ISSN 0265-8003

DEVELOPING COUNTRIES AFTER THE URUGUAY ROUND

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Discussion Paper No. 1084
December 1994

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ABSTRACT

Developing Countries After the Uruguay Round*

The Uruguay Round marks an important turning point for the developing countries. The three core agreements on which the new World Trade Organization (WTO) is based present a remarkable range of obligations and responsibilities for a set of countries that were effectively outside any multilateral discipline on trade matters. Meanwhile, the few concrete gains that accrue to developing countries, such as the phasing out of the MFA, are suspiciously back-loaded. This is the wrong way to read the significance of the Uruguay Round for them, however. First of all, there are a number of important ways in which the Uruguay Round agreements promise to strengthen multilateral discipline in world trade. This is especially true in the area of dispute settlement. Second, since taking advantage of international trade is part and parcel of good development strategy, most of the developing country 'concessions' need to be entered on the positive side of the balance sheet, and not viewed as a liability. Finally, there may be some subtle ways in which the Uruguay Round agreements can help developing country governments build better structures of governance at home to enhance the performance of their economies in areas that go beyond trade. The real threats to developing countries lie in the post-Uruguay agenda, in the demands for upward harmonization in the areas of labour and environment. A well-designed social safeguards clause will not necessarily be inimical to the interests of developing countries, and may forestall the emergence of a new set of 'grey area' measures outside of the WTO.

JEL Classification: F13, F15
Keywords: Uruguay Round, trade policy

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*This paper is produced as part of a CEPR research programme on *Market Integration, Regionalism, and the Global Economy*, supported by a grant from the Ford Foundation (no. 920-1265). It has been prepared for the Group of 24. I am grateful to Gerry Helleiner for his help and many detailed comments. I have also benefited from the assistance of Jagdish Bhagwati, Ishac Diwan, Robert Lawrence, Patrick Low, Will Martin, Dave Richardson, Arvind Subramanian, and John Whalley.

Submitted 11 November 1994

NON-TECHNICAL SUMMARY

The Uruguay Round marks an important turning point for the developing countries. For the first time, a large number of developing countries participated actively in the various negotiations comprising the Round. While 'special and differential treatment' survives in principle, the Uruguay Round agreements provide few real exemptions for those developing countries that are not in the 'least developed' category, although they generally provide for more generous phase-in periods. The three core agreements on which the new World Trade Organization (WTO) is based present a remarkable range of obligations and responsibilities for a set of countries that previously were effectively outside any multilateral discipline on trade matters. In return, the agreements require the phasing out of the Multi-Fibre Agreement (MFA) and of voluntary export restraints (VERs), bring some clarity to antidumping and safeguard rules, and considerably strengthen the multilateral dispute settlement procedures.

From an old-fashioned perspective which views multilateral trade negotiations purely as a setting for the exchange of concessions, it can be argued that developing countries have not done so well for themselves. They are now burdened with a wider range of obligations while their few concrete gains, such as the phasing out of the MFA, are suspiciously back-loaded. This is the wrong way to read the significance of the Uruguay Round for developing countries. First of all, there are a number of important ways in which the Uruguay Round agreements promise to strengthen multilateral discipline in world trade. This is especially true in the area of dispute settlement. Since the developing countries are the ones most likely to suffer from the breakdown of multilateralism, this is to be greatly welcomed. Second, as governments are increasingly coming to realize, taking advantage of international trade is part and parcel of good development strategy. From this perspective, most of the developing country 'concessions' need to be entered on the positive side of the balance sheet, and not viewed as a liability. Finally, there may be some subtle ways in which the Uruguay Round agreements can help developing country governments build better structures of governance at home to enhance the performance of their economies in areas that go beyond trade. Such opportunities, however, will be available only to those governments that approach the new rules as challenges to be embraced rather than as threats to be evaded.

The real threats to developing countries lie in the post-Uruguay agenda. The developed countries, led by the United States, are intent on seeking some

upward harmonization in the areas of labour and environmental standards – areas that were left out of the Uruguay Round. Ultimately, what is at stake is nothing less than the comparative advantage that poor countries naturally have in labour-intensive and resource-using industries. Since these issues are unlikely to disappear on their own, developing countries will have to work towards establishing a mechanism by which legitimate demands on ethical, environmental, or social grounds can be handled without being hijacked by protectionist interests. A well-designed social safeguards clause is not necessarily inimical to the interests of developing countries. But such a clause will have to contain two significant provisions: (a) a mechanism to test the legitimacy of the social claim by enlisting exporting and consumer interests in the importing country in the decision-making process; and (b) compensation of the effected exporters, at least in cases where the exporting country possesses a reasonably democratic regime. Such a system will not cost developed countries much: it will have the advantage of engaging them in a constructive dialogue, and of forestalling the emergence of a new set of 'grey area' measures outside of the WTO.

I. Introduction

The Uruguay Round of trade negotiations marks an important turning point for the developing countries. Prior to the Round, developing countries took little active interest in multilateral trade negotiations (except for where trade preferences were involved) and were effectively exempt from most of the disciplines imposed on contracting parties by the GATT. Under the "special and differential treatment" doctrine, developing countries were provided with trade preferences (the GSP) and they were asked to give up few concessions under successive rounds of trade liberalization. Meanwhile MFN treatment allowed them to benefit from the reduction in tariff barriers negotiated among the industrial countries. On the other hand, developing countries suffered disproportionately from the spread of protectionist practices that were either a derogation of GATT (such as the Multifibre Arrangement and voluntary export restraints) or badly abused its spirit (as in the case of antidumping procedures in the U.S. or E.U.).

The Uruguay Round has promised to change all that. For the first time, a large number of developing countries participated actively in the various negotiations comprising the Round. And while "special and differential treatment" survives in principle, the agreements provide few real exemptions for developing countries that are not in the "least developed" category, although they generally provide for more generous phase-in periods. When all is said and done, the three core agreements on which the new World Trade Organization (WTO) is based--the Multilateral Agreement on Goods, the General Agreement on Trade in Services, and the Agreement on Trade-Related Aspects of Intellectual Property Rights--present a remarkable range of obligations and responsibilities for a set of countries that were effectively outside any multilateral discipline on trade matters. In return, the agreements require the phasing out of the MFA and of voluntary export restraints (VERs), bring some clarity to antidumping and safeguard rules, and considerably strengthen the multilateral dispute settlement procedures.

These shifts were the consequence of two inter-related developments. First, the

importance of developing countries as a group in world trade has steadily risen, and now stands at one-fifth of global merchandise trade. The increase has been particularly marked in manufactures, where the share of developing country exports practically doubled between 1982 and 1992 (Table 1). These export gains were heavily biased in favor of Asian countries. Nevertheless, they led to a general reluctance on the part of governments in industrial countries to prolong what came to be perceived as the free-riding status of developing countries. Secondly, a growing number of developing countries (mainly, but not exclusively, in Latin America) undertook drastic and unilateral reforms of their trade regimes, dropping import-substitution policies and embracing outward orientation. Since the launching of the Uruguay Round in 1986, more than 60 developing countries have reported unilateral liberalization measures to the GATT, 24 have joined GATT, and over 20 are currently in the process of acceding (World Bank 1994). This change in developing-country policies transformed what were once viewed by these governments as trade "concessions" (such as tariff reductions and bindings) into actions that were now deemed to be desirable in and of themselves.

Table 1: Developing Countries' Share in World Exports (percent)

	Agricultural products	Mining products (excl. fuels)	Manufactures	**Total merchandise exports (excl. fuels)**	Commercial services
1982	29	30	11	**16**	21
1987	28	25	14	**17**	18
1992	27	26	19	**20**	18

Source: GATT (1993), Table 1.

These developments render an evaluation of the Uruguay Round results from the standpoint of developing countries somewhat tricky. From an old-fashioned perspective which views multilateral trade negotiations purely as a setting for the exchange of concessions, it can be argued that developing countries have not done so well for themselves.[1] They are now burdened with a wider range of obligations while their few concrete gains, such as the phasing out of the MFA, are suspiciously back-loaded. For those developing countries that have traditionally hid behind the principle of special and differential treatment to demand concessions and preferences from developed countries while they themselves provided little in return, there is very little favorable to report.

However, I will argue that this is the wrong way to read the significance of the Uruguay Round for developing countries. First of all, there are a number of important ways in which the Uruguay Round agreements promise to strengthen multilateral discipline in world trade. This is especially true in the area of dispute settlement. Since the developing countries are the ones most likely to suffer from the breakdown of multilateralism, this is to be greatly welcomed. Secondly, as governments are increasingly coming to realize, taking advantage of international trade is part and parcel of good development strategy. From this perspective, most of the developing-country "concessions" need to be entered on the positive side of the balance sheet, and not viewed as a liability. Finally, as I will argue below, there may be some subtle ways in which the Uruguay Round agreements can help developing country governments build better structures of governance at home to enhance the performance of their economies in areas that go beyond trade. Such opportunities, however, will be available only to those governments that approach the new rules as challenges to be embraced rather than as threats to be evaded.

The real threats to developing countries lie in the post-Uruguay agenda. The developed countries, led by the U.S., are intent on seeking some upward harmonization in the areas of labor

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[1]This is by and large the perspective contained in Agosin, Tussie, and Crespi (1994).

and environmental standards--areas that were left out of the Uruguay Round. The objectives are "fair" and "green" trade, laudable targets on their face value. Ultimately, however, what is at stake is nothing less than the comparative advantage that poor countries naturally have in labor-intensive and resource-using industries. For good reasons, then, developing countries have resisted being drawn into negotiations in these areas, citing national sovereignty and the GATT's (and now the WTO's) focus on border measures alone.

But it is very unlikely that the clamor for harmonization (or "deep integration", to use Lawrence's [1991] terminology) will go away. Consequently, developing countries will have to find creative ways in which to engage the developed countries in dialogue, without yielding on their (and the world trading system's) fundamental interests. I will argue that the way to begin doing so is by recognizing that while labor and environmental complaints are often a cover for protectionism pure and simple, they can also contain a legitimate core based on the right of nation-states to restrict the availability of products and processes which violate a widely held moral code at home. The challenge for the world community is to come up with procedures to deal with such legitimate instances, while safeguarding the exporting countries' interests and preventing a slide towards protectionism. I will suggest some guidelines towards that end in the penultimate section of the paper.

There are a number of studies that have analyzed the implications of the Uruguay Round or its components for the developing countries (see GATT 1993, Ocampo 1992, Tussie 1993, Hoekman 1993, Reichman 1993, Agosin, Tussie, Crespi, 1994, and Weston, 1994). Numerous quantitative evaluations of the Round's market-access provisions have also been undertaken (see GATT 1994, Goldin, Knudsen and Mensbrugghe 1993, OECD 1993, Nguyen, Perroni and Wigle 1993, and Perroni, 1994). In view of these existing studies, I can permit myself a somewhat more selective and eclectic evaluation of the Uruguay Round and beyond. In particular, I will not have much to say about some of the traditional market-access issues of

importance to developing countries, such as tariff preferences. I will try instead to highlight and discuss the newer challenges and opportunities that developing countries will likely to be facing.

II. The Uruguay Round: A Time of Transition for Developing Countries

A. Overview

The Uruguay Round is the widest ranging and most ambitious multilateral trade agreement ever negotiated. Its centerpiece is a new multilateral organization, the World Trade Organization (WTO), which will house the various agreements negotiated during the Uruguay Round, as well as the original GATT as modified by the Round (the so-called GATT 1994), under a single roof. In addition to providing a more solid institutional foundation for the discussion of global trade matters, the WTO's most significant contribution is its embodiment of a unified dispute settlement procedure which will apply to all the "covered agreements," including trade in goods and services, and intellectual property rights.

Previous rounds of trade liberalization had succeeded in bringing average tariffs on industrial products in developed countries down to 6.3 percent (from more than 40 percent in 1947). The Uruguay Round has reduced average tariffs further to 3.9 percent (which represents a 38 percent reduction). Tariffs remain somewhat higher on imports from developing countries. This is due to the generally higher tariffs on textiles, clothing, and fish and fish products (see Table 2). Many products of interest to developing economies have also received below-average tariff reductions: textiles and clothing (a reduction of 22 percent), leather, rubber footwear and travel goods (18 percent), and transport equipment (23 percent). Thanks to GATT, however, tariffs are no longer a major obstacle to world trade (including developing economies' exports), and the Uruguay Round's major achievements lie elsewhere.

The Uruguay Round agreements commit all WTO members (save for least developed countries) to phasing out quantitative restrictions (QRs) on trade. The most significant provisions

relating to QRs are as follows.

- In agriculture, all non-tariff measures (such as quotas, variable import levies and minimum import prices) are to be converted to their tariff-equivalents, and the resulting tariffs reduced over time.[2] (The Agreement on Agriculture also envisages cuts in domestic supports and export subsidies.)

Table 2: Tariff Reductions on Industrial Products by Developed Countries

Imports from	Import value (bil. US$)	Weighted average		
		Pre-UR	Post-UR	Percent reduction
All industrial products (excl. petroleum)				
Developed ctries	736.9	6.3	3.9	38
Developing ctries (excl. least devp)	167.6	6.8	4.3	37
Least developed	3.9	6.8	5.1	25
Excluding textiles and clothing, and fish and fish products				
Developed ctries	652.1	5.4	3.0	44
Developing ctries (excl. least devp)	125.2	4.9	2.4	51
Least developed	2.1	1.7	0.7	59

Source: GATT (1994), Table 9.

- In textiles and clothing, industrial countries have committed themselves to eliminating the MFA over a period of ten years. This is a matter of substantial significance to developing

[2]Tariff equivalents are to be calculated by taking the difference between domestic and world prices, using data from the 1986-88 base period. The selection of the base period gives the tariffication process an upward (protectionist) bias as world prices for agricultural products were generally depressed during 1986-88.

countries, even if the generosity of the offer is marred by the fact that no less than 49 percent of the liberalization can be delayed until the very last day of the ten-year period.

- The new Agreement on Safeguards requires "grey area" measures like VERs and OMAs to be notified to the WTO and eliminated within four years.[3]
- Finally, an Understanding on the Balance-of-Payments Provisions of the GATT establishes more demanding conditions for the use of QRs by developing countries in response to payments difficulties

I will discuss these at greater length below.

The Uruguay Round agreements have also made some inroads into new areas, such as trade in services, trade-related aspects intellectual property rights (TRIPs), and trade-related investment measures (TRIMs). In services, a new General Agreement on Trade in Services (GATS) establishes a framework requiring WTO members to present schedules of "concessions" in selected service sectors. The Agreement on TRIPs sets minimum standards of protection in patents, copyrights, and trademarks. The Agreement on TRIMs requires the phasing out of performance requirements--chiefly local-content and export-import linkage requirements--commonly imposed on foreign firms.

With respect to multilateral rules and procedures, the Uruguay Round agreements considerably tighten the dispute settlement procedures and bring some much-needed clarity in the areas of safeguards, antidumping and subsidies. The Understanding on Rules and Procedures Governing the Settlement of Disputes is particularly noteworthy. This Understanding not only establishes a dispute settlement procedure that for the first time applies to all forms of trade (and beyond, as in TRIPs), but also takes away the privilege of member countries to veto panel findings. The new rules allow members to appeal the findings of a panel, but the appellate panel's report can only be blocked by unanimity. Hence, a country that is found to violate the

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[3]Each member is allowed one exception to these rules, however.

rules (and therefore is required to provide compensation) can no longer block a decision against itself. The complainant's bargaining leverage is thereby greatly strengthened.

Numerical estimates put the global welfare gains of the Uruguay Round around $200-300 billion per annum once all the market-access provisions are in effect (i.e., at the end of ten years).[4] Roughly two-thirds of this accrues to the developed countries, with a third going to developing countries) (GATT 1993, 1994). Among developing countries, the gains are unevenly distributed, with food importing countries potentially losing out from the reduction in agricultural subsidies in the North. As the GATT secretariat is quick to point out, however, these gains do not incorporate two sources of additional gains (which are hard to model). First, the failure of the Uruguay Round may well have led to a deterioration of the world trading environment, and perhaps to trade wars. Second, the provision of improved multilateral surveillance and discipline fosters stability and credibility, generating added economic activity. As the weaker members of the international community, the developing countries stood to lose the most from the deterioration in multilateral discipline, and arguably stand to gain the most from its restoration.

B. New Responsibilities

As pointed out in the introduction, the distinguishing mark of the Uruguay Round from the perspective of developing countries is the wider range of obligations that are now imposed on them. This is reflected first and foremost in the fact that membership in the new WTO involves signing on not only to the updated GATT (GATT 1994), but also to a dozen side agreements (which together with GATT 1994 constitute the Multilateral Agreement on Trade in Goods) as well as the agreements on services and TRIPs. Table 3 presents a schematic listing of the

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[4]However, as pointed out by Perroni (1994), practically all of the existing studies are based on early projections of what the Uruguay Round agreements were expected to achieve. The study by Nguyen, Perroni, and Wigle (1994), which is based on the actual outcome of the Uruguay Round, yields a much smaller global gain of $70 billion per anum (in 1986 prices).

WTO's contents. The only agreements which member countries can decline to accede to are the four plurilateral agreements in part E of the table. Save for these four agreements, developing country governments are now denied the luxury of picking and choosing their obligations if they want to become members of the WTO.

Table 3: The Architecture of the World Trade Organization
A. Multilateral Agreement on Trade in Goods
GATT 1994
Agreement on Agriculture
Agreement on the Application of Sanitary and Phytosanitary Measures
Agreement on Textiles and Clothing
Agreement on Technical Barriers to Trade
Agreement on Trade-Related Investment Measures
Agreement on the Implementation of Article VI of the GATT 1994 (antidumping)
Agreement on the Implementation of Article VII of the GATT 1994 (customs valuation)
Agreement on Preshipment Inspection
Agreement on Rules of Origin
Agreement on Import Licensing Procedures
Agreement on Subsidies and Countervailing Measures
Agreement on Safeguards
B. General Agreement on Trade in Services
C. Agreement on Trade-Related Aspects of Intellectual Property Rights
D. Understanding on Rules and Procedures Governing the Settlement of Disputes
E. Plurilateral Trade Agreements
Agreement on Trade in Civil Aircraft
Agreement on Government Procurement
International Dairy Agreement
International Bovine Meat Agreement

One way of gauging the practical importance of this is by looking at developing country participation in the codes negotiated during the earlier Tokyo Round. These codes were "plurilateral" in the sense of the WTO, as accession was voluntary and failure to accede did not prejudice a country's privileges under the GATT. As Table 4 shows, few developing countries chose to sign on to these codes: none of the codes garnered more than 13 developing-country signatories, and no developing country other than Hong Kong signed all of them. By revealed preference, the developing-country attitude towards these codes can be said to have been less than enthusiastic. As a comparison with Table 3 will show, all but one of these codes have now been folded in revised form into the WTO, rendering all developing country members into signatories. (The only exception is the code on government procurement, which remains one of the WTO's plurilateral agreements.) In addition, of course, the WTO contains the agreements on TRIMs, services, TRIPs, and more. All this represents a remarkable extension of multilateral

Table 4: Developing Country Signatories to Tokyo Round Codes

Antidumping code	Code on subsidies and countervailing duties	Agreement on import licensing procedures	Agreement on government procurement	Agreement on technical barriers to trade	Customs valuation code
Brazil Egypt Hong Kong India Korea Mexico Pakistan Singapore	Brazil Chile Colombia Egypt Hong Kong India Indonesia Korea Pakistan Philippines Uruguay Pakistan Singapore	Argentina Chile Egypt Hong Kong India Mexico Nigeria Pakistan Philippines Singapore	Hong Kong Singapore	Argentina Brazil Chile Egypt Hong Kong India Korea Mexico Pakistan Philippines Rwanda Singapore Tunisia	Argentina Botswana Brazil Cyprus Hong Kong India Korea Lesotho Malawi Mexico Zimbabwe

Source: OECD (1992), Table 4.

discipline to developing-country trade policies.[5]

I will now discuss more specifically some of the important responsibilities developing economies have undertaken as a result of the outcome of the Uruguay Round.

1. Traditional Market-Access Issues

a. Tariffs (and bindings)

Concerning developing-country tariffs, the big news is not tariff reductions per se but a significant increase in the extent of "bindings". When a country binds its tariff, it commits itself not to increase the tariff beyond that level, except by negotiation with affected trade partners and possibly the payment of compensation to them. Prior to the Uruguay Round, developing countries had on average 22 percent of their industrial tariff lines bound, and only 14 percent of their industrial imports came in under bound rates. These ratios have now increased to 72 percent and 59 percent, respectively (Table 5).[6] The increase in the extent of bindings is especially marked for Latin American and Asian countries. A new development in this respect has been the binding of entire tariff schedules at a common rate. Four Latin American countries took this course of action during the Uruguay Round upon their accession to the GATT: Mexico and Venezuela bound their tariff schedules at 50 percent, Bolivia at 40 percent, and Costa Rica at 55 percent (OECD 1992). Chile, always a leader in trade matters, had already bound its tariffs at a common rate of 35 percent during the Tokyo Round. Developing economies as a group have also offered reductions in bound rates for 44 per cent of tariff lines. But these reductions pale in significance compared to the wider coverage of bindings, especially since the bound rates are often above applied rates.

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[5]The least developed countries, however, remain exempt from many of the new obligations.

[6]Developing countries were given "negotiating credit" for binding tariffs during the Uruguay Round even when the level of the binding stood above the currently applied level.

b. Quantitative Restrictions

While the use of QRs has always been against the letter and spirit of the GATT, discipline in this area has been weak due to several loopholes and ineffective surveillance. Developing countries have widely appealed to one loophole in particular, the balance-of-payments provision of the GATT which allows the use of QRs in the face of payments difficulties (Article XVIII:B).

Table 5: Pre- and Post-Uruguay Round Tariff Bindings for Industrial Products (excl. fuels)

	Import value (bil. US$)	Percentage of tariff lines bound		Percentage of imports under bound rates	
		Pre-UR	Post-UR	Pre-UR	Post-UR
By major country groups					
Developed	737.2	78	99	94	99
Developing	306.2	22	72	14	59
In transition	34.7	73	98	74	96
By region					
North America	325.7	99	100	99	100
Latin America	40.4	38	100	57	100
Western Europe	239.9	79	82	98	98
Central Europe	38.1	63	98	68	97
Asia	415.4	17	67	36	70

Source: GATT (1994), Table 1.

Note: The data on developing countries cover 26 participants. These 26 participants account for approximately 80% of the merchandise imports of the 93 developing country participants in the Uruguay Round.

According to the OECD, this provision "has represented the single most widely applied exception to the prohibition contained in Article XI on the application of quantitative restrictions." (OECD 1992, p. 100; see also Anjaria 1987). The provision has been almost continuously invoked by some developing countries, and others have escaped multilateral surveillance altogether by not reporting their full panoply of QRs.

Article XVIII:B is based on two outmoded features of the early postwar system: fixed exchange rates and elasticity pessimism. There is now widespread consensus among economists that balance-of-payments difficulties reflect macroeconomic imbalances, and that they are best dealt with via fiscal, monetary, and exchange-rate corrections. The Uruguay Round resulted in a new Understanding on the Balance-of-Payments Provisions of the GATT 1994. This agreement will make it more difficult for developing countries to resort to QRs, without making it impossible. It commits them to "announce publicly, as soon as possible, time-schedules for the removal of restrictive import measures taken for balance-of-payments purposes" (Art. 1). It also calls on them to give preference to "price-based" measures such as import surcharges or import deposit requirements. QRs can still be imposed when "because of a critical balance-of-payments situation, price-based measures cannot arrest a sharp deterioration in the external payments position" (Art. 3). A member applying new restrictions or raising the level of existing restrictions is asked to enter into consultations with the Committee on Balance-of-Payments Restrictions within four months. It is likely that these new provisions will give the IMF a greater role than it has so far played within GATT in certifying member governments' policies The modalities of this role have still to be worked out.

Henc, while the old philosophy that allows the use of trade restrictions to deal with external payments problems has survived, it will henceforth be somewhat more difficult to employ QRs for that purpose.

2. New Issues

a. Services

Trade in services was one of the new areas added on to the agenda of the Uruguay Round, and one whose inclusion developing countries ardently resisted in the early stages of the negotiations (Bhagwati 1987, Hoekman 1993). Over time, this opposition was considerably

mollified as many of the leading developing-country governments (such as Brazil, Argentina, and India) began to re-evaluate their own views on the benefits of openness. In the end, the negotiations have yielded a rather weak document which leaves developing countries relatively free in choosing the extent and range of liberalization they will undertake.

The General Agreement on Trade in Services (GATS) consists of a set of general obligations and a set of specific commitments. The general obligations apply to all areas of services, and they require, most significantly, MFN treatment. The heart of the agreement is in the specific commitments, which apply only to service sectors or sub-sectors that are listed in a schedule presented by each country as its contribution to the effort. The most important principle that applies to services listed in these schedules is that of national treatment. Hence, the schedule submitted by each participant indicates which sectors it has agreed to subject to national treatment.

While developing countries are expected to liberalize fewer service sectors and activities (Art. XIX:2), the GATS its notable in that it provides no provisions similar to that contained in Part IV of GATT on more favorable treatment of developing countries (Hoekman, 1993, pp. 8-9). Every member of WTO, developed or developing, must make an offer. The practical consequence of this is counterbalanced by the fact that restrictions on services trade are ubiquitous and their liberalization hard to gauge. Hence, even though most developing countries have already offered their schedules, the nature of the exercise makes it difficult to uncover the degree of liberalization. A note by the GATT secretariat at the bottom of a table summarizing these schedules makes it painfully clear that the avenues of escape are many, even in listed sectors:

> The fact that a sector is identified as covered by a particular country's schedule does not give an indication of either the *extent* of the liberalization being offered in the sector in terms of sub-sector or activities, or, for covered service activities, the *degree* of liberalization that is being offered. For example, an offer made by a participant for "Business Services" may cover only one sub-sector (e.g., only "building-cleaning services") or several sub-sectors or activities listed in that category (e.g., a large variety

of Professional Services, Computer Services, Research and Development Services, Rental Services, etc.). (GATT, 1994, Table 18)

Consequently, the effects of the current round of offers will be clear only over time. It is expected that mutual liberalization under the GATS will be an on-going process.

On the whole, my reading of the GATS is that it does not impose a tremendous amount of obligations on developing countries. On the other hand, countries desiring more discipline could certainly use GATS to bring it on themselves.

b. TRIMs

Developing countries have long made active use of what in GATT parlance are called trade-related investment measures. These measures comprise regulations that restrict firms' imports to a certain ratio of their exports (export-import linkage), that require them to utilize a minimum amount of domestic inputs (local-content), or that force them to export a certain share of their output. These measures--often called performance requirements--are applied disproportionately to subsidiaries of multinational firms (hence the appellation). They are still quite prevalent around the developing world, although their prominence in Latin America and East Asia is nothing compared to levels existing in the 1960s and 1970s. The Agreement on TRIMs explicitly bans the use of such policies and all others that are inconsistent with Articles III (national treatment) or XI (elimination of QRs) of the GATT. Interestingly, the Agreement does not draw a distinction between restrictions on foreign-owned firms and on local firms; it applies to all such measures regardless of ownership.

Developing countries are given 5 years to eliminate these practices (compared to two years for developed countries), and least developed countries 7 years. The long transition period notwithstanding, this agreement seriously restricts policy autonomy in an area that has traditionally been viewed as being of primarily domestic concern.

c. Intellectual Property Rights

Of all the new areas in the Uruguay Round, probably none was as controversial as TRIPs. The reason is clear: this is a set of issues presenting as stark a clash of interests between the North and South as one can imagine. Under the guise of protecting the property rights of inventors and innovators, what Northern governments were really asking for was the transfer of billions of dollars' worth of monopoly profits from poor countries to rich countries. One can argue that developing countries would in return be rewarded with a greater number of innovations that are appropriate to their own needs (see Diwan and Rodrik 1991), but in view of the small share of developing countries in the global marketplace, the measurable change in incentives would surely be small. The more direct and quantifiable consequence would likely be an increase in the prices of items like pharmaceuticals for which patent treatment in the South has been traditionally relaxed.

The magnitude of the price increase one can expect is indicated by an exercise carried out by Subramanian (1994). Subramanian compares the prices for patented drugs in Malaysia (where patent protection for pharmaceuticals is reasonably tight) with those in India (where it is not). He finds that Malaysian prices are significantly higher than Indian ones, with the premium ranging from 17 percent (for Pentoxyphyllin 400 mg tablets) to 767 percent (for Atenolol 50 mg tablets). Insofar as the owners of patents in such drugs are foreign-owned firms (as is the case almost always), developing countries are faced not only with monopoly distortions in the home market, but more importantly with a potentially huge transfer of rents abroad.

The final agreement on TRIPs extends intellectual property rights to all WTO members by establishing minimum standards of protection in seven areas: patents, copyright and related rights, trademarks, geographical indications, industrial designs, layout designs of integrated circuits, and undisclosed information. In patents, members are required to provide protection for a minimum of 20 years in all areas of technology, pharmaceuticals included. The patent holder

does not have to "work" the patent locally, but the government may effectuate compulsory licensing provided the domestic user "has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable time" (Art. 31:b). An important additional feature is that disputes in the area of intellectual property can be brought to WTO, to be resolved under the WTO's unified dispute settlement procedures.

Developing countries are given 5 years, and least developed countries 11 years, to bring their practices into conformity with the TRIPs agreement (compared to one year for developed countries).[7] Developing countries can have an additional 5 years for patents on specific products, when such products remain domestically unprotected by patents at the end of the first 5-year period. In practical terms, what these transitional arrangements mean is that a country like India can delay bringing many items under patent protection for another 10 years. However, in the case of pharmaceuticals and agricultural chemical products, the transitional arrangements are more strict: where patent protection for such items is lacking, governments must still allow the filing of patent applications at the entry into force of the WTO agreement (with eventual patent protection provided from the date of filing), and they must provide exclusive marketing rights for a period of five years (Arts. 70:8 and 70:9). In any case, the impending changes in domestic legislation will have present-day implications both for domestic competitors and for government strategy.

d. Subsidies

The Agreement on Subsidies and Countervailing Measures contains a radical prohibition of two types of subsidies: (a) export subsidies, defined as "subsidies contingent, in law or in fact, ... upon export performance" (Art. 3:1(a)); and (b) subsidies that encourage local content. The

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[7]However, the requirements of national treatment and MFN must come into force within one year.

prohibition applies to all countries, with the following exception: least developed countries as well as a few others[8] remain exempt from the prohibition on export subsidies, except for products in which they have reached "export competitiveness" (defined as a share in world trade of 3.25 percent for two consecutive years). Developing countries are given 8 years to phase out export subsidies, plus a minimum of 2 years if they wish to enter into consultations with the new Committee on Subsidies and Countervailing Duties at the end of the 8-year period. (The possibility that further extensions may be granted by the Committee is allowed for.) In any case, they are prohibited from increasing their level of export subsidies during the transition period. They get 5 years to phase out local-content subsidies.

Aside from prohibited subsidies, the Agreement also creates the category of "actionable subsidies": these consist of subsidies that cause serious injury to the domestic industry of a member country, nullify or impair benefits accruing to any member under GATT 1994, or cause "serious prejudice" to the interests of another member. Subsidies that are not specific to certain firms or industries, subsidies for R&D, and subsidies for disadvantaged regions are deemed to be non-actionable.

One way to gauge the significance of these new obligations is to point out that they will preclude any developing country in the 1990s attempting to replicate South Korea's or Taiwan's export strategies during the 1960s and 1970s. As is well recognized by now, an important component of these East Asian miracles was the deployment of an extensive set of inducements to domestic firms contingent on satisfactory export performance, i.e., subsidies precisely of the type that the Uruguay Round agreement now prohibits. Interestingly, such inducements have received rave reviews from analysts that agree on little else (compare, for example, Amsden

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[8]These countries are: Bolivia, Cameroon, Congo, Côte d'Ivoire, Dominican Republic, Egypt, Ghana, Guatemala, Guyana, India, Indonesia, Kenya, Morocco, Nicaragua, Nigeria, Pakistan, Philippines, Senegal, Sri Lanka, and Zimbabwe. The exemption is automatically revoked when a country on this list reaches a GNP per capita of $1,000 (Annex VII).

1989 and World Bank 1993). Export subsidies are often a desirable, and politically more palatable way of decreasing anti-export bias in economies with import restrictions. Of course, one can question the efficacy of many export-subsidy programs as they have operated in places other than East Asia (Rodrik 1993). In addition, it is possible that exchange-rate policy can substitute for these subsidies. Bu these palliatives are also somewhat besides the point. The inescapable fact is that an important new discipline has been imposed on developing-country trade policies.

C. New Opportunities

The Uruguay Round has offered developing countries few direct concessions in exchange for these new obligations. The phased removal of the MFA and possibly the agreement on agriculture are the few concrete benefits to which one can point. And the agriculture agreement itself may be a mixed blessing, insofar as the elimination of export subsidies by developed countries will deteriorate the terms of trade of food-importing developing countries. In my view, the more important and potentially highly significant gains will come indirectly, from the strengthening of multilateral discipline in the areas of safeguards, antidumping and, above all, dispute settlement.

1. Market Access

a. Agriculture

The Uruguay Round has created new opportunities of market-access for certain developing countries. The Agreement on Agriculture envisages the tariffication of all non-tariff border measures, and a reduction of the resulting tariffs. In addition, all tariffs will be bound at their new levels, greatly increasing the ratio of bound tariffs in agriculture. Developed countries are to reduce tariffs (including tariffs resulting from tariffication) by an average of 37 percent.

The cut for tropical agricultural products, which are of special interest to developing economies, is above average at 43 percent. The average cut for tropical beverages (coffee, tea, cocoa) is 46 percent (GATT, 1994, Table 10). However, tariff escalation in developed countries remains a deterrent to increased processing of tropical beverages in developing economies. Second, the agreement envisages cuts in domestic support for agricultural producers. Third, export subsidies are to be cut in terms of both budgetary outlays (by 36 and 24 percent for developed and developing economies, respectively) and the volume of subsidized exports (by 21 and 14 percent).

Excluding petroleum, only 13 percent of developing countries' exports are agricultural, so the reduction in agricultural protection in developed countries may not seem a big deal. However, by the GATT secretariat's reckoning, more than half of the developing economies participating in the Uruguay Round had a "substantial" interest in agriculture, where substantial is defined as an agricultural share in total exports (excluding fuels) higher than 20 percent (GATT 1993, p. 14). Moreover, low-income developing countries (such as Pakistan, Egypt, Ghana, Kenya, and C'ôte d'Ivoire) are well represented in this group. So the agriculture agreement is potentially of some importance to these countries.

b. MFA

For a long time, the Multifibre Arrangement has stood as the most severe and costly derogation of GATT principles from the perspective of developing countries. Under the arrangement, developed countries have been able to impose quotas on their imports of the one item in which most developing countries have a sure comparative advantage: garments. Textiles and clothing together account for about a quarter of the manufactured exports from developing countries. Table 6 gives a rough sense of how widespread the resulting restrictions have been, often affecting extremely poor countries (such as Haiti and Bangladesh) on their initial foray in world markets. The MFA has not been without its blessings for some exporting countries: it has

provided guaranteed market shares and created rents for exporters. It also has failed to stem the increasing flow of exports from enterprising firms in developing countries, which have responded by altering their product mix and investing in non-restricted countries (for more details, see Hamilton 1990). However, the machinations required to adjust to a world of quotas are in themselves costly

The Uruguay Round has tried to tackle the MFA problem once and for all. The good news is that the MFA will cease to exist at the end of ten years from the entry into force of the WTO. The bad news is that half of the effective liberalization can be delayed until the very last day of the ten-year period. That is because the phase-in of the liberalization is heavily back-loaded: The importing countries are required to bring only 16 percent of the affected imports under regular GATT rules upfront. An additional 17 percent (of 1990 imports) is to be

Table 6: Number of Restraint Agreements Applied by Importers to Exporters under the MFA

Affected countries	Importing countries					
	U.S.	Canada	E.U.	Norway	Finland	Austria
Developing	24	18	16	13	7	6
Least Developed	1	1	0	0	0	0

Source: GATT (1993), Table 17.

integrated into GATT after three years, and another 18 percent at the end of seven years. The remaining restrictions are to be lifted at the end of ten years: that is, 49 percent of the imports that were restricted in 1990 will be completely liberalized only after a full decade has gone by. This raises an obvious issue of credibility: assuming that garments trade remains as controversial in developed-country markets as it is now, is it realistic to expect that a future government will undertake the large-scale liberalization that is required when the time comes? Will there not be pressure on developing countries to re-negotiate the agreement, and to stretch out the transition period further?

On the other hand, there is a provision to ensure that MFA restrictions will be less binding

than in the past: Remaining quota restrictions during the transition period will be allowed to expand at the prevailing quota growth rates plus 16 percent annually in the first three years, by 25 percent in the subsequent four years, and by 27 percent in the final three years. A special "transitional safeguard" mechanism is put in place allowing importers to restrict exports from specific countries in case of "serious damage, or actual threat thereof" to a domestic industry.

While the long and back-loaded transition period and the "transitional safeguard" mechanism will limit the immediate benefits to developing countries, the Agreement on Textiles and Clothing is clearly something to cheer about. Together with the improved dispute settlement procedure (see below), it is the Uruguay Round 's single most important contribution towards levelling the playing field in world trade.

2. Safeguards and Antidumping

The Uruguay Round has resulted in some strengthening of multilateral discipline in the areas of safeguards and antidumping, and this too is welcome news for developing countries. In the area of safeguards, the Uruguay Round document explicitly prohibits the use of "grey area measures", such as VERs and OMAs. It requires that an investigation by competent authorities, including "public hearings and other appropriate means in which importers, exporters, and other parties could present evidence and their views" (Art. 3:1), be carried out prior to the application of a safeguard measure. It also imposes additional obligations regarding the duration of safeguards, the factors to be evaluated in determining serious injury or the threat thereof, and the restrictiveness of the safeguard measures. In the area of antidumping, some important clarifications are developed. For example, it is recognized that costs may vary over the product cycle and that prices need to recoup costs not at every instant but "within a reasonable period of time." Investigating authorities are explicitly asked to separate out the effects of "any known factors other than the dumped imports which at the same time are injuring the domestic industry"

(Art. 3:5). Each member possessing antidumping legislation is required to maintain a mechanism of judicial review which is independent of the antidumping authorities.

Table 7: Number of Investigations Undertaken by the U.S. International Trade Commission

	Antidumping	Countervailing duty	Safeguards
1970-79	172	10	42*
1980-90	494	306	20

Source: Baldwin and Steagall (1994)

Note: *From 1975-79 only.

These provisions are important to developing countries because antidumping action has become the principal means by which developed countries are now exercising discretionary protectionism. Table 7 summarizes the U.S. situation. Antidumping cases, many against the developing countries, have almost tripled in the 1980s from the previous decade. This is an area that is much in need of multilateral discipline. The Uruguay Round has not achieved much, but at least it has committed the developed countries to a few initial steps along that road.

3. Dispute Settlement

As a guarantor of non-discrimination, the GATT was only as good as its dispute settlement procedure--which was not a very good one. The same is going to be true of the WTO. Much of the enhanced discipline on developed-country trade policies will be lost unless the WTO can be used to mediate and settle disputes effectively.

The Uruguay Round document contains an important piece of good news in this regard: a country will no longer be able to veto a panel's decision against itself. Under the GATT system, the adoption of a panel's report on a dispute required a unanimous vote, which meant that any country could block a decision that went against it. Under the WTO, a party to the dispute will be allowed to "appeal" the panel's decision, in which case the dispute will go to an

appellate panel, but the concerned party will be unable to block the decision of the appellate panel itself. That decision will be automatically adopted unless there is a unanimous vote against it. Since the party on whose side the appellate panel has ruled is unlikely to vote against the decision, it will be virtually impossible to turn down an appellate panel's decision. In the words of John H. Jackson (1994, p. 6), "the presumption is reversed, compared to previous procedures, with the ultimate result of the procedure that the appellate report will in virtually every case come into force as a matter of international law." The concerned party must then either implement the panel's decisions or provide adequate compensation. The final recourse is for the injured party to suspend concessions or other obligations to the other party. Furthermore the new dispute settlement procedure will apply to all matters covered by the WTO, and not just trade in goods.

D. How to Make the Best of the Uruguay Round

As pointed out earlier and as the discussion above indicates, the Uruguay Round contains slim pickings for developing countries, if the accounting is done in terms of concessions received and obligations accepted. The balance sheet is full of new obligations, in the areas of tariff bindings, QRs, services, TRIPs, TRIMs, and subsidies. Meanwhile the phasing out of the MFA represents the only tangible concession received from developed countries, albeit a significant one. Have the developing countries been had?

There are reasons to believe not. Taken as a whole, the Uruguay Round agreements and the WTO constitute an important shot in the arm for the multilateral trading system. It is trite but true to say that the developing countries are the ones that stand to lose the most from a breakdown in multilateralism. Moreover, the Uruguay Round has gone beyond simply making sure that the proverbial bicycle is still in motion. As I have discussed above, new disciplines have been imposed on developed-country governments in the areas of safeguards, antidumping

and above all dispute settlement, and these amount to much more than just a patching up of the existing system. To continue the metaphor, the old bicycle is starting to look more like a quality motorcycle.

What the Uruguay Round has certainly done, however, is to drive a wedge between countries (mostly in Latin America and Asia) who have made a clear break with the import-substitution policies of the past and hitched their wagons on world trade, and those (mostly in Africa and a smattering elsewhere) who have either not yet made the break or have done so with little conviction. Countries in the first group have often undertaken unilateral liberalization measures that go far beyond what the WTO would require of them. Mexico, Argentina, Bolivia, and Chile, to cite some of the more prominent cases, have accepted few obligations that they were not willing to submit of their own accord. For governments in such countries, the Uruguay Round is nothing but good news. Governments in other countries with more hesitant reforms, on the other hand, are taking on responsibilities that may not be entirely in line with their current economic philosophies.

This wedge manifests itself most clearly in the areas of special and differential treatment and of preferences. Unlike the first group of countries, the second group has not yet given up on these concepts. But perhaps even the latter have come to realize that special preferences for developing countries (as in the case of the Generalized System of Preferences) have largely not worked in the past, and are even less likely to be put to a good test in the future. The more realistic option for all but perhaps the least developed countries is to seek to participate in the WTO as full-fledged members. Further, a good case can be made that equal participation may prove of greater value to many developing countries than special and differential treatment has turned out to be in the past.

To make the best use of the WTO, developing countries in both groups will need to employ two sets of strategies, one external and the other internal. The external strategy is the

obvious one of exploiting the new opportunities created by the presence of the WTO and its dispute settlement mechanism. The internal strategy is a more subtle one, and has to do with domestic economic policies: I will argue that a creative use of the new constraints imposed by the WTO can, perhaps paradoxically, make an important contribution to many developing countries by improving the quality of their governance.

1. Taking Advantage of the WTO's Dispute Settlement Mechanism

The efficacy of the dispute settlement procedure is of considerably greater importance to developing countries than it is to developed countries. Important traders like the U.S. and the E.U. can often extract compliance from smaller partners by virtue of their size and influence, without having to go through GATT/WTO procedures. Most developing countries cannot do so, especially when their dispute concerns one of these economic giants.

The GATT's dispute settlement mechanism does not have a great reputation, for some of the reasons already discussed. Developing countries have made very little use of it, and have generally preferred to "settle out of court" by taking up offers from the developed-country importers to negotiate quantitative restrictions or price undertakings. In view of the weakness of the GATT procedures, as well as their non-transparent nature, the latter course has naturally seemed the better bet: developing-country exporters are at least assured of retaining scarcity rents when adopting "voluntary" restrictions outside the GATT's purview.[9]

The revised procedures, which prevent blocking by an offending country, should change things. WTO findings can provide developing countries with a stamp of legitimacy, and act as a much-needed additional source of leverage.

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[9]Sathirathai and Siamwalla (1987) present two interesting case studies on Thailand's trade disputes with the EC (in cassava) and the U.S. (in rice). In both cases, the Thai government was unable to use the GATT dispute settlement procedures effectively. The reasons had to do with the lack of clarity of GATT procedures and GATT laws.

That these new procedures are quite radical can be observed from the extent of opposition they have generated in the United States, a country where infringements on national sovereignty--real or supposed--are not taken lightly. In the words of an anti-WTO coalition,

> the WTO would be the first major international organization where the U.S. has neither veto power [nor] weighted voting. Unlike the UN Security Council, the World Bank, the IMF. Or the current GATT.[10]

Indeed. Which is why the new procedures should be music to the ears of developing country governments. However, rejoicing should be tempered by a realization that power politics is not hereby condemned to extinction. A more sober evaluation can be found in an editorial by the New York Times (1994):

> the U.S. has so much leverage that it has little to fear from retaliation; in fact, the World Trade Organization would not change the dynamics of trade for any strong industrialized nation. Currently, the U.S. can legally block unfavorable rulings; and while complaining countries can still retaliate, they rarely do so out of fear of triggering a self-destructive trade war. The same fear would govern retaliation under the Trade Organization even though the U.S. could not resort to the legal nicety of blocking unfavorable rulings. Indeed, the trade body could do a lot of good if its proceedings bring domestic pressure to bear on protectionist practices that reward special interests at the expense of ordinary consumers.

This attitude of eating one's cake and having it too appears to reflect the views of the current U.S. administration.

There remains an important asymmetry in the dispute settlement procedures which works to the disadvantage of smaller countries. As mentioned previously, the last recourse for a plaintiff government is the suspension of concessions or obligations to the other party. When the plaintiff is Costa Rica or Bangladesh, such a suspension cannot be said to have earth-shattering consequences for a country like the U.S. By contrast, in a truly multilateral dispute settlement procedure, all WTO members would have been required to join in the punishment of the "defecting" country. Consequently, the U.S. (or the E.U., for that matter) often will be able to

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[10]"Why is Mickey Kantor Deceiving You About GATT?" in the New York Times op-ed page, August 1, 1994. The ad is signed by the executives of Public Citizen, Greenpeace, and Citizen's Clearinghouse for Hazardous Wastes.

ignore WTO findings, with little cost to themselves save for the erosion of the credibility of the system they have created. The latter cost counts for something, of course, which is why the WTO is likely to be more than a paper tiger. But there is a fundamental problem in that the "punishment" phase of the dispute settlement procedure has still not been multilateralized, and will therefore not be as effective as it could be.

In any case, it would be advisable for individual developing countries to test the new procedure by making use of it whenever they have reason to believe that a violation of WTO rules has occurred or some of the benefits accorded to them have been nullified or impaired. This will require some investment in developing familiarity with GATT/WTO practices, but the investment should pay off if the new system works as it is supposed to. In addition, developing countries should attempt to include multilateralization of sanctions in the longer-term agenda for future negotiations.

2. Using WTO to Fashion a New Social Contract with the Private Sector

There is a significant upside to the fact that the WTO system as a whole imposes a wider range of responsibilities and obligations on developing country governments. That is because the traditional pattern of state-society interactions in much of the developing world has failed miserably and, as many governments have already come to realize, is in need of rethinking and reform. What I have in mind here is not simply tinkering with specific policies--such as trade protection or subsidies--but altering the manner in which these and other policies are exercised. Too often, policy regimes are characterized by uncertainty and lack of credibility, excessive discretion, particularism and favoritism, lack of transparency, and inadequate provision of property rights. These have the effect of stunting production incentives in the private sector. They are much more damaging than price distortions per se insofar as price distortions skew sectoral incentives without diminishing the overall incentive to participate in markets. Hence,

interpretation of the failure of development policy in Latin America and Africa is that growth has been hampered primarily by these features of policymaking, with price distortions having played only a secondary role (Rodrik, forthcoming).

How can the WTO help? Wisely used, the restrictions placed on economic policy by the Uruguay Round agreements can assist in overcoming the traditional shortcomings of governance in the developing world. For one thing, the agreements require greater transparency and predictability in many areas of trade policy.[11] For example, they often call for advance publication of information and regulations relating to the administration of the import regime. Similarly, the wider range of tariff bindings enhances the credibility and predictability of the rules of the game. The new restrictions on the use of QRs in response to payments difficulties limit an important source of discretionary behavior. The obligations in the area of TRIMs make it harder for the government to play favorites by differentiating among firms. All of these are meant to ensure that foreign firms are not discriminated against; but their potentially greater payoff may lie in levelling the playing field among domestic firms. If the operation of the WTO contributes to a perception that governments will renounce particularism and respect property rights, that would be a significant contribution indeed.

More broadly, the WTO presents an opportunity for reformist governments in the developing countries to lock in their reforms and render them irreversible. They can do so by making use of tariff bindings, by abiding with the agreements on QRs, subsidies, TRIMs, and import licensing, and by including a broad range of services in the schedules they offer. In other words, the WTO can be used as a "commitment technology" by reformist governments. This is useful in signalling to the private sector that the rules of the game are now changing for good and to forestall political lobbying by groups that want a return to the old policies.

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[11]The Trade Policy Review Mechanism, created at the mid-term review of the Uruguay Round, is already playing a role towards this end.

Since most of the WTO obligations stop at border measures and are in any case riddled with opt-out clauses, however, the commitment that is bought by acceding to WTO is a weak one.[12] Consider the area of services, for example. A government can avoid any discipline whatsoever by simply not listing a service sector in its GATS schedule. Even in a listed sector, the only real commitment is that of non-discrimination across different sources of supply. And the GATS allows this commitment to be withdrawn, subject to negotiation with and compensation of affected countries. The implication is that governments that want to purchase real commitment from the WTO cannot assume that membership alone will do the trick. They must seriously think through their strategies. What that means, in particular, is that they may wish to maximize rather than minimize their obligations where the WTO gives them a choice. In services, for example, a more complete coverage of sectors in their GATS schedules will render subsequent backsliding more difficult, and will make more of an impression on the private sectors back home.

III. The Post-Uruguay Agenda

A. The New Dangers: Labor and Environmental Standards

Even before the Uruguay Round agreements were signed in Marrakesh, two new issues had made their ways onto the top of trade agenda of developed countries: labor and environment. The recently completed North American Free Trade Agreement (NAFTA) contains two supplemental agreements on labor standards and on environment, and it is doubtful that NAFTA would have been ratified by the U.S. congress in the absence of these side agreements.

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[12]In this respect the WTO differs significantly from regional arrangements (like NAFTA and the EU) that entail substantially greater amount of policy harmonization. It is no secret that Salinas wanted NAFTA at least as badly for its potential role in cementing Mexico's institutional reforms since 1986 as for its market-access provisions. Arguably, the EC's greatest contribution to the long-run prosperity and stability of Spain, Portugal, and Greece lies in its having made a return to military rule in these countries virtually impossible.

The United States has already moved to include labor standards in the next round of multilateral trade negotiations. These issues pose important dangers to developing countries, and will have to be tackled carefully.[13]

In the area of labor, the concern is to prevent "unfair" competition from countries where labor standards are incomparably weaker than in rich countries. Feelings run particularly strong about the use of "child labor" in developing countries, but other issues that have been raised include the rights to organize and strike, safety at the workplace, and working conditions more broadly. These concerns are rooted in labor-market difficulties being experienced in the developed countries. The European Union has a severe unemployment problem, with the average rate of unemployment standing at 11 percent. In the United States, unemployment is less of a problem, but there has been a marked deterioration in the relative earnings of unskilled labor.

In the environmental area, the concern is that free trade acts as a conduit for the downward harmonization of environmental standards. Multinationals as well as domestic firms are encouraged, the argument goes, to produce in countries where environmental regulations are the weakest. This harms the global environment, as well as putting pressure on developed countries to relax their own standards for fear of losing employment to the South.

Leaving aside for a moment the validity of these concerns, the trouble is that they threaten to hit developing countries precisely in products where these countries' comparative advantage is greatest. Most developing countries compete on the basis of their relatively large endowments of unskilled labor, that is on the basis of low-cost labor. The upward harmonization of labor standards serves to raise labor costs, and hence to reduce the poor countries' gains from trade. The situation is analogous in many pollution-intensive basic industries in which

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[13]Labor issues are not entirely new to the GATT. As Bhagwati (1994) points out, Article XX(e) of the original GATT permits exclusion of goods made by prison labor.

middle-income developing countries have become competitive. One can legitimately claim that the low valuation of environmental amenities in such countries (compared to developed countries) is a genuine source of comparative advantage. Most fundamentally, the logic of harmonization of environmental and labor standards contradicts the fact that it is precisely diversity that is the foundation of the gains from trade.

The dangers are magnified by the obvious reality that both sets of issues lend themselves to capture by protectionist groups in developed countries. Alleged concern with labor rights and the environment promises to give such groups the moral high ground, even when their true objective is none other than old-style protectionism. Groups with legitimate moral concerns, on the other hand, will be too happy to have company in the political arena to question their allies' motives.

B. How to Deal with Pressures for Harmonization

In resisting pressures for upward harmonization in labor and environmental standards[14], developing countries have many good arguments on their side. First, most careful empirical studies have found that the quantitative importance of social and environmental dumping, if it exists at all, is quite small. Among professional economists, the favored explanation for the decline in relative wages of unskilled workers in the United States is skill-biased technological change, and not imports from developing countries (Bhagwati and Kosters 1994, Krugman and Lawrence 1993; see Wood, 1994, for a differing perspective). Similarly, the costs imposed on production by environmental regulation in developed countries are too small to account for shifts in global trade and investment patterns (Grossman and Krueger 1993).[15] Second, as the

[14]On environmental matters I will be focussing on issues that do not involve the generation of cross-border negative externalities. Where such externalities are present, as with ozone depletion, acid rain, or global warming, it is widely recognized that multilateral negotiations should take place in their own separate forums.

advocates of free trade never cease to point out, nothing works in enhancing labor standards and environmental protection as well as an increase in income levels, which is of course what free trade is designed to achieve.

Third, trade restrictions are a very blunt, and often counterproductive instrument, for achieving their stated moral objectives. It is arguable, for example, whether young carpet weavers in India would really be helped by the United States imposing punitive duties on imports from India. Fourth, the experience within the United States and the European Union demonstrates that a high degree of economic integration can co-exist with widely varying labor practices and institutions at the level of states or member countries (Ehrenberg 1993). Fifth, many environmental concerns can be adequately dealt with appropriate labelling of imported goods.[16] Finally, since labor and environmental questions go beyond trade relations, these issues should be discussed in their own appropriate multilateral fora and not in the WTO. The International Labor Organization already exists, and it does set and monitor labor standards. Similarly, one can envisage the formation of a Global Environmental Organization (Esty 1994).

These and many other debating arguments[17] can be deployed to bolster the developing-

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[15]Of course, it is possible that environmental standards may alter competitive advantage in certain specific industries. The point that such standards may have important effects for individual firms or industries which are hidden at the aggregate level is argued by Bhagwati (n.d.).

[16]Goods that do not adhere to an international environmental code, for example, could be labelled as such in the importing country, leaving consumers free to go by their pocketbook or their environmnetal conscience. An issue here is who should bear the cost of the labels.

[17]Bhagwati (1994) provides a good list: "Take the United States itself. Worker participation in decisionmaking on the plant is more widespread in Europe than in North America: are we to then condemn North America to denial of trading rights by the Europeans? Migrant labor is ill-treated in U.S. agriculture due to inadequate enforcement, if investigative television shows are a guide: does this mean other nations should prohibit the import of U.S. agricultural products? Even the right to organize trade unions may be considered to be inadequate in the U.S. if we go by 'results', as the U.S. favors in judging Japan: less than 20 percent of the U.S. labor force is unionized....

Even the developing country phenomena such as the use of child labor raise complex questions.... Few children grow up even in the U.S. without working as babysitters or delivering newspapers: many are even paid by parents for housework in the home."

country case that labor and environmental concerns do not justify trade restrictions or their inclusion in the WTO. However, it may be a mistake for developing countries to believe that the danger will recede if such arguments are repeated often enough. For one thing, there is a potentially legitimate core to the clamor for upward harmonization. By granting this, developing countries would not be giving up much and yet they would be engaging developed countries in a more productive dialogue than the current dialogue of the deaf. Secondly, and perhaps more to the point, the demands for harmonization are likely to stay with us for the foreseeable future. Consequently, a purely rejectionist strategy will simply not work. I will elaborate on these points in the rest of this section, and outline the elements of a possible strategy for developing countries.

1. Is there a Legitimate Core to the Clamor for Harmonization?

One of the paramount objectives of a system of laws and regulations is to maintain a perception of legitimacy in the operation of markets. Without a widespread belief that markets operate in a "fair" manner, it becomes difficult to preserve the market system itself. Hence, a nation's laws and regulations often sacrifice narrow concepts of market efficiency in order to maintain faith and legitimacy in the operation of the market system at large. Of course, what is fair and legitimate varies across cultures and over time. But the point is that preserving and sustaining markets can sometimes require restricting certain market activities.

Insider trading provides a nice analogy. On grounds of market efficiency, there is little reason to ban insider trading. In fact, insider trading enhances efficiency because it allows new information to be reflected in stock prices more quickly than it would otherwise be. However, most professional economists would be in favor of penalizing insider trading, on the grounds that such activity damages the integrity of equity markets and hence their long-run performance. That is, ordinary people would start to think that the dice are loaded against them and they would

become less likely to invest in equities. In the longer run, the operation of the stock market would be seriously stunted as the supply of risk capital dried up. Even worse, the citizenry may be willing to countenance much more severe restrictions on equity trading.

In the same manner, gains that accrue to exporters or consumers through trade have to be widely perceived as legitimate for the trading system to maintain its long-run viability. To take an extreme case, profiting from trade with a country that allows slavery would be widely perceived as illegitimate, and appropriately prohibited. Slavery, of course, is the easy case. The real problems lie with a host of intermediate cases, where a genuine conflict of cultures, preferences, or moral values may exist among nations. I will discuss such cases below. The first step, however, is to recognize that restricting market transactions when such transactions violate a widely held moral code is an established and accepted practice in domestic trade. There is little reason to believe that the attitude towards international trade should be any different, save for the complication that restrictions on international trade may impose direct costs on other nations.

This, then, is what I take to be the legitimate core of the clamor for upward harmonization: no nation has to maintain free trade with a country or in a specific product if doing so would require violating a widely held ethical standard or social preference. Such ethical or social opprobrium could attach to environmental degradation or the exploitation of labor, but it has to be shared widely within the importing country to justify trade restrictions. I call this the "social safeguards principle". Stated as such, developing countries should have little difficulty with this principle. After all, they may want to reserve the same right for themselves. The question is whether and how the principle can be operationalized in the context of the WTO. There are two immediate problems. First, how can we ensure that the principle is invoked only in cases where the violation involves a "widely held ethical standard or social preference". In other words, how do we prevent its derogation into standard protectionism? Second, what do we do in

cases where its invocation results in a loss to a foreign trade partner (a developing country in particular)? I take up each question in turn.

2. Guidelines for a "Social Safeguards" Clause

"Central to American thinking on the question of the Social Clause," writes Bhagwati (1994) "is the notion that competitive advantage can sometimes be 'illegitimate'. In particular, it is argued that if labor [or environmental] standards elsewhere are different and unacceptable morally, then the resulting competition is illegitimate and 'unfair'." As I indicated above, there is little that is objectionable in this line of argument, provided that the moral standard in question is one that is widely shared in the importing country, including by exporters and consumers (who stand to lose from the restriction of imports). The real threat to developing countries comes from the hijacking of moral arguments by protectionist import-competing groups. What we need then is a procedure that "tests" for the validity of the moral claim by attempting to ascertain whether the values in question are held widely at home or not.

Consider the following procedure. Any domestic producer, consumer or public-interest group is allowed to bring a social-safeguards case before the domestic investigating authority (the ITC in the United States), asking for import restrictions from the offending country. The authority is then required to solicit public testimony from all concerned parties, and in particular from consumer groups and from a representative sample of exporters to the country concerned. These groups are asked to present their own views on the specific moral, social, or environmental charge, and on the likely effectiveness of the remedy being sought. After public debate and hearing all sides, the investigating authority finally reaches a judgement on (a) whether the specific charge has widespread public support, and (b) whether import restrictions are called for.

This procedure has a precedent of sorts in Article 3:1 of the Uruguay Round Agreement

on Safeguards, which says in part:

> A Member may apply a safeguard measure only following an investigation by the competent authorities of that Member .... This investigation shall include reasonable public notice to all interested parties and public hearings or other appropriate means in which importers, exporters and other interested parties could present evidence and their views, including the opportunity to respond to the presentations of other parties and to submit their views, inter alia, as to whether or not the application of a safeguard measure would be in the public interest.

To serve the purposes of a social safeguards clause, the requirements stated above could be strengthened in a number of directions. First, there could be an explicit mention of consumer groups, alongside exporters, as the parties whose views should be sought. Second, the investigating authority could require testimony from such groups, rather than simply allowing it as in the present text. Third, it could be made clear that the investigating authority has two questions to resolve: (a) is the moral, environmental, or social principle on which the complaint is based one that is also shared by groups whose material interests would be adversely affected by trade restrictions? (b) If the answer is yes, does the proposed remedy fulfil an objective consistent with the principle(s) in question? The authority would authorize trade action only when the answer to both questions is yes.

The suggested procedure has a number of advantages. First, note that the public nature of the investigation should discourage purely opportunistic behavior by groups whose economic interests would be adversely affected by trade restrictions. When widely held social and moral principles are at stake, it is unlikely that such groups would deny the strength of the case for the simple reason that their own legitimacy in the public's eye would be thrown in doubt. For example, we can hardly imagine an exporting industry association professing that there is nothing wrong with slavery, or a particularly egregious form of child labor, or a process that causes environmental damage of major proportions. So soliciting the views of such groups should be an adequate test of the validity of the case for social safeguards. Another useful test would be to allow social safeguards cases to be brought only for a standard the importing country itself has

accepted (say in the ILO or in some future environmental agreement).[18]

More often than not, of course, consumer and exporting interests will disagree with the import-competing industries. The disagreement can center either on the moral issues, or on the efficacy of the trade remedy. With respect to the former, we can visualize exporting groups arguing, for example, that lax labor safety standards in, say, Bangladesh are not necessarily morally objectionable since poverty places limits on the stringency of standards. With respect to the latter, we can envisage a public debate--as happened during the recent renewal of China's MFN status in the United States[19]--on whether trade restrictions are an acceptable way of discharging a nation's moral or ethical obligations. In both cases, the process would be doing its job appropriately, distinguishing legitimate ethical and environmental concerns from pure protectionist chaff.

3. Compensating Countries Adversely Affected by Social Safeguards

Under the GATT 1994 safeguard rules, the country applying the safeguard is expected to "endeavor to maintain a substantially equivalent level of concessions and other obligations to that existing under GATT 1994 between it and the Members which would be affected by such a measure" (Art. 8:1). If adequate compensation is not offered, affected exporting countries are free to retaliate by suspending some of their concessions or obligations to the importing country. Developing countries should naturally seek to extend these principles to the area of social safeguards as well. In addition, they should seek to strengthen the requirement of

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[18]This suggestion was made by Dave Richardson. This requirement would put the U.S. in an awkward corner as it has not accepted many ILO standards.

[19]The fact that this debate actually took place is no guarantee that it will always do so. Chine is an important trade partner, and U.S. exporters rallied to the cause for fear of losing an important market. But suppose the country in question had been Bangladesh instead. Would there have been as much public debate? Probably not. Hence a major advantage of the proposed procedure is that it forces the debate to take place, even when the foreign country is a relatively small player in world markets, as most developing countries individually are.

compensation.

The issue of compensation is likely to be a controversial one. Developed-country governments can argue that countries that defile the environment and exploit their workers should not be allowed to profit from these acts, and do not deserve compensation for trade restrictions imposed on them. Developing countries with reasonably democratic regimes would be on strong grounds in rejecting this argument. In such countries, the prevailing labor and environmental standards can be taken to reflect prima facie their own principles and priorities. It is a reasonable principle that nations should not be made to suffer for having made, in broadly democratic fashion, institutional choices that differ from those in the advanced industrial countries. The case is well argued by Cooper (1993, pp. 33-35):

> decisions on environmental matters may affect others through foreign trade, just as do other policy decisions, such as those on transportation infrastructure or educational policy. But if they adequately reflect the collective preferences and circumstances of the country, they enter into its comparative advantage in the world economy, just as do many other factors.... It would not be appropriate to impute, say, the value Los Angelenos place on clean air to Mexico City, any more than it would be to impute Tokyo real estate values to Los Angeles... Surely the international community cannot, and should not be able to, force a country to purchase products the production of which offends the sensibilities of its citizenry... [But when trade sanctions are used], the sanctioning country should offer compensation in other areas of trade.

The same goes equally well for labor matters as well.

Developing countries that lack participatory political systems will have a harder time convincing their trade partners that they deserve compensation when they become the object of social safeguard action. Authoritarian regimes cannot make the claim that their environmental and labor standards must be reflective of broad social preferences. These standards may well be consistent with social preferences of course, but there is no prima facie case that they will be. Consequently, the case for compensating such countries is considerably weaker.[20] What is or is not a full democracy can of course be highly subjective. But in practice there is likely to be few

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[20]See Cooper (1993) for a good discussion on this issue.

cases in which the question of whether a country is "broadly democratic" or not would be seriously at issue.

4. Reprise: The Pros and Cons of a Social Safeguards Clause

The proposed procedure on "social safeguards" is summarized in Figure 1 in the form of a decision tree. The tree specifies the conditions under which trade restrictions would be allowed and compensation provided.

Accepting the principle that countries can impose trade restrictions in response to labor or environmental concerns may appear to be a big risk for developing countries. Whether it is or not depends on one's political judgement regarding the likelihood that developed-country governments will be persuaded to resort to benign strategies absent such a social safeguard clause. For example, it is possible that developed countries can be convinced to divorce trade matters from labor and environmental ones, and to dicuss the latter in separate international fora. If any multilateral codes or standards emerge from such negotiations, they will have the virtue of being mutually agreeable. Or, rich governments may be willing to deal with environmental issues by adopting an appropriate labelling system. Even better, of course, they may simply choose to resist protectionist pressures at home on labor and environmental grounds. Under these more-or-less desirable scenarios, a social-safeguards clause may do more damage than good.

On the other hand, the danger is that increasing domestic pressures on labor and environmental matters will lead to a new set of "grey area" protectionist measures because there are no internationally-agreed rules to channel these pressures into less harmful directions. If that happens, the consequences will be more damaging to developing-country interests than those of a social safeguards clause negotiated under the WTO. The social-safeguard guidelines proposed above are restrictive, and should protect exporters well. The hurdles that protectionists need to jump in order to achieve their aim are high ones (see Figure 1), and differ substantively

from those contained in existing investigations by, say, the U.S. International Trade Commission. In any case, developing countries need not commit themselves to any single proposal. It would probably be wise for them to pursue different strategies in parallel, with a well-designed social safeguards clause along the lines sketched above as one of the options.

IV. Concluding Remarks

Whatever its pros and cons, the Uruguay Round is over and done with, and developing countries have to live with its consequences. I have suggested here a number of ways in which they can make the best of the WTO which has emerged from the Round. For one thing, the WTO's integrated dispute settlement procedure greatly enhances small countries' leverage, and developing countries can henceforth make much better use of it. For another, the Uruguay Round agreements provide new ways in which developing country governments can employ their external obligations in order to improve their style of policymaking at home. In addition, the Uruguay Round has enhanced market access in textiles and clothing (with the phased-in elimination of the MFA) and in agriculture.

What is also clear is that the Uruguay Round has transformed the relationship of developing countries to the world trading system: they can no longer remain passive beneficiaries, with gains accruing to them without much action on their part. To make the best use of the WTO, developing countries will have to be active participants both in the WTO and in world trade. This is bad news only for countries that continue to regard trade with suspicion.

The next major challenge for the developing world will be to deal with charges of social and environmental dumping and with demands for upward harmonization in these areas. Since these issues are unlikely to disappear on their own, developing countries will have to work towards establishing a mechanism by which legitimate demands on ethical, environmental, or social grounds can be handled without being hijacked by protectionist interests. I have argued

here that a well-designed social safeguards clause is not necessarily inimical to the interests of developing countries. But such a clause will have to contain two significant provisions: (a) a mechanism to test the legitimacy of the social claim by enlisting exporting and consumer interests in the importing country in the decision-making process; and (b) compensation of the affected exporters, at least in cases where the exporting country possesses a reasonably democratic regime.

Such a system will not cost developing countries much. It will have the advantage of engaging the developed countries in a constructive dialogue, and of forestalling the emergence of a new set of "grey area" measures outside of the WTO.

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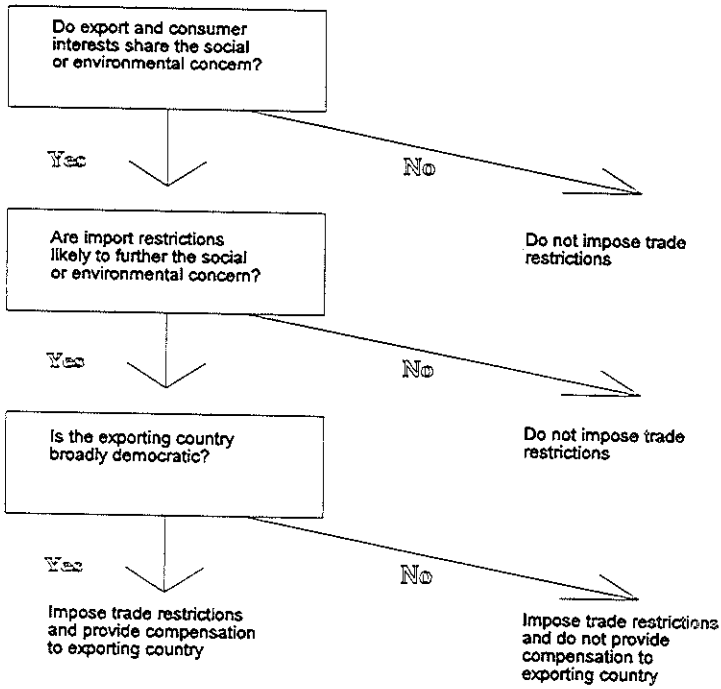

Figure 1: How to Evaluate Demands for Trade Restrictions Based on Labor and Environmental Concerns