has increased greatly. Not only has the share of trade in GDP risen markedly in many developing countries, but overall development strategies are based on reliance on the international market. As uniform incentives for exporting are set at reasonable levels, export growth depends crucially on access to markets. A rapidly-growing and open international economy is in the interests of all countries, but especially of those whose development prospects are now tied to the success of an outer-oriented development strategy.<sup>3</sup>

At the same time, threats are arising to the multilateral trading system, especially in the form of proliferating preferential trading arrangements, but also with increased resort to anti-dumping measures and other forms of implicit protection not now covered under WTO rules. Indeed, there is considerable risk that the trend toward an increasingly multilateral liberalized international trading system of the past half century may be reversed. Many observers, including the present writer, are calling for a start of a new round of multilateral trade negotiations, both to

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<sup>2</sup> See Dani Rodrik, "Developing Countries after the Uruguay Round", paper prepared for the Group of 24, Mimeo. August 1994, Will Martin and L. Alan Winters, editors, The Uruguay Round and the Developing Countries, Cambridge University Press, 1996, and T. N. Srinivasan, Developing Countries and the Multilateral Trading System, Westview Press, 1998. for comprehensive surveys and assessments of the achievements of the developing countries in the Uruguay Round.

<sup>3</sup> The rapid growth of the international economy was always important to developing countries, even under import substitution. Indeed, it can be argued that the rapid growth of the international economy enabled developing countries to pursue import-substitution strategies for far longer, and with far smaller costs in terms of foregone economic growth, than would have been possible had world trade grown significantly more slowly or had market access been severely restricted.

tackle unfinished business (such as further removal of agricultural barriers, which is in any event scheduled to be negotiated) and to maintain the momentum toward multilateral liberalization.<sup>4</sup>

In this paper, the interests of the developing countries in a next round of multilateral trade negotiations are considered. While, on the one hand, it is likely that the concerted opposition of the developing countries to the new round would prevent it, it is not in their interest to do so. For, a new round is arguably the best way to assure the continuation of the open multilateral trading system and prevent a reversion to regional trading blocs. Such a continuation will enable a more rapid growth rate for the international economy, and, as such, would provide the best environment in which all countries can achieve their domestic economic objectives.

A first section considers the interests of the developing countries and examines the issues in which virtually all developing countries have similar interests. A second section then examines those questions which are significant to major groups of developing countries. The third section then examines the various issues that may arise in future negotiations and attempts to assess the developing countries' interests in them.

#### 1. Interests of Developing Countries in the WTO and International Trading System

It was probably never true that the developing countries were a homogeneous group with common interests in the international trading system. But, as the growth experiences of different countries have diverged, whatever commonality there was has diminished. Some, such as Korea

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<sup>4</sup> Some developing countries are encountering technical difficulties in implementing the necessary measures called for by the Uruguay Round agreement. There is some opposition to the start of a new round on the grounds that the measures already agreed to should be implemented. The difficulties with this view are: 1) postponement of a new round will enable a sectoral approach to issues within the WTO (see below) which is a trend that bodes poorly for future multilateral liberalization; 2) failure to start a new round would enable preferential trading arrangements to take center stage even more than they now do, with consequent weakening of the multilateral system if not accompanied by further liberalization on a multilateral basis; and 3) in the absence of a new round, small developing countries are left to their own (very weak) bargaining positions whereas a new round would enable them to cooperate and gain bargaining strength.

and Singapore, have achieved relatively high per capita incomes and are major exporters of a diversified set of reasonably sophisticated manufactures and net importers of a large number of agricultural goods. Others, at an earlier stage of development such as China, are net exporters of unskilled labor-intensive manufactures. Some, such as the Bahamas and Panama, primarily export services. Even with regard to agricultural exporters, there are significant differences between those whose comparative advantage lies in tropical agricultural commodities and those whose interests lie in temperate agriculture.

Nonetheless, there are a number of common interests. First of all, the developing countries – even the larger ones – are all relatively small contrasted with the large trading nations in Europe, the United States, Canada, and Japan. For that reason, they have greater need for an international system of rules than do larger countries whose bargaining power vis-a-vis other countries is sufficient so that they have an individual voice in international trade. If Japan and the United States disagree over trade issues, each has some influence unilaterally on the other. If, however, Japan and Malaysia, or the United States and Nicaragua, enter into a dispute, the situation is far more one-sided. As such, the protection that a well-functioning international trading system can offer is far more important to developing countries than it is to the larger developed countries. Moreover, the fact that they are developing countries means that the stake in the healthy growth of the international economy is large: not only do most developing countries have economies that are small and therefore highly dependent on trade: they have comparative advantages in a much smaller range of goods than do large, developed countries.

These considerations immediately suggest that developing countries have a common strong interest in strengthening the multilateral trading system: the more rules are made and

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The preferred approach for those developing countries encountering difficulties in implementation of the

disputes settled at the multilateral level, the more likely it is that their interests will be protected. Beyond that general interest in the strength of the system and the growth of the international economy (which does have significant implications for developing countries' strategies - a topic to which attention returns in Sect. 4), however, there are a number of other identifiable common interests. These include: 1). protection against capricious antidumping (AD) or countervailing duty (CVD) actions on the part of the developed countries; 2) insuring that the undertakings made under the Uruguay Round, especially with respect to agriculture and the MFA, are carried out; 3) thwarting efforts to achieve protection against developing countries' exports via labor standards and/or environmental agreements; 4) avoiding a sectoral approach to trade negotiations; and 5) reaching an agreement to receive credit for binding unilateral liberalization efforts; 6) providing means for developing countries to defend their interests in WTO dispute settlement mechanisms; and 7) supporting and strengthening the multilateral institutions and the coherence amongst them.<sup>5</sup> In the remainder of this section, each of these is discussed in turn.

AD and CVD Actions. Although economic theory suggests that measures to prevent predatory pricing (i.e., pricing below marginal cost with an intent to drive out actual or potential competitors and secure a monopoly position in a market) can improve welfare, in fact many of the AD and CVD measures taken by developed countries do not meet the criteria set forth in theory.

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Uruguay Round would be to seek a new round, but to negotiate long phase-in times for any new agreements.

<sup>5</sup> It should be noted that special and differential treatment for developing countries is NOT on the list of topics in the developing countries' self-interest. Because of their weak bargaining position, the value of special and differential treatment to the developing countries has been small, and there is growing recognition that the value of coherence among them to seek even mildly greater concessions on items of interest to large groups of developing countries on a multilateral basis is worth far more than further S&D concessions. See Martin Wolf, "Differential and More Favorable Treatment of Developing Countries and the International Trading System", Pp. 647-668 in World Bank Economic Review, Vol. 1, No. 4, September 1987 for an excellent analysis.

In many instances, the measures actually used to determine the applicability of AD or CVD law bear little or no relation to the theory.<sup>6</sup>

For a variety of reasons, developing countries are especially vulnerable to misapplication of AD and CVD rules. First of all, because their exports are often intensive in the use of unskilled labor, they are often goods that trigger protectionist efforts in developed countries. And AD and CVD measures are often the “protectionist’s weapon of choice”. Secondly, AD and CVD findings are easier to achieve in industries or for goods where marginal costs constitute a significant fraction of price. To illustrate, in industries such as semiconductors, marginal cost is very small relative to fixed costs, so it is virtually impossible to find that goods were sold below cost.<sup>7</sup> The result is that it is highly unlikely that there can be an AD or CVD finding against a foreign semiconductor firm. By contrast, in industries in which many developing countries have a comparative advantage, current costs are a much bigger percentage of total costs. As such, developing countries are more vulnerable to AD and CVD actions. Thirdly, defending against an AD or CVD allegation is costly; when exports are smaller, the barrier to exporting posed by the threat of AD or CVD is greater because these costs loom larger. Because developing countries tend to have smaller volumes and values of exports of individual manufactured items, the extent to which fear of AD and CVD actions will deter potential exporters is greater in these countries.

Current WTO regulations governing AD and CVD laws in member countries are currently very weak, and the practices engaged in by the U.S., Australia, and others are not WTO-

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<sup>6</sup> See Anne O. Krueger, Economic Policies at Cross-Purposes, Brookings Institution, 1995, for an overview. See Robert Boltuck and Robert Litan, Down in the Dumps, Brookings, 1991 for a critical assessment of U. S. AD administration and practices.

<sup>7</sup> Efforts have, of course, been made to surmount this difficulty. The United States automatically adds an 8 percent “profit margin” to its calculated costs in other countries, as well as using average, instead of marginal, cost estimates. It also finds dumping whenever it is shown that the price charged to U.S. consumers is below that charged in the home country or in third markets.

inconsistent. There are a number of possible ways of strengthening the provisions surrounding the administration of AD and CVD rules in individual countries that could significantly reduce their impact.

Implementing Uruguay Round Agreements. As already mentioned, the developing countries were effective in achieving several important victories during the Uruguay Round negotiations. Among these were the agreement to phase out the MFA and the decision to bring agriculture into the WTO.<sup>8</sup> The MFA phase-out is important quantitatively, and it is end-loaded. Developing countries recognize, correctly, that it is vital that the UR undertakings be carried out, and it is clearly in their interest to insist upon it. Any bargaining strategy that is developed should be structured in such a way as to insure that the unwinding of the MFA and other undertakings already agreed to in fact take place. It is likewise important that Working Groups on issues such as agriculture bring recommendations that will enable further progress to be made in liberalizing agricultural trade.

Avoidance of Embodied Protection in Labor Standards or Environmental Regulations. Perhaps the issue that should be of greatest concern to developing countries is the push currently under way in some developed countries to achieve labor or environmental standards enforceable through the WTO. Some standards, endorsed by the ILO, have already been embedded in WTO - i.e., the injunction against the use of prison labor. And, when there is universal agreement among countries that certain practices are abhorrent, an international agreement through the ILO can surely be reached.

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<sup>8</sup> As I shall argue below, I believe that bringing services under WTO discipline, especially if it can be combined with agreements permitting the temporary residence of foreign workers in connection with service provision (i.e. in construction projects) is also potentially highly valuable.

Questions arise, however, regarding both the standards to be included and the linking of those standards to trade issues. The question of standards is perhaps more important in the case of labor issues, while the linkages are probably more questionable in the case of environmental concerns.

Turning first to labor standards, most developing countries' growth prospects depend in part on their ability to adopt appropriate trade policies (abandoning earlier import-substitution stances) and rely on export growth as one of the pillars of sustained economic growth.<sup>9</sup>

In turn, for most of those developing countries, much of the growth of exports will likely take place among goods which use unskilled labor relatively intensively. After all, most developing countries' factor endowments are characterized by a relative abundance of unskilled labor and a relative scarcity of skilled labor and capital.

Many well-meaning individuals, appalled at low wages and poor working conditions in low-income countries, push for labor standards. Their concern is humanitarian and may ignore the underlying realities that better wages and working conditions for some can come only at the expense of worse wages and working conditions (including unemployment and low farm incomes) for others. However, union representatives and producer/employers in industries that use relatively large amounts of unskilled labor in developed countries also advocate "labor standards", and do so in part because they are seeking protection against foreign competition.

To insist upon wages and working conditions that are above those that can result in full employment in developing countries is to deny, or choke off, a significant portion of their

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<sup>9</sup> An outer oriented trade strategy of course is not effective unless accompanied by a number of other policy measures, including adequate attention to infrastructure, an appropriate domestic commercial code, a flexible labor market policy, and a stable macroeconomic environment.

comparative advantage. And there are few developing countries where concerns are expressed about shortages of unskilled labor.

But the fact that the “labor standards” issue appeals to such humanitarian interests as well as to those in unskilled labor-intensive industries in developed countries makes the risk of labor standards greater than it would be if only those seeking their own self-interest were involved. There are two risks: a first is that labor standards may be introduced in such a way that developed countries can impose protection against imports from developing countries;<sup>10</sup> the second is that reasonable innocuous standards will initially be set, but that over the years, labor unions and others will succeed in having these standards elevated until they finally achieve the protectionist content that impairs developing countries’ comparative advantage in labor-intensive industries.

While it is tempting to say that the fight should only be over labor standards that immediately impair developing countries’ legitimate sources of comparative advantage, it is all too easy to strengthen labor standards once they are accepted as a part of the WTO. Certainly, developing countries should be alert to the danger that, once any standards are accepted, the barriers against using them for protectionist purposes are greatly weakened.<sup>11</sup>

Environmental standards raise some other issues. First of all, when the only environmental damage is borne by residents of a country, there is no obvious case for international

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<sup>10</sup> The practical problems associated with implementing labor standards are formidable. A key question is whether trade sanctions should be permitted only when the exporting firm is found guilty of failing to meet standards in producing the good for export, when the firm is guilty of violating standards in any of its operations, or would the issue arise whenever anyone in the country was violating standards? The latter would involve the developed countries to impose trade penalties whenever there were any instances of violation of standards in developed countries. The middle, while more restricted, would still entail oversight of activities not entering into international trade. The last would, however, involve accounting issues every bit as complex as those that arise in determining whether exporters have violated anti-dumping or countervailing duty provisions.

<sup>11</sup> There is already precedent for this. The labor standards code associated with the Mexican accession to NAFTA is relatively innocuous. It is being attacked in the U.S. as being much too weak, and there are pressure groups attempting to strengthen it. Meanwhile, however, groups interested in achieving labor standards within the WTO are arguing that NAFTA set a good example.

standards of any kind to be applied. When there are “spillovers”, the question becomes one of allocating “pollution” rights among countries. Most economists agree that, when there is a serious case for restriction of particular pollutants, such as CFC’s, on a global basis the appropriate policy response is to allocate pollution “rights” or permits, and then to permit trade in those permits.

The key issue for reaching accords is the basis on which permits will be allocated. On one hand, developed countries generally are currently generating a large fraction of the pollutants; if rights were allocated in proportion to existing pollution rates, developed countries would receive most of the permits. On the other hand, if rapid growth for developing countries is in prospect for the next several decades, it is clear that their share of the increase in pollutants would be very large in the absence of environmental restraints. Moreover, environmental restraints would entail some brake on growth rates that would otherwise be attainable. For these reasons, developing countries tend to advocate the allocation of pollution permits, or rights, in proportion to population, while developed countries advocate allocation on the basis of existing shares in pollutant-generation.

The disagreement is fundamental, and until it is resolved, it is difficult to expect significant progress.<sup>12</sup> The risks resulting from failure to reach environmental accords are that environmentalists in developed countries will lend their support to protectionist measures. To the extent that developing countries could end up losing even more through the consequent increase in protection against their exports than they would through a less-than-ideal environmental deal, there is some case to be made for being willing to negotiate agreements that are less close to the

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<sup>12</sup> A first-best solution is to have taxes and subsidies that reflect the externalities of various activities imposed on those undertaking them, combined with free trade. Since it is seldom, if ever, that trade itself generates the externality, the appropriate policy measure is to impose the tax on the activity that generates the externality, presumably production in most cases. See Jagdish Bhagwati and T. N. Srinivasan, “Trade and the Environment:

proportionate-to-population allocation than would, from their viewpoint, be ideal since, as a by-product, protectionist measures against them would be somewhat reduced.

Supporting Cross-Sectoral Negotiations. The success of the GATT, and the tremendous expansion of world trade, was made possible in significant part because of the gains achieved through multilateral negotiations for reduction of trade barriers. While economic theory tells us, correctly, that countries that liberalize their trade unilaterally will gain, political theory tells us that resistance to trade liberalization in import competing sectors will not be offset unless there are groups of identifiable gainers. While those gainers exist even under unilateral liberalization, it is often not evident to those parties who they are. With multilateral trade negotiations, many exporting interests correctly recognized their potential gains from trade liberalization. Many analysts attribute the success of the GATT with trade liberalization to the tying together of export interests with evident interest in trade liberalization in other countries to trade liberalization domestically.

In recent years, developed countries have begun to negotiate sector-by-sector agreements on issues such as telecoms and information technology. There are several difficulties with this approach: 1) once those sectors are liberalized, producers in those areas have a reduced incentive to support import liberalization in protected sectors; and 2) developed countries are selecting the sectors for negotiation in which they believe (probably correctly in most instances) that they have a comparative advantage. The sectors of interest to most developing countries will be much more difficult to negotiate on a sector-by-sector basis because they are largely import competing, and

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Does Environmental Diversity Detract from the Case for Free Trade? in J. Bhagwati and Robert Hudec, editors, Fair Trade and Harmonization: Prerequisites for Free Trade? MIT Press, Cambridge. Pp. 159-224.

the political economy of trade liberalization is such that political resistance will be strong unless offset by exporting interests in developed countries.<sup>13</sup>

Credit for Unilateral Liberalization. As already mentioned, many developing countries have been unilaterally reducing their levels of protection. Because it has been outside of multilateral tariff negotiations, and because in many instances tariffs have not been bound, developing countries have received no “credit” for these liberalizations in the negotiating rounds. In part, this has been because countries that have liberalized their regimes have nonetheless been reluctant to bind their tariff levels and hence lose the right to restore protection should circumstances arise that induce them to do so. From the viewpoint of the major trading countries, credit cannot be given in this circumstance because of the possibility of revocation. A strong case can be made that developing countries should bind tariff reductions in their own self-interest. It is an effective means of liberalization: refusal to bind casts doubt as to the intentions of policy makers to maintain trade liberalization.

Nonetheless, it should be possible to find means to negotiate for some credit for liberalization even if tariffs are not bound, provided that provision could be made for reciprocal “snapback” on the part of developed countries were tariffs later restored to their former levels. Because most of the prospective unilateral liberalization in the world is in developing countries, and because improved market access is greatly in their interest, this is an area where negotiations should be possible and to the benefit of the group as a whole.

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<sup>13</sup> It may be objected that developing countries have a strong interest in further agricultural liberalization, and that negotiations are in any event scheduled on a sectoral basis. However, the decision on a new round will be taken before those negotiations begin. Hence, developing countries do not need to “choose” between a new round and sectoral negotiations; they can strongly support a new round, and nonetheless enter into negotiations with respect to agriculture should there be no decision for a new round. The difficulty with this is, of course, that there is likely to be significantly less agricultural sector liberalization than there would be if the negotiations took place as part of an overall multilateral trade negotiation.

Technical Support for Dispute Settlement Mechanisms. It is noted in many places that most developing countries, partly because they are small and partly because of lack of experience, are finding it difficult to cope with the WTO's new dispute settlement mechanisms.

Richard Blackhurst<sup>14</sup> (1997, P. 530) points out that two-thirds of the least developed countries in the WTO have no representation. For the other third, there is typically only one person covering all the international organizations there. Given the active participation of members in the work of the WTO, this inevitably leads to underrepresentation of their interests and their inability to participate and have any influence on WTO decisions. An enlargement of the WTO secretariat to permit the establishment of a service which would provide legal advice on procedures and other aspects of dispute settlement would benefit not only developing countries, but also some of the smaller developed countries. The cost of such a service would be relatively small, and it is difficult to see why there should be objections to it.

Increasing Coherence among Multilateral Institutions. In the Ministerial meeting in Marrakech to give formal approval to the Uruguay Round, ministers called for "greater coherence" between the International Monetary Fund (IMF), World Bank, and the WTO. In this, there was clear recognition of the linkages between global trade and monetary policies and the ability of developing countries to achieve rapid economic growth on a sustainable basis.

The need for greater coherence has been apparent at least since the debt crisis of the 1980s, when simple arithmetic showed that heavily indebted developing countries could not service their debt and resume growth (a monetary issue) unless their exports grew at a sufficiently rapid rate. That rate was well above the rate of growth of world GDP; as such, it was clear that should

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<sup>14</sup> Richard Blackhurst, 1997. "The WTO and the Global Economy", Pp. 527-544 in World Economy, Vol. 20, No. 5, August.

protectionist measures in developed countries increase, efforts of the World Bank and IMF to support the necessary measures in developing countries would in any event be destined to failure.

The same is still true. Healthy growth of world trade cannot continue unless the underlying functioning of the international monetary system and of international capital flows is sound. Likewise, healthy evolution of the international financial system, and of the flow of capital from countries with lower real rates of return to those with higher real rates of return cannot persist without an open multilateral trading system.

It is clearly in the interest of all countries, developed and developing, to attempt to achieve greater coherence, although the obstacles to any formal arrangements are large. But for developing countries, the importance of achieving greater coherence is even greater than for developed countries: the G-7 have other forums through which they can consider linkages and policy alternatives. To the extent that means cannot be found of achieve these results through the IMF, World Bank, and WTO, the interests of the developing countries will be less directly represented. Moreover, spokesmen for the World Bank and IMF are generally much more cognizant of the situation of developing countries, and their interests, than are the ministers who meet at the G-7.

## 2. Areas of Interest to Significant Groups of Developing Countries

For the issues listed below, some developing countries have strong interests. In some instances, it may be possible to link issues in such a way that developing countries as a group are able to present a solid front. In many instances, however, it will be more likely that countries may find alignments with those other developing countries with similar interests and with developed countries.

Tropical and Temperate Agriculture. As already mentioned, bringing agriculture under WTO disciplines at all was a significant achievement. Not only were any further increases in subsidies and agricultural protection among the developed countries ruled out, but there was some (relatively minor) rollback (with a commitment to a 20 percent reduction in the total (distorting) support provided by government to agriculture and a cutback in export subsidies) and the commitment to shift to tariffication of protection was highly significant. But much remains to be done.

In terms of their immediate interests, the developing countries can be divided into three groups. On one hand, there are exporters of tropical products. Second, there are exporters of temperate products, often foodgrains. Third, there are importers of basic foodstuffs, again often foodgrains. Sometimes, there are overlaps between groups. For example, some SubSaharan African countries export tropical agricultural commodities but import foodgrains. And a few exporters of temperate agricultural commodities are net importers of tropical agricultural products. In fact, the interests of developing countries simplify somewhat more than this division would suggest. For there is little protection accorded to tropical agricultural commodities.<sup>15</sup> The key difference in interests among those developing countries with interests in agricultural trade lies between those who are net importers of foodgrains and those who are net exporters. In some instances, even those differences are smaller than they appear: some of the African foodgrain importers have in fact severely discriminated against their agriculture: removal of discrimination could well restore them to their earlier exporter status.

Even for foodgrain importers, there is an interest in attempting to assure that agricultural liberalization occurs simultaneously across North America, East Asia, and Europe: if it does so,

the world price of foodgrains will be significantly more stable than should liberalization occur, e.g. at one time in Japan and Korea, and another time in Europe. For foodgrain exporters, the same holds true, although the primary interest in simultaneous liberalization, with removal of export subsidies and reduction in domestic supports in countries that should be importing more (such as Europe and East Asia) is in the stability of foodgrain prices.

Another tranche of agricultural negotiations is set to start in 1999, one year before the end of the six-year implementation period for the Uruguay Round. Presumably, preliminary preparations are underway in many national governments. Almost all countries have an interest in negotiating a prohibition against export subsidies.<sup>16</sup> Likewise, there is a strong interest on the part of developing countries exporting agricultural commodities to devise rules to prohibit export taxes and quotas.<sup>17</sup> Even for developing countries that do subsidize their agricultural exports, there are almost certainly better uses for the money elsewhere, and it is likely that the benefits accruing to LDC exporters because DC subsidies have stopped will outweigh the costs associated with losses of domestic subsidies.

Another area of interest to developing countries that are agricultural exporters concerns import access rights. Until the Uruguay Round, there was no provision for access. Under the Uruguay Round, all countries were immediately obliged to insure up to 5 percent market access for imports. Increasing minimum access under tariff-quotas, and setting a ceiling on the maximum rate of tariff or tariff equivalent would be in the interest of most exporting countries.

countries would by itself lead to rising world prices of some agricultural commodities.

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<sup>15</sup> There are, to be sure, exceptions. One prominent exception was bananas, but that has already been adjudicated under WTO. Phytosanitary regulations are of interest to exporters of tropical agricultural commodities, as well.

<sup>16</sup> The exceptions are the countries that are net grain importers, who therefore benefit from low prices for imported (subsidized) grain.

<sup>17</sup> Export taxes are used to maintain high domestic prices, and thus high domestic production.

As already mentioned, all developing countries that export any agricultural commodities have an interest in assuring that phytosanitary regulations are based on scientific evidence. As such, developing countries have a strong interest in participating in discussions of experience under the Uruguay Round to insure that changes in regulations enable the improved functioning of the system and do not permit the manipulation of phytosanitary standards for protectionist ends. In general, PSP regulations that have been negotiated call for mutual recognition, which is strongly in the interests of developing countries. If there are difficulties, they probably lie in the willingness of developed countries to send delegations to attest to the testing procedures in developing countries.

In recent years, a number of countries have been interested in protecting the claims of geographic origin of particular commodities. This was especially true of wine, where the French achieved a special agreement with respect to wine naming and labeling in the Uruguay Round. The issue has arisen in several cases with regard to developing countries: a prominent example is basmati rice which has been mentioned as the name of a special rice that should be labeled only if originating in South Asia. While there are a few agricultural commodities where the rights to claiming names and geographic origin may be of interest to developing countries, in general the developing countries' interests lie on the other side of the issue. Rights to particular names and geographic origin designations are generally restrictive and tend to increase the difficulty of entry into a market. As developing countries are generally potential late entrants into markets, efforts to restrict the use of particular names is generally not in their interest, and is an issue which developing countries should negotiate with care.

Under the Uruguay Round, the Cairns group of agricultural exporters managed to maintain solidarity among themselves despite the differences between tropical and temperate agricultural

exporters. That example should demonstrate yet again the wisdom of seeking broader packages of liberalization rather than insisting on trying to retain vestiges of protection.

Reducing Tariffs. It is sometimes said that the GATT was so successful that remaining tariff barriers are of negligible importance. And, for many commodities, especially in developed countries, the statement is generally true. There are, however, still “peaks” in tariff schedules even in developed countries. These peaks will become even more important as tariffication proceeds under the Uruguay Round agreement for agriculture, textiles, and apparel. Many of the items for which tariffs are (or, with tariffication, will become) important are items of special interest to developing countries. There will be ample scope for negotiating for removal or reduction of these tariffs.

For many of these items, however, there are a few developing countries whose policy makers perceive it to be in their interests that restrictions and/or tariffs remain in place. This is certainly true, for example, for some of the larger holders of quotas under the MFA: there may be significant resistance to pushes for multilateral tariff reductions from developing countries that have recently lost their MFA quotas and have sizable production capacity. While there is as strong case that countries such as Korea have an interest in phasing out their textiles and apparel production, opposition in the past has significantly reduced the effectiveness of those lobbying for dissolution of the MFA. There is a danger that this could happen again with tariffs on these items. An obvious solution would be for negotiation among those perceiving themselves to be potential losers with lower tariffs on textiles and apparel, such as Korea, and other developing countries with tariffs on imports of goods in which the advanced developing countries appear to have a strong comparative advantage.

Services Liberalization: Construction . It seems evident that some developing countries could develop significant economic activity in exporting construction services if it were possible to bring workers temporarily into the country where construction is to be undertaken.<sup>18</sup> Turkish construction firms have been able to export construction services to neighboring countries, for example.

A major barrier to expansion of these activities is the lack of a WTO-based agreement under which construction firms could temporarily bring their workers into countries while work was undertaken. Liberalization of construction, like other services, is in the best interests of almost all countries, but some developing countries such as Turkey and India have perhaps even larger than average interest.

It is highly unlikely that significant liberalization of construction services will occur if efforts to negotiate it are made at a sectoral level. Rather, this is an area where cross-sectoral bargaining could achieve significant results. Countries with potential or actual comparative advantage in these services might be well advised to consider giving concessions on other services or issues of interest to developed countries in return for expanded access to construction activities in other countries.

Services Liberalization: Financial Services. Although it is likely that companies from developed countries have a comparative advantage in most financial services in the short run, there is increasing evidence that access to financial services at world prices is greatly in the interests of developing countries. The presence of well-developed and competitively-priced financial services is increasingly important to the ability of individual firms to export. High-cost or

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<sup>18</sup> This already happened in several instances. Perhaps the best known is the case of Korea, where after the oil price increase of 1973 a large number of contracts with Middle Eastern oil exporting countries enabled Korean firms to

inefficient financial services can be equivalent to a tax on exports or, in some cases, an export prohibition because of the inability of exporters to compete with those in other countries with access to those services.

Moreover, the presence of competition in financial services is healthy for domestic firms: there is evidence that, just as for industrial goods, financial services are highest-cost and most inefficient in countries where the domestic market has been most sheltered. Developing countries have a strong interest in an efficient international market in financial services. While it may be possible to support further liberalization of services “in exchange” for developed countries’ concessions on items of particular interest to developing countries, it should be borne in mind that financial service liberalization is in the interests of developing countries themselves.

Other Services Liberalization. In general, services are of increasing importance in world trade. Developing countries have a strong interest in access to competitively-priced a high quality services in support of their domestic producers, especially as they attempt to enter into, and move upscale, in export markets. As such, support of services liberalization is generally warranted.

Some services, however, are of more interest than others. Services in support of tourism, for example, are of great importance, as tourism is already a flourishing industry in many developing countries and has great growth potential as amenities (such as easy telecommunications, access to financial services, and travel) increase in attractiveness, both in quality and in price.

For another group of developing countries, liberalization of maritime services is of greater than average interest, both because an increasingly competitive world maritime industry would lower costs for developing countries (and especially those with smaller volumes of trade or with

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bring in workers and materials, live temporarily in the area where construction was underway, and to depart once

greater distance to markets) and because some developing countries either have, or may be able to develop, a comparative advantage in maritime shipping.

As industrialized countries seek greater liberalization in some of the services industries of greatest interest to them, developing countries would be well advised to insist on linking services negotiations across sectors and to insure that the sectors of greatest interest to them are included in the negotiations.

Multilateral Investment Code. As many developing countries are hoping to attract foreign capital, and especially foreign direct investment, to accelerate their development process, insuring a low-cost supply of foreign capital is greatly in their interest. Unfortunately, the initial effort to achieve a multilateral investment code was undertaken at the OECD, rather than through the WTO, which left the developing countries outside of the initiative.

Since the OECD effort appears to have failed, there is a new opportunity for multilateral negotiations, including the developing countries, to achieve such a code. A code that provides greater assurance to investors of their rights would increase the supply of capital at lower cost than would otherwise be possible. It is in developing countries' interests to support the development of such a code. However, it is probably more in the interests of the middle-income and more advanced developing countries than it is of many of the low-income countries that do not appear to be attracting much foreign capital.

Special Status of Least Developed Countries. As is well known, during the first forty years of the GATT, the developing countries insisted upon "special and differential" (S & D) treatment within the GATT. The view was that the developing countries were "too weak" to compete and therefore needed special exemption from GATT rules.

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work was completed.

With the benefit of hindsight, it seems clear that this approach was greatly flawed. The desirability of GATT/WTO discipline increases with the urgency of the need for economic growth and rising living standards.

Exemption from GATT disciplines permitted exactly the sorts of inefficiencies that poor countries could ill afford, and the same argument can be made today for the least developed countries. Since many of these countries have not as yet undertaken sufficient policy reform to enable rapid growth, many of them have few export goods, and most of those are primary commodities, the tariffs and duties on which in other countries are already very low.

Clearly, more rapid growth of the open multilateral trading system will benefit the least-developed countries. However, questions arise as to their interest in future multilateral negotiations. The answer must surely be that provision should be made for these countries to enable them to maintain full membership in the WTO, in anticipation of future economic development. To that end, the least developing countries can and perhaps should ask for longer transition times for the implementation of agreements on issues such as competition policy, the phasing out of protection, and other matters which require legal or complex administrative action.

### 3. Bargaining Issues

On many of the issues discussed in Sect.2, groups of developing countries may find it more useful to align themselves with developed countries of similar interests (as in the Cairns Group), rather than attempting to maintain a coalition among themselves. On the other hand, there are a number of issues on which there is a fairly clear and common interest among developing countries (and some developed countries), or at least some large group of developing countries, and where bargaining as a group may enhance the outcome for all.

Some of these, such as resistance to restrictive labor standards, are of major importance for future access to markets and the open multilateral trading system; others, such as credit for unilateral liberalization, and technical support for dispute settlement procedures, are of far smaller import, but could, for that reason, be much easier to attain. A cohesive stand among developing countries on these issues could, however, make a significant difference not only to their status within the WTO in future years, but also to the health of the entire multilateral trading system.<sup>19</sup>

Competition Policy and Standards. As the sensitivity of producers to events in other parts of the world increases, pressures for competition policy and standards are likely to increase. While these are closely related, it is important to distinguish between them. Competition policy, insofar as it genuinely seeks to prevent predatory pricing and monopolization of markets, is clearly in the interests of developing countries, as discussed below regarding AD and CVD measures. Indeed, many economists supporting the open multilateral system are supportive of competition policy through the WTO precisely because it is seen as a substitute for AD and CVD measures.

For a variety of reasons, there does not appear much prospect of significant advances with respect to competition policy in the near future. There are significant differences between countries in their approach to domestic law, and there does not appear to be sufficient agreement as to the nature of a desirable global regime to expect much progress in the near future.<sup>20</sup> Should momentum for competition policy increase, it would be in developing countries' interests to support it.

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<sup>19</sup> One of the controversial aspects of the Uruguay Round was the agreement on protection of intellectual property rights under TRIPs. New proposals from the industrial countries would require evaluation; at this stage, however, industrial and developing countries alike seem to be digesting the Uruguay Round agreements, and, to this author's knowledge, no further proposals have been made.

<sup>20</sup> On this, see F. M. Scherer, 1994. Competition Policies for an Integrated World, Brookings Institution, Washington. D. C.

The case with regard to standards is more complex. On one hand, strengthening provisions in the WTO that preclude health and safety measures except when there is a demonstrated scientific basis is clearly in the interests of developing countries. On the other hand, efforts to set standards (such as with high-definition television) are often a measure used by existing firms to prevent competition from new sources.<sup>21</sup>

Standards: Labor and the Environment. For reasons outlined above, developing countries have a strong interest in resisting the imposition of labor standards and environmental standards through the WTO. In the case of labor standards, it is appropriate to note the strong linkage between productivity and real wages and to resist the imposition of standards that have the effect of raising labor costs in poor countries, simply because that removes part of those countries' comparative advantage.

An appropriate stance for environmental concerns is somewhat more difficult. The success of the GATT/WTO in reducing trade barriers came about because countries "exchanged" concessions. The same sort of regime can apply for environmental issues, but only when those issues are negotiated as an "exchange" across countries. Developing countries have a strong interest in preventing developed countries from perceiving that they will not negotiate regarding the environment at all; such a stand could induce environmentalists to push even harder for trade-enforced environmental measures. Insistence that these measures be undertaken through mutual agreement, however, is strongly in their interest. Thus, an evident willingness to discuss environmental issues in other forums, and efforts to persuade developed countries' leaders that bases other than existing shares of environmental degradation, would be well-advised. The danger of a stance perceived to be negative is that developed countries, pressured by their

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<sup>21</sup> See Alan O. Sykes, 1994, Product Standards for Internationally Integrated Goods Markets for an analysis.

environmental lobbies, would then react in frustration, using the trade instrument as a lever to attempt to achieve environmental ends. The fact that protectionist interests are willing to use the environment as an excuse to achieve their ends only makes the matter more dangerous.

Restraining Administered Protection. For the same reasons as avoiding labor and environmental standards is of particular interest to developing countries, so is it in their interest to support measures that would contain the spread of AD and CVD measures and usage. Developing countries are especially likely to be targets of AD and CVD measures just when they are emerging as successful exporters, in part because it is always more difficult to increase market share than to maintain it. And AD and CVD measures have been used with greatest frequency against the entrants into new markets: Japan and Korea have been much more frequent targets for the United States than has Europe, for example.

Little progress was made in the Uruguay Round in restraining anti-dumping and countervailing duty measures. Transparency requirements were increased, and a 5-year sunset clause was introduced, but, as has been argued by Finger and others, these provisions have little impact as AD findings can be undertaken again, and AD continues to be domestic law, which producers view as an “entitlement”.<sup>22</sup>

There are a number of provisions which could restrain the use of AD and CVD. Increasing the “de minimus” requirement before findings of dumping or subsidization are found would reduce the frequency of filings. So, too, would measures to restrict the ways in which “pricing below cost” was calculated. Indeed, if ways could be found to change AD and CVD provisions to reflect the original intent - that is, to penalize efforts to monopolize markets through

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Brookings Institution, Washington, D. C.

<sup>22</sup> J. Michael Finger, 1996. “Legalized Backsliding: Safeguarding Provisions in the GATT”, in Will Martin and Alan Winters, eds., The Uruguay Round and the Developing Countries, Cambridge University Press, pp. 316-40.

pricing below marginal cost - the protective impact of AD and CVD measures could be restrained significantly.

It is doubtful whether developing countries have enough bargaining power (and place insulation against AD and CVD high enough on their list of priorities) to lead any moves toward a strengthened multilateral AD and CVD regime. Should some developing countries take the initiative and seek to strengthen the regime, however, it would be greatly to developing countries' interests to join and support the effort.

Credit for Unilateral Liberalization. Developing countries have, on average, significantly higher tariffs (and in some cases, tariff-equivalents of quotas) than most of the major developed countries. And many are finding it strongly in their self-interest to liberalize unilaterally as already seen. Their liberalization is clearly in their own interest, but until now, they have not received "credit" in multilateral trade negotiating rounds.

The largest trading countries have been unanimous in pointing out that credit can be received only when tariffs are bound. And many developing countries, while liberalizing, have been unwilling to bind their new, lower, tariff levels.<sup>23</sup>

One clear possibility is for developing countries to agree to bind their tariffs (or a very significant majority of their tariffs) at their reduced levels, in exchange for credit for some of the issues discussed above that are significantly in developing countries' interests.<sup>24</sup>

Avoiding Sectoral Approaches. The developed countries can liberalize the sectors of greatest interest to them when a sector-by-sector approach is used in multilateral negotiations. As

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<sup>23</sup> See Rodrik, op. cit., for an estimate of the extent to which developing countries have bound their tariffs at their existing levels.

<sup>24</sup> Indeed, developing countries could bargain for significant gains if they were willing to agree to eschew frequent resort to the balance of payments clause of the GATT articles. In return, there would have to be a clear understanding as to the (presumably, more restrictive) circumstances when the clause could be invoked.

already seen, the telecoms agreement, under which telecoms equipment of the type in which the U.S., Europe, and Japan appear to have strong comparative advantages was liberalized, is an example of such a sectoral approach. While it is greatly in the world's interest, including especially the developing countries, to have that sector liberalized, those exporters of telecommunications equipment who would otherwise have strongly supported multilateral liberalization of import-competing industries in their own countries in return for that liberalization will now naturally be politically significantly less active. As such, part of the anti-protectionist support that could have been mustered for reduction of protection in the exporting countries has been lost.

While it is probably in the interests of the developed countries themselves to eschew sectoral negotiations, the fact that they can take the initiative, and select sectors where they are exporters, makes the interests of the developing countries in this issue particularly strong. Serious consideration could be given to refusal to negotiate except on an across-the-board basis.

Preferential Trading Arrangements. As already mentioned, many developing countries are already members of one or more preferential trading arrangements (PTAs), while others are left out. At first sight, it would appear that this would give rise to significant differences in interests among developing countries. And, to a degree, it does. Mexico, for example, would undoubtedly stand to lose some of the benefits of preferential access to the U. S. market it now enjoys if Mercosur countries were to enter into a free trade agreement with the U.S.

On the other hand, it is unlikely that developing country members of preferential trading arrangements can block the entry of new members should the major developed countries – the U.S., Japan, and the European Union – decide upon enlargement. For that reason, there is a significant interest, even among developing countries already in a PTA, for attempting to find

rules governing formation of PTAs that are more consistent with the open multilateral trading system.<sup>25</sup>

There are a number of reasons for concern with PTAs. On one hand, there is an issue as to the compatibility of PTAs with future strengthening of the multilateral trading system. On the other hand, there are concerns that PTAs could be “stumbling blocks”, and protectionist in nature.<sup>26</sup>

For a variety of reasons, there appears to be little support among developed countries at the present time for strengthening Article XXIV. One area where it may be possible to make progress is with regard to the types of rules of origin (ROOs) that are permitted under FTAs. Because they can be itemized, ROOs can be formulated in ways that discriminate against suppliers from third countries. Indeed, much of the fear of protectionism arising from FTAs is based on concern about ROOs. In the NAFTA, for example, the ROO for textiles and apparel is “triple transformation”, implying that all the materials used in producing the goods are made in North America. By contrast, the ROO for automobiles is a 50 percent North American value added. In other cases, ROOs are based on the material inputs used.

Were ROOs required to be uniform, concerns about discriminatory aspects of FTAs against third countries would be significantly reduced. The simplest possible rule governing ROOs would be one which specified that they must be specified across all import categories at a single specified percentage value added within the PTA. It would then not be possible for a country to have one

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<sup>25</sup> Possible rules might be: 1) only customs unions are permitted; 2) each free trade agreements must specify a single common percentage value added as the only acceptable rule of origin for all commodity categories; 3) each PTA must contain a clause spelling out the terms on which new members who meet them will automatically gain entry; or 4) PTAs may only be formed when the lowest preexisting tariff for any member of the group becomes the tariff that prevails in the FTA.

<sup>26</sup> See T.N.Srinivasan, Developing Countries and the Multilateral Trading System, MIT Press, 1998, Chapter 7, for an elaboration of the argument.

ROO for automobiles, another for textiles and apparel, and still others for other products. Since many of the concerns about PTAs are based on fears for developing countries whose trading partners are sufficiently widely dispersed that a PTA with any group of them does not solve the problem, a requirement that all ROOs be based on a value added criterion, and that the value added be the same across all activities, would greatly reduce protectionist potential and thus be in the interest of most developing countries.

It is doubtful whether developing countries could, by themselves, lead an initiative to achieve significant change. Nonetheless, it would be much in their interest to support such an initiative should it arise during the course of negotiations.

Technical Support for Dispute Settlement Procedures. As the WTO dispute settlement mechanism has been strengthened, procedures have become even more important than they were under the GATT. As already mentioned, many of the smaller and lower-income developing countries lack of the legal knowledge and experience necessary to defend their interests in WTO disputes. Hiring foreign legal assistance does not substitute, when only representatives of governments are permitted to be in the panel hearing. And, while some of the larger trading countries probably have sufficient competence in their own governments to be able to handle disputes before the WTO, there is little conflict of interest between them and other developing countries: disputes are likely to be predominantly between developed and developing countries.

While it might be advisable for the smaller and lower-income developing countries to seek to have the ruling changed so that private attorneys for the plaintiff or defendant might appear in the courtroom, an alternative would be to seek to have a unit established which could provide support and advice for small developing countries that become involved in the dispute settlement mechanism. Such a unit could advise on procedures, representation, and other issues associated

with defending against AD and CVD charges and with initiating cases when it is believed that foreigners have violated WTO rules. It might be self-standing, or affiliated with the WTO, UNCTAD, or another international organization.

Such a unit could be provided at relatively low cost, and as such should not be a centerpiece of the bargaining process. Nonetheless, its value to some developing countries would be great enough so that, at an appropriate point in the negotiations, the developing countries should probably seek it.

Achieving Greater Coherence. While greater influence of the World Bank and International Monetary Fund on activities at WTO would strengthen the role of the developing countries, there are major institutional difficulties in the way of achieving greater coherence. To date, there has been a scarcity of proposals setting forth concrete mechanisms by which greater coherence could be achieved. Indeed, a realistic assessment of the prospects and built-in difficulties suggests that it may not be feasible to achieve significantly greater coherence between the three organizations.

Nonetheless, should workable proposals for greater coherence be forthcoming, it would behoove developing countries to support them. Multilateral organizations in general serve as something of a bulwark against the undue influence of the large and powerful countries in world affairs. While they cannot go against the realities of the large countries' interests, they can nonetheless offset part of their influence, if only by insuring that the interests of smaller countries are at least recognized.

#### 4. Procedural Issues

The above discussion has a number of implications for procedures relating to a new round. First, and probably most important, the developing countries have a strong interest in across-the-board, and not zero-for-zero single issue, negotiations. The ability of developed countries to

define the agenda and to support negotiations only for sectors in which they believe they have a comparative advantage (such as information technology) makes the likelihood that developed countries' protection against imports from developing countries will be reduced considerably smaller.

Likewise, the developing countries would be well advised to be willing to consider a range of new issues, but to insist upon two preconditions: 1) that movement of natural persons (in construction, etc.) be actively negotiated and 2) that the Uruguay Round agreement implementation (especially of the MFA phaseout) be fully carried out.

While the developing countries could, as a group, achieve a considerable amount of bargaining strength, their interests are sufficiently divergent that it is more likely that they can join and should support the formation of coalitions on issues of concern to them. The Cairns group was remarkably successful despite representing the divergent interests of tropical and temperate agriculture. To the extent that those with different interests are willing to align, the developing countries will be able to achieve more in any future round. But the practical difficulties of bringing too many issues into a coalition probably imply that it is desirable to identify key groups of issues (agriculture, financial services, construction services, etc.) and to join in several groups.

## 5. Conclusions

It is impossible, at this juncture, to anticipate how the agenda for the next round of trade negotiations will evolve. Insofar as developing countries can influence that agenda, keeping negotiations cross-sectoral, avoiding labor and environmental standards within the GATT, insuring that the undertakings made in the Uruguay Round (especially with respect to the MFA and agriculture) are carried out, and measures that reduce protection in developed countries should surely be at the top of the agenda for developing countries.

Since it is in the developing countries' interest that there be a strong and effective WTO underpinning the open multilateral trading system, it will clearly be in the interests of developing countries to support a new round, and to seek outcomes which offer prospects for accelerated growth of international trade and their access to each others' and developed countries' markets. Constructive participation in the preparation of the agenda and in the negotiations will have much greater prospects of success than will refusals to negotiate. In that regard, it is important that developing countries not only indicate their lack of desire to have labor and environmental standards tied to trade issues, but signal their willingness to address environmental issues in other forums.

When the agenda for a new round is drawn up, developing countries could gain significantly if issues such as temporary migration in connection with construction services, reduction of tariff peaks, financial services liberalization, restrictions on the use of AD and CVD measures, liberalization of other services of particular interest to developing countries, and agricultural trade liberalization can be addressed to permit expanded access for developing countries to developed countries' markets. In addition, insofar as technical support for dispute settlement or credit for unilateral liberalization can be achieved, that will represent a gain for developing countries.

Overall, however, developing country strategy should be to insure further multilateral trade liberalization, with a readiness to support measures such as an investment code which may not be of high priority to them if it helps assure success of the round. In instances where developing countries' immediate interests are limited (as may be the case with some services), it may be possible to win concessions on items of interest, mentioned above, in return for support of those measures. In other instances, where developing countries' interests are stronger (such as with insuring that preferential trading arrangements are consistent with the multilateral system) but

where they cannot by themselves successfully initiate measures, the strategy must surely be one of “watchful waiting”, with a readiness to support meaningful proposals originating from other countries.