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DEVELOPING COUNTRY PARTICIPATION IN THE URUGUAY ROUND*

by

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General Agreement on Tariffs and Trade

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I. Introduction

Multilateral trade negotiations under auspices of the General Agreement on Tariffs and Trade (GATT) have been a recurring event in the post World War II period. They have been quite successful in reducing barriers to trade, especially tariffs. To a large extent GATT negotiations have been among developed countries. Indeed, most developing countries did not join the GATT when it was initially created. Over time, membership in the GATT expanded greatly, and currently there are 96 members. However, developing countries have insisted on receiving "special and differential" treatment (S&D), which has implied, among other things, that reciprocal concessions did not have to be offered in GATT negotiations. This led to a situation where these negotiations centered primarily on topics (products) of interest to industrialized countries, implying that the results of these negotiations were less beneficial for developing countries than could have been the case.[1]

For a long time the GATT system functioned adequately as far as the industrialized nations were concerned. However, in the last 15 years the will to comply with multilateral rules of behavior has been waning somewhat. Reasons for this include the decline in the relative importance and hegemony of the United States as the leading power in world trade, financial and real shocks affecting the world economy, domestic macroeconomic imbalances, rigidities in labor markets, and the success of a number of developing countries in creating competitive export industries. The story is well known and does not have to be repeated here. These developments have put great strain on the GATT system. GATT rules have been circumvented with mounting frequency, with the "transparency" and most-favored-nation (MFN) principles in particular becoming increasingly irrelevant as nations applied (discriminatory) nontariff measures of various kinds to protect domestic industries.[2] The increasing use of discriminatory trade policies has been harmful for

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[1]See Finger and Olechowski (1987) for background on GATT negotiations in general and the current Uruguay Round in particular.

[2]Voluntary export restraint (VER) agreements are a prominent example, as are the

smaller trading nations and for developing countries in particular.

There is not much the GATT can do if the will to follow the rules is not present in the major trading nations. However, interest in the multilateral approach is still strong, and this is reflected in the launching of the Uruguay Round.[3] Arguably, the Uruguay Round will be crucial in determining the future role of the GATT and multilateral (cooperative) approaches to trade and trade policies. Failure of the negotiations would be a major blow. The premise of this paper is twofold: (1) the more advanced developing countries will have to participate actively in the negotiations to achieve substantial results; and (2) their participation is necessary if the multilateral approach for addressing trade policy issues is to remain (become more) attractive to the large industrialized players such as the European Community, Japan, and the United States. There is, of course, no unambiguous way in which to identify the "more advanced" developing countries and I will not make an attempt to develop a criterium. In any event, criteria may not be very useful. As shall be argued below, in practice a "self-selection" procedure will have to be employed, and the precise composition of this group will depend on the interests of the various countries in specific issues. For purposes of discussion, however, two yardsticks can be mentioned that will help in making things a bit more concrete. The first is share in world trade, and the second is absolute size. Thus, Brazil, the Peoples Republic of China, Hong Kong, Indonesia, Israel, South Korea, Malaysia, Mexico, the Philippines, Taiwan, Thailand, and Yugoslavia are all substantial exporters.[4] Large nations include Argentina, Egypt, India, Nigeria, and Turkey, all of which are also substantial exporters

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textile quotas of the Multifibre Accord.

[3]The Uruguay Round was launched in September 1986 after the agenda was agreed upon by the Contracting Parties to the GATT at the Ministerial Meeting held in Punta del Este, Uruguay (GATT, 1986). The Uruguay Round is a continuation of the process started in the Tokyo Round in that it is largely about rules of behavior. Although agreements may imply liberalization of trade, it is no longer the case that negotiations are primarily about easily identified levels of protection.

[4]All of these nations had exports in 1985 valued over 4 billion U.S. dollars (*World Bank Development Report, 1987*).

of specific products.

Participation in the GATT implies that "concessions" of some kind will have to be offered. *Given* a willingness to participate, the problem for developing countries is to decide what to offer and how to maximize gains from potential tradeoffs. It will be argued that the advanced developing countries should make an attempt to form coalitions and attempt to create linkages between issues on which they have something to offer and issues where they are "demandeurs." These issues may be both on and off the Uruguay Round agenda. Because interests in specific issues will differ across countries, the composition of the group of developing countries that are required to participate will vary depending on the issues involved.

Ending S&D is not on the Uruguay Round agenda. Indeed, the Punta del Este Ministerial Declaration explicitly states that "CONTRACTING PARTIES agree that the principle of differential and more favorable treatment embodied in Part IV and other relevant provisions of the General Agreement ... applies to the negotiations."[5] Also, "...developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to trade of developing countries."[6] However, in practice it has become less and less likely that the major developing countries will be allowed to free ride. As noted above, without reciprocal concessions and/or graduation procedures/commitments, it is unlikely that much will be achieved by developing countries as a group. More importantly, developed nations may continue and expand the use of (bilateral) approaches for solving trade policy problems that circumvent GATT rules and principles. This can only be to the detriment of most developing countries as they will usually be the weaker party in any discussion.

The plan of the paper is as follows: in Section II the Uruguay Round agenda is discussed, as well as the interests of the dominant players and the scope that exists for

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[5]GATT (1986, p. 7).

[6]Ibid.

agreement on the major issues. With this as background, in Section III a number of possible "offers" will be identified that should be feasible for developing countries. Section IV very briefly discusses possible "demands," while Section V offers some concluding comments.

II. The Uruguay Round Agenda and the Scope for Agreement

Table 1 lists the items that are on the Uruguay Round agenda and gives an indication of the differences that exist between major participants on these issues. Symbols in Table 1 represent both the relative weight accorded to an item by a player (the more symbols, the greater the relative importance), and differences in preferences. Thus, if two parties both are reported as regarding an issue along a plus (+) dimension, this indicates that they think along comparable lines. The same applies to zeros, minuses, and x's. What these preferences are precisely will not be spelt out in this paper, as it suffices to identify similar and divergent preferences. If three or four symbols occur for a given issue, this indicates that the issue is quite controversial in the sense that preferences differ widely. If preferences are represented by the same symbol for all players, it should be relatively easy to attain a mutually beneficial agreement because the goals of the players are similar. Aside from indicating issues where agreement may not be too difficult to achieve, similar preferences on an issue also allow the identification of players who potentially could form coalitions. For tradeoffs to be possible it is necessary that two groups of countries have diverging preferences on (at least) two issues.

Developing countries are aggregated into one bloc in Table 1, which is a rather heroic procedure. In practice, of course, different countries have varying preferences, and an accurate discussion requires much greater disaggregation. This would be a great deal of work; in fact, beyond my capabilities. However, the goal of this paper is to argue that efforts *should* be undertaken by nations to do this kind of work so as to ascertain whether there exists the possibility of forming a coalition that could negotiate en bloc. In what

follows I will focus primarily on "grand tradeoffs" between issues on which most major developing countries have similar preferences. Presumably, many more possibilities exist if a more "disaggregated" approach is taken.

Observe from Table 1 that there are a number of relatively uncontroversial issues: these include tariff reductions, tropical products, improving the operation of the Tokyo Round codes, improving dispute settlement procedures, and improving the functioning of the GATT system. While the relative weight given to these issues varies among participants, as well as the details of preferred solutions, there exists agreement with respect to goals. Other issues are more controversial, with players having different preferences (goals). These include nontariff measures, textiles and clothing, agriculture, safeguards, intellectual property protection, trade-related investment requirements, services, and subsidies.[7]

To determine the scope for agreement on the more controversial issues it is necessary to analyze for each nation (or bloc) how alternative proposals compare to the current situation, the status quo. This has been done for safeguards, services, and agriculture in Hoekman (1988a) where it was concluded that the dominant developed country players should be able to agree on all three issues. Three conclusions were drawn regarding a possible safeguard agreement: (1) there exists scope for an agreement between the European Community, Japan, and the United States; (2) this agreement is likely to resemble the status quo rather closely in that some kind of selective safeguard protection is likely to be allowed; and (3) the probability of a compensation requirement is rather low.[8] The implication is that an agreement may not improve very much, if at all,

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[7]Safeguards refers to the use of emergency protection to "safeguard" domestic producers injured by imports. GATT rules specify that such protection has to be nondiscriminatory, but they have been increasingly circumvented (Hoekman, 1988a, 1988b; Sampson, 1987). Trade-related investment discussions pertain to rules on (direct) investment that affect trade. Local content requirements are an example. Services are a new issue as the GATT does not apply to services.

[8]GATT rules implicitly embody a compensation requirement, but in practice nondiscriminatory actions taken under its auspices rarely include compensation. See

on the status quo for smaller trading nations, and especially developing countries, if the major industrialized nations decide to "go it alone."

An agreement on services between the major developed (OECD) nations should also be possible, as they agree in principle that multilateral rules will be useful. Again, the major differences of opinion are between the developing and the developed countries. The main question regarding a services agreement is the extent to which developing countries will participate. They would like to see services requiring the mobility of relatively unskilled labor included in an agreement, something that is opposed by most OECD nations. Many OECD countries prefer that rules be agreed for services that require a permanent presence of foreign factors to be provided (that is, foreign direct investment), but this is opposed by many developing countries.[9] The general danger for LDCs with respect to safeguards and services, as well as the other controversial issues such as nontariff measures (NTMs), textiles, trade-related investment measures (TRIMs), trade-related intellectual property rights (TRIPs), and subsidies and countervailing duties is to be confronted with agreements negotiated between developed countries that are not beneficial (or perhaps even harmful) to them in comparison to the status quo that exists. The general question is then what developing countries can offer and request in the Uruguay Round such that as beneficial an outcome as is possible results. Some possibilities are explored below.[10]

III. Possible Offers

In terms of the negotiating agenda, developing countries are "demandeurs" on

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Jackson (1987) and Sampson (1987).

[9]From a definitional perspective the factors in this case usually no longer are considered to be foreign, of course. Thus, the sales involved do not constitute trade.

[10]Agriculture is discussed in a companion paper (Hoekman 1988c) as this is primarily an issue between developed countries. However, developing countries will be affected by whatever is decided. See, for example, Valdés (1987) and the references therein.

safeguards and "suppliers" on services, two of the controversial issues. Another controversial issue where developing countries are demandeurs is textiles, while they are both demandeurs and suppliers on subsidies and nontariff measures. The problem is to offer something where developing countries are suppliers obtain something in return in an area (areas) where they are demandeurs. In particular, it might be possible for developing countries to consider "offers" to: (1) implement GATT rules and join the Tokyo Round Codes;[11] (2) bind and reduce existing levels of protection; (3) relinquish the eligibility for special and differential treatment (S&D); and (4) explicitly trade off the issues that are on the Uruguay Round agenda. The first two of these options are feasible for *all* developing countries, while the third and fourth apply only to the more advanced ones identified in the introductory section. The main elements of S&D that are relevant here are the exemptions from GATT rules relating to production and export subsidies and the use of quantitative restrictions for development and balance-of-payments purposes.[12]

1. Participating in the GATT Codes

An obvious way to increase participation in the GATT system is to apply and abide by current GATT rules and to join the GATT Codes. As noted in the Appendix, many developing countries are not signatories to the GATT codes of conduct. While additional developing country membership to some of these codes is not very relevant either for themselves or for the developed countries (the Aircraft Code is an example), this is not true for most of them. Thus, for example, implementation of the procedures mandated by the Import Licensing and the Customs Valuation Codes would imply a significant increase in the transparency of the import regime of many developing countries. Joining the Codes

[11]Or join the GATT if they have not already done so. However, with the exception of Taiwan and the Peoples Republic of China, all of the relevant countries are members of the GATT. Of course, China is presently engaged in negotiating membership to the GATT.

[12]Benefits under GSP schemes will obviously also play a role in the decision process regarding whether or not to "graduate." However, these benefits can be (and have been) taken away unilaterally.

may be useful not only as a negotiating (linkage) tactic, but often may benefit a nation by itself. Joining the Antidumping or Standards Code, for example, will be useful as it will allow AD investigations or discriminatory standards practice to be brought up in GATT meetings. My interest here, however, is to identify possible "concessions" that will be of interest to developed countries, irrespective of any beneficial effect on the country concerned of implementing code-mandated procedures. In what follows, I focus in particular on the Customs Valuation and Licensing Codes.[13]

The main objective of the Customs Valuation Code is to establish an equitable, uniform, and neutral system of determining the value of goods for customs purposes. The primary valuation method to be used is one based on transaction value, which is based on the price actually paid or payable for the goods, (often the invoice price in practice). The objective of the Licensing Code is to reduce the trade restrictive effect of the use of import licensing procedures by simplifying and harmonizing the procedures that importers must follow to obtain import licenses. Import licenses are documents (other than required for customs purposes) that need to be acquired before importation of a certain good is permitted. The code states that signatories must publish rules for submitting licensing requests, must clarify procedures for obtaining licenses, and must not refuse licenses for minor cosmetic reasons. The major features of the code are nondiscrimination and transparency. Anyone should be able to apply and obtain a license by meeting the published criteria.

Because signatories do not discriminate against nonsignatories in their application of code provisions, nonsignatories are essentially free to apply whatever valuation or licensing method they see fit, while benefitting from the simplicity and transparency of the code-conforming methods implemented by signatories. Those countries that desire especially to maintain their ability to use valuation and licensing procedures to protect their economies thus have had little incentive to sign either of the codes, given that

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[13]The following paragraphs are based in part on Stern, Jackson, and Hoekman (1988).

acceptance of the codes implies that other means of protection will have to be applied.[14] However, it is not necessary to use valuation or licensing procedures to protect one's market. Those countries that are worried about maintaining existing levels of protection should be able to convert nontariff barrier (valuation- or licensing related) protection into tariff protection upon joining the codes. Tariff revenues are usually relatively much more important as a source of revenue to developing countries than to developed countries.

The possibility of declining revenues may be another factor explaining the high degree of nonparticipation in the Valuation Code. Again, it should be possible to implement the agreement in a revenue neutral manner. If necessary, tariff rates could be increased. Fear of losing control of transfer pricing by multinationals is a further worry for developing countries. However, the code allows different valuation methods if there is reason to believe that, due to the existence of a relationship between parties, prices have been influenced. Nevertheless, having to prove the existence of a relationship and showing that it has affected the price may imply that developing countries will lose some freedom if they accept code discipline. This loss in discretion could be a major factor in explaining the limited developing country participation in the Valuation Code. The same applies to possible concerns regarding difficulty in proving false invoicing in transactions between parties which are claimed not to be related. Thus, another potential reason for limited participation may be simply a resistance to the organizational trauma of reforming systems and the success of entrenched interests to maintain the status quo.[15]

There are, of course, benefits from implementing the Valuation Code. Some customs services may be interested in the Code as it represents the "state of the art" in customs valuation. Membership would give them access to a reservoir of experience and technical

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[14]Incentive is used here in a negative sense. As noted below, there may exist positive incentives to join a code if it helps a nation implement policies it wants to follow in any event.

[15]The increase in transparency of procedures after code implementation may lead to possible elimination (or reallocation) of rents.

assistance from industrialized nations. Also, it may help a government to implement policies that are opposed by domestic lobbies. However, the major benefit of the code accrues to traders due to an increase in transparency and simplicity of valuation procedures.

Implementation of the procedures of the Licensing Code could have a substantial impact on some developing nations. Although the provisions of the Code are not particularly onerous,[16] this will only be the case if licensing procedures are not used as an instrument of protection. Many nonsignatories do use licensing for protectionist purposes, however. Also, given that import licensing is often a by product of the existence of import quotas, it should be emphasized that as long as quotas continue to be used as trade restrictive measures, import licences will continue to be necessary.

Two procedures seem possible here. The first is to restrict attention to the licensing regime per se; the second is to broaden the focus to include the quotas themselves. While the latter would be preferable from an economic point of view, this should be regarded as going beyond the requirements of Code membership. It implies liberalization and will be discussed below. In any case, implementation of the provisions of the Licensing Code by all the major developing nations would be a significant improvement over the status quo. The costs of implementing the Licensing Code are primarily administrative, although they are likely to be less than for the Valuation Code. The benefits of the code are similar to those of the Valuation Code: a reduction in uncertainty for both domestic and foreign traders due to an increase in transparency.

Other codes where increasing developing country membership should be of some value to developed countries are the Subsidies, Government Procurement, and Standards Codes. Membership of the latter two codes may imply substantial administrative burdens for some developing countries, but technical assistance to implement code-mandated procedures is available. Membership of the first two codes may have relatively great

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[16]See UNCTAD (1982, p. 10).

implications for domestic policies if fully implemented. Even without undertaking any "graduation" from S&D status, the Subsidies Code implies that certain subsidies may come under scrutiny (particularly those that are "not consistent with development needs"). The Procurement Code requires open tendering for large government contracts, something that may not be to the liking of vested interests. However, especially from an economy-wide perspective, it is difficult to imagine that a country could become worse off from implementing this code.[17]

The advantage of focusing on the codes is that: (1) they already exist; and (2) they are general. Thus there is no need for country-specific or sector-specific talks.[18] While it may be true that for many developing countries the perceived costs of the codes outweigh the perceived benefits, it is generally not the case that implementation of code-mandated procedures is prohibitively costly. In any event, it should be possible to negotiate about those aspects that are found to be totally unacceptable, as all the codes are currently being reassessed in the GATT Negotiating Group on MTN Agreements and Arrangements.[19] The main point to be made is that the perceived costs must be weighed against the benefits of achieving an agreement on an issue of greater importance, such as safeguards, services, or textiles.[20]

Of course, greater participation in the codes is only one way to further integrate developing countries into the GATT. As noted above, other possibilities include binding of tariff schedules, general liberalization, and "graduating" from S&D eligibility. At least something along these lines is likely to be required for the advanced developing countries.

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[17]For more on the costs and benefits of joining various codes, see Stern, Jackson, and Hoekman (1988) and Stern and Hoekman (1987).

[18]An exception is the Procurement Code, where a list of entities must be negotiated whose procurement is to be subject to code rules.

[19]Nonsignatories to the codes may participate in the Uruguay Round discussions on improving them. *News of the Uruguay Round*, No. 5, July 3, 1987, p. 1.

[20]Quid pro quo's will be discussed later.

This is because joining the Codes is unlikely to be considered sufficiently beneficial by developed countries to justify substantial reciprocal concessions. Also, a number of them already are members of some of the Codes.[21] The main benefit of the codes approach is that it requires little coordination among developing countries and signals a willingness to participate in the GATT system. All developing countries can sign the codes, not just the more advanced ones. From a linkage perspective the problem, of course, is deciding what to attempt to link with and how to organize/coordinate this. I shall return to this presently.

2. Binding and Reducing Levels of Protection

Binding and reducing levels of protection is another obvious option for developing countries. However, while in principle this is possible for all developing countries, it will have to be done on a country-by-country basis. Advanced developing countries will be under some pressure in the Uruguay Round to take steps to bind and reduce levels of protection in any event. Thus, it is likely that they will be requested to bind their tariffs as a quid pro quo for tariff reduction and harmonization by developed countries. This implies that binding tariffs may not be a good candidate for linkage. Also, while it would be beneficial to reduce protection even unilaterally, it is unclear what could be achieved here in terms of linkage to broad issues such as safeguards, services or textiles. This is because it will be difficult for developing countries to offer something as a bloc. However, possibilities may exist with respect to certain nontariff measures. In general, nontariff measures could be converted into tariffs, something that will require discussions on specific nontariff measures. Alternatively (or additionally) rules could be agreed upon pertaining to specific policies. For example, agreement on general rules for preshipment inspection practices is on the agenda of many developed countries.

Many developing countries have negotiated contracts with specialized firms that

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[21]See the Appendix.

mandate them to inspect goods that are to be exported to their country in the country of origin (pre-shipment). The goal of this is to prevent under- and overinvoicing of imports and to confirm the reported customs classification. The operation of some of these inspecting agencies has been controversial and the matter has been taken up in the Uruguay Round Negotiating Group on nontariff measures.[22] Given the widespread and increasing use being made by developing countries of preshipment inspection, this is an issue where they may have something to offer. A possibility that would have much greater impact would be to agree to convert quotas to tariffs, and thus to increase the transparency of import regimes. As noted above, implementation of the Licensing Code requirements would increase transparency but would have only a limited effect on the quotas that make the licensing necessary. However, conversion of quotas to tariffs may best be done on a bilateral basis. For many developing countries quotas and licences are required because of the exchange regime that they maintain. In these cases conversion would have relatively great implications for domestic economies. It does not seem likely that developing countries could easily agree among themselves that this is a beneficial route to follow. Conversion of quotas to tariffs bring us to the topic of "graduation."

3. Ending Special and Differential Treatment: Graduation

Hindley (1987) has argued that before commitments to reduce protection by developing countries can be considered credible, the problem of S&D must be addressed. Problems may be caused especially by the existence of Article XVIII of the GATT (entitled Governmental Assistance to Economic Development). In Hindley's view this is a blanket exemption for developing countries which allows them to circumvent any negotiated agreement if that is desired. Article XVIII permits the withdrawal of concessions (nonapplication of GATT rules) for purposes of infant industry promotion and to protect the balance-of-payments. Hindley argues that the existence of Article XVIII allows

[22] *Financial Times*, March 24, 1988, p. 5.

developing countries a great deal of latitude to impose and adjust tariffs and quantitative restrictions at will and that "the effect of Article XVIII is to deter developed countries from entering normal GATT reciprocal bargaining with developing countries" (p. 68). The implication in the context of this paper is that linkage may be impossible, as any agreement may not be regarded as credible and/or enforceable. However, this is too strong a conclusion. Article XVIII does require that preconditions be met. The main problem appears to have been weak surveillance by GATT members of the balance-of-payments actions justified under Article XVIII (Eglin, 1987). Credibility is a crucial issue, however, as is enforcement.

Hindley (1987) has suggested that a separate code be negotiated that constrains signatories to specific interpretations of Articles XII and XVIII of the GATT.[23] The main element of such a code would be a commitment by signatories not to invoke Article XVIII. This would effectively imply that developing country signatories graduate from S&D. Obviously this procedure can apply only to the more advanced developing countries. In combination with commitments to bind and reduce protection, this would give participating developing countries something substantial to bargain with.[24]

4. Linking Uruguay Round Agenda Items

So far the focus has not been explicitly on the specific issues that are on the Uruguay Round agenda, although the general topic of reducing protection is, of course, what GATT negotiations are all about. Linkage possibilities certainly exist for many issues on agenda. One candidate for linkage is services, as this is an issue on which developing countries have something to offer.[25] Services appear to offer great scope to

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[23]Article XII addresses protection by developed countries to safeguard the balance-of-payments.

[24]As was the case for greater code participation, to be used in a linkage context it is necessary that a sufficient number of developing countries can agree to act as a bloc. I shall return to this topic presently.

[25]The following is based on Hoekman (1988b).

developing countries for fruitful linkage, especially given the existence of strong lobbies in some developed nations (especially the United States) that want to see progress made on services.[26] Conversely, domestic service lobbies in the developing nations on average may be weaker than those associated with import-competing goods industries, given that the latter often have a vested interest in maintaining existing protection and thus may be better organized. Thus, there may exist greater scope for an agreement on services than for liberalization of trade and investment in goods in developing countries. Also, the gains from liberalizing service sectors may be greater than for goods sectors because access to service sectors is often blocked completely, in contrast to goods. Given that trade in services to a large extent concerns trade in intermediate inputs, domestic forces *favoring* liberalization in services may be relatively stronger than those favoring a change in the import regime. Finally, the issue of S&D may be less relevant for services as these are not covered by the GATT. Thus, because services essentially have "no history" in the GATT it may be easier to introduce a services link.

There exist three possible bargaining strategies: (1) agree to participate in a less than optimal services agreement in return for concessions on another issue such as safeguards or textiles; (2) attempt to get as much as possible on the services issue (that is, for example, include unskilled labor mobility) by offering concessions within the services area; and (3) attempt to maximize the results on services by offering concessions in other areas. However, it is unlikely that developed countries will accept a definition of trade in services that allows unskilled labor mobility, as the aversion to this is almost absolute on the part of many developed countries. Therefore the best tactic for developing countries may be to attempt the first option noted above.

What about the other issues on the agenda? Even though interests differ substantially with respect to trade-related investment measures and intellectual property

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[26] In itself, as noted by Wolf (1984, p. 222), "the intensity of American interest can prove tactically useful since developing countries should be able to obtain something in return for a willingness to discuss the issue."

rights, neither of these issues is of primary interest to most of the developed countries. Also, as far as the investment issue is concerned, there may be differences in opinion among industrialized nations. For example, the European Community and Canada, among others, make use of local content regulations. Issues where linkage might be possible include textiles, rollback, subsidies, and nontariff measures, as interests diverge significantly on all these topics. However, developing countries cannot offer much on the first two of these issues as they are demanders, not suppliers. At most they could accept a continuation of the status quo. But this will not get them much in return, of course. This leaves subsidies and nontariff measures. The preshipment inspection controversy and conversion of quotas to tariffs have already been mentioned in the context of nontariff measures. No doubt other possibilities exist. They are less obvious than the services linkage, however, and are likely to require substantial intra-bloc negotiation. Any offers with respect to nontariff measures (including subsidies) will be closely related to the question of graduation, as developing countries presently are subject to much weaker rules than developed countries. In practice linkage attempts here will probably involve subsets of developing countries. Grand tradeoffs are unlikely to be feasible.

Summarizing, it appears that developing countries have three general options in terms of grand tradeoffs: (1) increase their participation in the GATT (Codes); (2) credibly graduate (possibly through the negotiation of a separate code); and (3) actively participate in any agreement on services that emerges but attempt to get something in return. In general, the greatest scope for linkage results is likely to emerge if the second route is followed. Of course, all three options could be followed at once. Also, if a less aggregated approach is taken many more linkages may become possible. The point to be made is that these possibilities need to be investigated by interested nations themselves.

IV. Determing Participation and Quid Pro Quo's

Up to this point the focus has been on possible offers. Not much attention has been paid to the problem of what to ask in return or how to implement a linkage strategy. The

procedural and organizational requirements for successful linkage are not trivial and may be an important reason why explicit multilateral linkages are not often observed in a GATT context. Joining and implementing the GATT codes, negotiating a "graduation" code, and participating in a services agreement are all feasible in principle, *given the will to do so*. The necessary conditions for this are that the major developing countries can agree on what to offer and what to ask (what to link with). These questions are interdependent, as the willingness to attempt linkage will to a great extent be a function of what can be obtained in return.[27] This in turn will be a function of the value developed countries attach to whatever can be (is) offered, which will be a function of which nations agree to participate, etcetera. What could developing countries seek to achieve? Various linkages are possible: with safeguards, nontariff measures, textiles, subsidies, or services.[28] Which issues should (could) be chosen is a question that requires a separate negotiation between developing countries. Discussion of the pro's and con's of specific possibilities is beyond the scope of this paper. However, in what follows I will note one possibility that is not immediately obvious: strengthening GATT enforcement procedures.

Adherence to GATT rules depends on two things: (1) that there exist gains from abiding by the rules; and (2) that there exist costs from circumventing the rules. The latter is a function of the effectiveness of the enforcement mechanism. Enforcement is very important for developing countries as they usually cannot retaliate or make credible threats of retaliation. In principle, existing GATT rules could be changed relatively easily to improve the enforcement mechanism. One procedure would be to apply the MFN rule to retaliation as well as concessions. That is, opportunistic behavior that affects only a single country would lead to a reaction by all (major) GATT members, not just the affected

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[27]Of course, from a normative perspective many of the offers noted above may well be beneficial in themselves even if implemented unilaterally. I abstract from this here.

[28]In Hoekman (1988b) the focus is on safeguards. Requests with respect to nontariff measures could include concessions with respect to application of antidumping and countervailing laws to LDC exports. As noted above, it is likely that the difficulty of obtaining what is preferred on services will be insurmountable.

one.[29] The general problem with retaliation is that it will often imply shooting oneself in the foot even if a nation is capable of it. However, if all major contracting parties (or a significant subset) impose the retaliatory action, the burden of retaliating is spread while the cost to the offender increases. This "per unit" cost reduction for retaliators is a major benefit of this approach. In conjunction with increased costs of transgressing it implies that enforcement will be more credible.

As noted above, not all developing countries need to be involved in the discussions to determine possible linkages. Participation "requirements" in general will vary per issue. Much depends here on whether agreements are sought that will apply on an MFN basis or not. If linkages are sought on issues where MFN treatment is necessary, participants may have to accept a certain amount of free riding. This would be the case if a nondiscriminatory safeguards agreement was sought, for example. Alternatively, nations could attempt to agree to tradeoffs on issues where conditional MFN application is feasible. This is a question that will have to be settled by negotiation. While it will undoubtedly be difficult for coalitions to form that can agree on a linkage strategy, it should not be impossible, witness the present operation of the Cairns Group on agriculture. One or more of the advanced developing countries would have to take the initiative and determine preferences on the issues, the opportunities that exist for linkages to be attempted, and the willingness to cooperate. After suitable preparatory work a conference at Ministerial level (or higher) would be required to attempt to reach a (formal) consensus on a linkage strategy. It would have to be decided both what to offer and what to ask in return. As noted above, agreement on explicit graduation procedures would probably be of greatest interest to developed countries.[30]

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[29]If such a rule proved to be impossible to implement, an alternative would be for countries to form "defensive alliances," agreeing to retaliate en bloc if opportunistic behavior is observed against one of its members.

[30]Political interest, not economic interest. From an economic perspective increasing the transparency of trade policy measures and binding and reducing levels of protection should have a greater weight. While these can be achieved without formal graduation, they may

V. Concluding Remarks

The premise of the foregoing discussion is that (advanced) developing countries need to participate actively in the negotiations and should consider attempting to link issues "en bloc." A policy implication of this is that an institutional apparatus may need to be created that allows these nations to hammer out common negotiating positions and strategies that will be followed in GATT negotiations. That this is possible is illustrated by the Cairns Group. It has been noted that not all developing countries need (or should) participate actively in this, and in practice it will be necessary that the more advanced ones cooperate. While there are potential free rider problems these should not be too stringent for those issues where a commonality of interests exists. An important requirement is, of course, that these issues are (can be) identified. Positions on many issues vary widely among developing countries. This implies that there may not be very many issues where they can agree on linkage strategies of the "grand tradeoff" type. Necessary conditions are that they can agree on what is to be offered and what is to be requested in return. A number of options exist with respect to offers. Three were identified above: (1) "universal" participation in the GATT codes; (2) negotiation of a "graduation" code; and (3) "universal" participation in a services agreement.

In general, of course, linkage attempts do not have to be confined to issues where all the major developing country players can agree. Thus, a case can be made for countries with similar interests, whether developed or not, to form explicit coalitions and negotiate as a bloc. Of course, this occurs all the time in a negotiation. However, developing countries have traditionally relied on their S&D status and have not been willing to offer reciprocal concessions to developed countries. The point to be made is that developing countries could gain from more active coordination of their positions as long as they are prepared to offer concessions. This requires that nations are familiar with each other's

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be difficult to achieve in a bloc-context.

positions and are willing and able to coordinate strategies. In particular, countries will require good information regarding where their interests lie.

Often it appears as if the positions that are taken by nations are dominated by sectoral (special) interest groups and are not beneficial (normatively speaking) to the nation as a whole. In many cases this may be due as much to a lack of information as to good organization on the part of the lobby involved. It can be argued that there is a great need for objective analysis of various proposals on agenda items. The focus of this analysis should not be solely on a nation's own interest, but also on that of other countries. This is useful because it allows the identification of possible linkages *and* helps to bring into the open when a position is dominated by a special interest group. To my knowledge analysts do not usually focus explicitly on possible tradeoffs. However, there is a need to identify what scope exists for specific linkages. This could increase the chance that agreements are reached that maximize the benefits for all the participants concerned. Convincing analysis could also lead to agreements that are better from a normative perspective. This type of analysis needs to be done both by the participants in MTNs and by independent agencies.

Table 1

Uruguay Round Agenda and Interests

Agenda Item	Participants: Nation or Bloc				
	U.S.	EC	Japan	SOEs	LDCs
Tariffs	+	+	+	+	+
Nontariff Measures	++	00	––	++	xx
Tropical Products	+	+	+	+	++
Natural Resource-Based Products	?	?	?	?	++
Textiles and Clothing	––	––	?	?	+++
Agriculture	+++	000	–––	+++	++
GATT Articles	a	a	a	a	a
Safeguards	+	–	?	+++	+++
Tokyo Round Codes	+	+	+	+	0
Dispute Procedures	+++	0	+	++	+
Trade-Related Investment	++	–	+	?	––
Intellectual Property Rights	++	+	+	+	–
Subsidies and Countervailing	+++	––	––	++	0
Functioning of GATT system	++	+	+	++	++
Services	+++	++	+	+	––
Rollback	+	+	+	++	+++

Notes:
a – This category is too broad to characterize interests.
SOEs refers to a group of "small open economies" that includes Australia, Canada, and New Zealand. LDCs refers to the group of advanced developing countries, the composition of which was discussed in the text. Symbols represent preferences on the issues. The more types reported for an issue, the more players differ in their preferences. The number of symbols per issue indicates the relative weight given to the issue by a player. Question marks denote uncertainty regarding the position taken. As explained in the text, these symbols are only intended to indicate where preferences are similar or divergent; they do not have an intrinsic meaning.

Source: Information regarding the relative weight given by players to the various issues is based on reports in the press, discussions

with national trade policy officials, as well as information provided in Bhagwati (1987), Krause (1986), and Nau (1987). Thus they essentially are subjective.

Appendix

Signatories to the Tokyo Round agreements as of June 1986

Country	Subsidies	Anti-dumping	Standards	Valuation (a)	Procurement	Import Licensing	Civil Aircraft	Bovine Meat	Dairy Products
Industrialized Countries									
Australia	A(1)	A		A		A		A	A
Austria	A	A	A	A	A	A	A	A	
Canada	A	A	A	A	A	A	A	A	
European Community(3)	A	A	A	A	A	A	A	A	A
Belgium	c	c	A	c	c	c	A	c	c
Denmark	c	c	A(1)	c	c	c	A(1)	c	c
France	c	c	A	c	c	c	A	c	c
West Germany	c	c	A(1)	c	c	c	A	c	c
Greece	c	c	S	c		c	S	c	c
Ireland	c	c	A	c	c	c	A	c	c
Italy	c	c	A	c	c	c	S	c	c
Luxembourg	c	c	A	c	c	c	A	c	c
Netherlands	c	c	A	c	c	c	A	c	c
Portugal	c	c	A	c		c		c	c
Spain	c	c	A	c		c		c	c
United Kingdom	A(1)	A(1)	A	A(1)	A(1)	A(1)	A(1)	c	c
Finland	A	A	A	A	A	A		A	A
Japan	A	A	A	A	A	A	A	A	A
New Zealand	A(1)		A	A(1)		A		A	A
Norway	A	A	A	A	A	A	A	A	A
South Africa				A		A		A	A
Sweden	A	A	A	A	A	A	A	A	A
Switzerland	A	A	A	A	A	A	A	A	A
United States	A	A	A	A	A	A	A	A	
Advanced Developing Countries									
Argentina			A(1)	S(1)		S		A	A
Brazil	A	A	A	A(1)				A	
Hong Kong	A	A	A	A	A	A			
India	A	A	A	A(1)		A			
Israel	A				A				
South Korea	A	A	A	A(1)					
Singapore		A	A		A	A			

Appendix (continued)

Country	Sub-si-dies	Anti-dump-ing	Stan-dards	Valu-ation (a)	Pro-cure-ment	Im-port Li-cen-sing	Civil Air-craft	Bo-vine Meat	Dairy Pro-ducts
Turkey	A			S					
Other Developing Countries									
Belize								P	
Botswana(2)				A					
Chile	A		A			A			
Colombia								A	
Egypt	A	A	A			A	S	A	S
Guatemala(2)								A(1)	
Indonesia	A								
Lesotho(2)				A(1)					
Malawi				A(1)					
Nigeria						A		A	
Pakistan	A	A	A			A			
Paraguay(2)								P	
Philippines	A		A			A(1)			
Rwanda			S						
Tunisia(4)			A					A	
Uruguay	A							A	A
Nonmarket Economies									
Bulgaria(2)								A	A
Czechoslovakia		A	A(1)	A		A			
Hungary		A	A(1)	A		A		A	A
Poland		A				A		A	A
Romania		A	A	A		A	A	A	A
Yugoslavia	S	A	A	A		A		A	
Total (signatories)	25	23	38	26	13	27	21	27	16
Total (members)(5)	34	33	35	34	20	36	19	36	26
Observors	30	30	25	23	33	23	20	18	21

Notes:

A: Accepted; S: Signed (acceptance pending); P: Provisional membership; c: Denotes that the EC signed the Code for the respective member. See also (3) below.

(a) All signatories to the Customs Valuation Code are also signatories to the Protocol,

except for Czechoslovakia and Botswana (USTR, 1986, p. 89).

(1) Reservation, condition, and/or declaration.

(2) Not a contracting party to the GATT.

(3) The European Community is a signatory to all the agreements. Individual European Community member states are signatories to the Standards and Civil Aircraft Codes as these Codes address matters that go beyond European Community authority. Greece has not signed the government procurement code; Portugal and Spain are negotiating membership to this code.

(4) Provisional accession to the GATT.

(5) Refers to countries bound by a Code. Excludes those countries which only signed a Code (S).

Source: Stern, Jackson, and Hoekman (1988).

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