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**DEVELOPING COUNTRIES AND THE URUGUAY ROUND:  
ACHIEVING MULTILATERAL DISCIPLINE ON SAFEGUARDS**

by

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## Introduction

This article focuses on the safeguards problem, that is, on the use of 'emergency' protection which does not comply with GATT rules.<sup>1</sup> For developing countries especially, achieving multilateral discipline on safeguard actions is of great importance.<sup>2</sup> Indeed, the argument can be made that the lack of effective discipline on safeguards undermines considerably the value of being a member of the GATT for these countries. The failure of the safeguard talks during the Tokyo Round certainly devalued the results of that round of negotiations. What is at stake for developing countries is, of course, access to developed country markets. As the adherence to rules of nondiscrimination diminishes, uncertainty regarding future market access increases, specialization according to comparative advantage is made more difficult, and production and consumption decisions become distorted.

In September 1986, the contracting parties to the General Agreement on Tariffs and Trade (GATT) agreed to launch a new round of multilateral trade negotiations, the Uruguay Round. The agenda includes familiar topics such as trade in manufactured and agricultural products, unfinished business from the previous round of negotiations (the Tokyo Round) such as safeguards, and new topics such as services, intellectual property rights, and trade-related investment. The Uruguay Round offers another chance to create an effective agreement regarding imposition of emergency protection. However, it is likely that developing countries, which have the most to gain from multilateral discipline on safeguard actions, may not be able to obtain an agreement along the lines they would prefer if tradeoffs are to be limited to the safeguards issue. A case will be made that linking negotiations on different issues may be a productive strategy for all concerned. For linkage to be feasible, the issue that is chosen has to be one on which developing countries can offer "concessions." In practice it is probable that this will imply that developing countries will have to liberalize access to their markets. This liberalization may pertain to goods, services, or both. For a number of procedural reasons to be explained below,

linkage between services and safeguards appears to offer the greatest potential for mutual gains. The argument for linkage is quite general, however.

### **GATT Rules and the Incentives to Circumvent Them**

As is well known, the major 'escape clause' of the GATT is Article XIX, which allows the imposition of safeguard protection when imports are deemed to (threaten) harm to the importing country's domestic competing industry. While allowing safeguard actions, Article XIX specifies that certain necessary conditions have to be satisfied. Thus there are rules relating to the establishment of 'cause' and 'injury' as a prerequisite for emergency protection. Article XIX also gives affected exporting countries the right to retaliate against the safeguard protection if compensation by the imposing country (the importer) is not forthcoming or is deemed to be inadequate. Finally, it is generally accepted that any safeguard action taken under GATT rules should be on a nondiscriminatory basis.

It is beyond the scope of this article to go at length into the the reasons why safeguard protection is felt to be necessary by an imposing country. Fundamentally, it reflects an unwillingness on the part of industrialized countries to adjust to a changing world. The Australian economist W. Max Corden has hypothesized in this connection that "policy reactions to market disturbances are frequently influenced or governed by implicit values that could be summarized in a 'conservative social welfare function.'"<sup>3</sup> The distinguishing characteristic of a conservative social welfare function is that real income losses of any significant group in a society are to be avoided. Governments thus intervene in response to market disturbances so as to protect existing real incomes.

In the last decade, safeguard actions have increasingly been taken through procedures and mechanisms that circumvent the GATT.<sup>4</sup> Voluntary export restraint agreements (VERs) are a prominent example. One of the objectives of the Tokyo Round of multilateral trade negotiations was to develop an agreement on safeguards which would prevent safeguard imposing countries from circumventing the multilateral discipline and

transparency rules of the GATT. While the Tokyo Round resulted in many agreements (Codes) on various issue areas, a safeguards agreement proved impossible to negotiate, implying that the status quo was preferred by at least one major party (or bloc) over any proposed agreement.<sup>5</sup> Thus, to understand the failure of the negotiations, it is necessary to understand what the 'value' of the status quo is, as any safeguards agreement will have to improve on it for all parties concerned. In large part this entails investigating what the incentives are to circumvent the GATT rules regarding emergency protection, that is, to use VERs.<sup>6</sup>

Three aspects of Article XIX may play a role in explaining the widespread use of measures that circumvent the GATT. These are the remedy allowed (that is, the type of protection that may be imposed); the affected party's right to retaliate (the "compensation requirement"); and the need to satisfy preconditions such as "cause" and "injury." The last aspect is obvious: use of VERs is not contingent on the satisfaction of prerequisites, thus making them easier for importers to impose/negotiate. The remedy and retaliation issues are related. The former does not concern the instrument of protection, as formally the GATT allows either tariff or nontariff protection in a safeguards situation. Being constrained to use tariff protection thus cannot be an issue.<sup>7</sup> What is felt to be the constraint by importers, of course, is the widely held perception that safeguard actions are to be nondiscriminatory.<sup>8</sup> This is what makes retaliation/compensation a constraint. A preference for selective actions then can be explained by recognizing that they allow a country to avoid the compensation/retaliation bill of a nondiscriminatory action, while at the same time offering built-in compensation to affected exporters by allowing them to garner the quota rents.

Although this justification for selectivity may seem intuitive, upon reflection it is not very convincing. In large part this is the case because selective protection is rarely effective. One VER almost invariably leads to a series of them as long as there exist competitive sources of supply and protection is seriously sought. The ineffectiveness of

selective protection has been demonstrated convincingly in the literature on this subject.<sup>9</sup> In those cases where protection is seriously felt to be necessary, it will usually have to become global. Textiles, television receivers, and steel are well known examples where this occurred. Thus, selective actions at best allow a country to meet its “compensation bill” gradually. From an economic perspective, however, selectivity (whether it eventually leads to a global measure or not) usually will be more costly than a measure which is taken in a nondiscriminatory fashion. This is because of the initial and consequent distortions associated with selective actions which do not occur if the action is *truly* global from the start.

Given the ineffectiveness and high cost of selective actions, the demonstrated preference for selectivity on the part of importing nations primarily must have noneconomic foundations. Possible arguments for being able to impose selective safeguard actions include the following. One possibility is that governments are well aware of the ineffectiveness of discriminatory measures and that is precisely why they are willing to impose them. In this manner they keep both domestic and foreign affected firms relatively happy. While the necessity of the parties involved to have differing information makes this a rather unlikely explanation, there could be some relevance to this argument depending on the relative power of the domestic industry. Another possibility, related in some sense to the previous one, is that governments have a wish not to be perceived as being (too) protectionist. It may well be that it is easier to defend a limited protectionist action to other countries and/or domestic groups who oppose the protection, while at the same time satisfying (albeit imperfectly) the relevant domestic industry. Finally, being able to take selective measures allows one to exempt allies and “innocent” parties which one does not want to subject to ‘unfriendly’ measures. For example, selective actions have been justified by pointing out that global actions would affect beneficiaries of preferential tariff schemes. More generally, the revealed preference for selectivity may be explained in part by a growing desire to turn away from multilateralism and towards bilateralism. In

the United States this trend towards bilateralism is reflected in the calls for a 'level playing field', bilaterally balanced trade, and 'reciprocity'.

### **Towards a Safeguards Agreement**

Ideally, developing countries (and many developed economies for that matter) prefer that any safeguard agreement include as major elements nondiscrimination, a compensation requirement, and preconditions for action. Indeed, the elements of an "optimal" agreement for these nations is likely to resemble Article XIX closely. The American economist Alan Deardorff has proposed elements of a safeguards agreement which may be considered as being representative of the the type of agreement many developing nations might prefer.<sup>10</sup> He proposes that the remedy in a safeguard action be a temporary global quota, set at a level no less than some base year level of imports (prior to injury). Quotas are to be allocated to *all* exporting countries, thus to a greater or lesser extent ensuring both nondiscrimination and compensation. Furthermore, quotas are to be transferable between countries, that is, they are to be globally marketable. This ensures that trade and specialization will follow comparative advantage as there will be only one quota premium (equivalent to some MFN tariff). In economic terms, a safeguards agreement along these lines would be superior to the status quo (VERs) for all parties. Developing countries as a group would gain because, in addition to the procedural requirements of an agreement relating to issues such as preconditions, transparency and the duration of safeguard actions, nondiscriminatory safeguard actions and tradable quotas imply a substantial reduction in uncertainty regarding future market access, while still ensuring some degree of compensation. Developed nations also would gain because safeguard protection would be effective and less costly than global systems of bilateral VERs. In general, safeguard actions taken in this fashion would avoid both the distortions due to the initial imposition of the VER (such as transshipment, false certificates of origin, incentives to relocate productive facilities) and the distortions due to the gradual cartelization of the world market, which locks in a certain pattern of production and trade.

It should be noted that Deardorff's proposal improves on those made during the Tokyo Round.<sup>11</sup> Proposals for a safeguards code made during (and after) the Tokyo Round incorporated either selectivity of some kind or rejected it completely. However, those that rejected selectivity did not offer anything substantial to those in favor of it to induce them to drop their demand. Conversely, those arguing for selectivity often offered 'packages' that were worse than the status quo for exporters. This is true especially of proposals incorporating some kind of 'consensual' selectivity, where the compensation requirement would be waived for those countries imposing a safeguard action conforming to the procedural requirements of the code. Such proposals contain few incentives for exporters. Those most likely to be subjected to safeguard protection would lose their compensation, while those likely to be excluded from an action would neither gain nor lose. The major benefit of such a code is the discipline it presumably would impose regarding the imposition of an action. This quite likely was (and is) not a sufficient inducement for exporters.

These kinds of problems also exist with respect to achieving acceptance in the Uruguay Round of an agreement along the lines just discussed. What are the incentives for importers to sign and abide by such an agreement, given the preference they continue to reveal for selectivity (VERs)? One cannot rely on the hope that importing nations have come to realize that nondiscrimination is in their best interest. However, it is noteworthy in this connection that there are some signs that the preference for selectivity on the part of an important importing bloc such as the European Community may have weakened. Indeed, it is possible that the Community will accept a nondiscriminatory agreement at the end of the Uruguay Round.<sup>12</sup> But, even if this were to prove the case, it is not likely that the European Community will drop its insistence on selectivity without demanding something in return. Also, it is not unlikely that the United States will push for some kind of a selective agreement.<sup>13</sup> Even if all nations were to agree on nondiscrimination,

another problem is that some industrialized nations may push for an agreement without a compensation requirement.

It is by no means certain that developing countries will be able to achieve a safeguards agreement along the lines they prefer during the current round. This holds especially if negotiations remain limited to bargaining on the safeguards issue only, because concessions only can be made with respect to selectivity or compensation. But, weakening on either of these elements could easily lead to an outcome worse than the status quo for many developing nations.<sup>14</sup> I believe a case can be made on behalf of developing countries for attempting to add issues, that is, for linking negotiations on different areas. In general, issue addition or linkage may create a zone of feasible agreement where there was none previously, or expand the number of feasible agreements. In either case all parties are made better off. Thus, a safeguards agreement of the type preferred by developing nations may become possible if the safeguards discussions are combined (linked) with another issue, such that what is "lost" by a party on one issue is compensated by "gains" on the other issue. It is important to note that linkage not only may make such an agreement feasible, it can also help ensure that nations abide by it. This is because the cost of renegeing increase by definition for all parties as all parties now have more to lose if the agreement breaks down.

The problem then is to identify possible issues which may be linked to the safeguard talks. Feasible issues will have to meet a number of criteria. Thus, the major parties involved in both discussions should be the same *and* should perceive their interests to be opposed on *both* issues. Furthermore, the issues should offer sufficient scope for tradeoffs. One issue that meets these criteria is access to the markets of developing countries. That is, liberalization of trade regimes in developing countries could be linked to the safeguards discussions. The same players are involved in these issues, their perceived interests diverge on both issues, and there certainly appears to be sufficient scope for tradeoffs to be made. Note that other potential issues such as subsidies or agricultural

trade do not meet the necessary conditions. There the underlying conflicts are mainly between industrialized nations.

Liberalization usually is meant to refer to trade in goods. However, services and trade-related investment have for the first time been put on the agenda of a GATT round, so that the focus can be on trade or investment in goods, services, or both. There are, however, a number of practical difficulties with attempting to link safeguards and developing country liberalization of trade in goods.<sup>15</sup> First, this would run into legal difficulties because developing countries formally have been accorded "special and differential" treatment in Part IV of the GATT. Although this may not have had much effect in practice, it has been codified into the GATT, and will be very difficult to alter. This problem does not arise with services or trade-related investment as these are for the most part not covered by the GATT. A second, related argument is that the agenda for the Uruguay Round has already been set. While it does include topics such as services and trade-related investment, it does not include developing country trade regimes.<sup>16</sup> As it proved to be very difficult to get the Contracting Parties to the GATT to agree on the agenda for the Uruguay round, there is good reason to accept the agenda as a given. Third, there exist a multitude of preferential schemes affecting trade in goods which could make discussions quite complicated. This is not the case for services or investment, which essentially "have no history" in the GATT.

Of the issues on the agenda, services appear to offer the greatest scope for fruitful linkage with safeguards. Thus, for example, it is important to note that there exist strong lobbies in the developed nations (especially the United States) that want to see progress made on services.<sup>17</sup> Conversely, domestic service lobbies in developing countries on average may be weaker than those associated with import-competing goods industries, given that the latter 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.

Furthermore, and related to the previous argument, it may be the case that the gains from liberalizing service sectors are greater than for goods sectors. This is because access to service sectors is often blocked completely, in contrast to goods. In conjunction with the fact that trade in services predominantly concerns trade in intermediate inputs, domestic forces favouring liberalization in services may be relatively strong.

Perhaps the most important argument for focusing on liberalization of services is that an *implicit* linkage between services and the other Uruguay round issues already exists. Thus, for example, it appears very likely that if the United States feels that negotiations on services have not been fruitful, it will reconsider agreements reached on other issues.<sup>18</sup> In practice this is likely to imply unilateral withdrawal of U.S. "concessions" made on trade in goods, which could be highly detrimental to developing country interests. A productive strategy on the part of the developing countries is then to recognize this implicit linkage at the outset and attempt to influence the choice of issues to be linked. The remainder of this article will discuss briefly some of the arguments that could, in principle, be put forward by developing countries against participating in the creation of a "General Agreement on Trade in Services." I will argue that such an agreement can benefit developing countries as much as industrialized countries. Thus, a services-safeguards link may enable them to get something for (almost) nothing. However, even if this were not the case, inclusion of services may prove worthwhile if it leads to effective multilateral discipline on safeguards.

### **Costs and Benefits of Multilateral Rules for Services**

The push to create multilateral discipline on trade in services by the major industrialized nations, particularly the United States, has not met with great enthusiasm on the part of developing countries. As the Canadian scholar Rodney Grey has noted, the services proposal "...must have very little appeal to developing countries... As they will see it, the fully industrialized and services economies of the North are trying to rework the

GATT bargain, so as to either secure new scope for restricting imports of goods, or for securing new rights for markets in the South.”<sup>19</sup> Perceptions of this kind led to services being put on a separate track in the Uruguay Round. That is, the negotiations on this topic do not formally function under the aegis of the GATT, although GATT procedures and practices are followed.<sup>20</sup> Services are nevertheless an integral part of the Uruguay Round, given that the ‘Services Group’ reports to the Trade Negotiations Committee and has access to the GATT Secretariat for administrative and analytical support.

It should be emphasized first that services is neither a North-South issue in the sense of the North standing to gain at the expense of the South, nor a zero-sum game. Who gains and who loses will be determined on a very disaggregated level. Many developing countries are net exporters of services, and although their comparative advantage often lies in labor intensive services, many services are, in fact, labor intensive. The main issue then is to make sure these services are included in the agenda.

An important and frequently used economic argument against liberalization of trade and investment in services is the infant industry argument. From the point of view of services the issue is to what extent, if any, the fact that services differ from goods alters the rather stringent conditions that have to be met for infant industry protection to be optimal (or even beneficial). In general, for infant industry protection to be justified on economic grounds the protected industry must be subject to a *short run* cost disadvantage, possibly due to (in conjunction with) the existence of noncapturable externalities. The protection must have the effect of neutralizing the externality and must only be necessary for the start-up period of the industry. Sources of the externality may be nonappropriability of the necessary technology or know-how, which may include the costs of training workers, or various market imperfections (in information or capital markets). There does not seem to be anything inherent in the general characteristics of most service industries that diminishes the relevance of the existing literature on infant industry protection. Thus, the general presumption exists that this protection will often be

inefficient.<sup>21</sup> Indeed, there may be even less of a rationale for infant industry protection of many service industries than there is for goods industries. This holds especially for what has been called demander-located services, that is, services which require the provider of a service to move to the location of the demander.<sup>22</sup> There is some evidence that often the best way to develop an efficient indigenous (demander-located) service industry is to encourage foreign direct investment. This is true especially for those services where technologies can only be acquired 'by doing'.<sup>23</sup> 'Turn key' investment projects in these cases usually are impossible, given that the kinds of services involved are not tradable at arms length. Traditional infant industry protection may then have very little beneficial effect.

Another argument against liberalization is related to the question of comparative advantage. It may be feared that liberalization will lead to balance of payments problems. The implicit assumptions are that most tradable services are relatively capital-intensive and that developing countries are relatively well endowed with (unskilled) labor. After liberalization, due to relatively costly home production of the capital intensive services, net imports of services are expected to increase, worsening the current account and making foreign exchange constraints more binding. While this may be perceived as a problem, it is not justifiable from an economic point of view. Although there may be adjustment costs, there is a presumption that domestic welfare will increase in the same way as for the liberalization of goods. In fact, welfare gains may be greater with respect to services because in general a large proportion of services are intermediate inputs. As costs of intermediates are reduced, production (and exports) should increase. Also, to the extent that service outputs are nontradable, allowing service-related foreign direct investment to occur usually will entail increased employment of domestic factors of production. In any event, to the extent that balance-of-payments problems occur as a result of liberalization, it could be agreed upon that IMF/World Bank lending would be made available.

The service sector often is more heavily regulated than other sectors of the economy. While the arguments against liberalization discussed above were economic in nature, more often than not arguments against reducing the scope for discretionary government behaviour are non-economic. In general, the often extensive regulation of the service sector is based on safeguarding the "national interest." How this is defined is, of course, a sovereign matter. As argued by the Australian economist Gary Sampson, however, it should be realized that protection, no matter what the justification, has economy wide implications.<sup>24</sup> In general, for good decision making to occur, it is necessary that information on these implications is supplied and taken into consideration in the decision making process. At present this is not done enough, in either developing or developed countries.<sup>25</sup>

While much empirical work remains to be done, in my view the arguments against creating a multilateral agreement on trade in services are not compelling. Developing countries potentially stand to gain through technology transfer, lower cost of inputs and final services, increased net exports of those services in which they have comparative advantage, and finally, being able to consume a greater variety of services. To be sure, existing inefficient firms will suffer and adjustment costs may be high for some sectors in some countries. The issue is the extent to which benefits outweigh costs. The argument made here is that the benefit/cost ratio often may be positive. In general, this has been the experience of the developed countries. In any case, net benefits presumably will be greater if 'concessions' on services help to achieve agreement on safeguards. Arguably, for many developing nations safeguards, not services, is the more important issue.

### **Concluding Comments**

The premise of this paper is that the Uruguay Round offers a unique opportunity to deal with the problem of safeguard protection but that the negotiations may have to be broadened to include seemingly unrelated issues. It should be emphasized that linkage

may not prove to be necessary. Thus, if it has become sufficiently clear since the Tokyo Round that the economic incentives for importing nations to pursue selective safeguard protection are minimal, and this leads to sufficient pressure (domestic and international) on governments to abstain from them, it may be that proposals which would benefit all parties in economic terms have become feasible. However, given that the political preference that is displayed for selectivity and discretion in commercial policy shows few signs of abating, developing countries may have to show a willingness to 'buy' the type of safeguards agreement they prefer. I have argued that one way in which they may be able to do this is by participating in the negotiations on services and linking the two issues. As noted above, it is likely that services will be linked to the rest of the negotiations in any case. Thus, an implicit linkage already exists. The question then arises whether linkage should be formalized explicitly. I do not believe that this is required. All that is necessary is that parties are aware that at some point linkages (comparisons) will be required and agree on the issues to be linked. At what point in the negotiations linkage should occur is best left to the negotiators.

It should be noted that there is likely to be a general need for linkages in the Uruguay Round if it is to be a success. In large part this is because the United States, with its huge and persistent trade deficit, will not be willing to offer concessions that are not matched by other nations. Although present current account disequilibria have macro-economic causes and need macro-economic remedies, they have implications for the GATT negotiations. Arguably, the main task of the negotiators is to prevent a further closing of industrialized markets (standstill and rollback). A necessary condition for this to be achieved will be that the more advanced developing countries liberalize access to their own markets. In closing, I can do no better than quote Paul Volcker's address to the GATT on the occasion of its fortieth anniversary. "Obviously, instead of growing trade frictions there should be the makings in this area [market access] of a constructive international bargain — liberalization of trading practices by the middle-income developing countries (and the

newly industrialized countries) while the industrialized world provides greater assurance that its markets will remain open.”<sup>26</sup> This article has proposed possible elements of one such bargain. Many others also are possible and may prove to be more feasible. The point to be made is that negotiators will have to be creative in their attempts to achieve the required constructive international bargains.

## Footnotes

<sup>1</sup>I would like to thank Robert M. Stern and Alan V. Deardorff, whose comments on previous drafts of this paper substantially improved the present version. Financial assistance was provided by the Ford Foundation in support of a program of research in trade policy at The University of Michigan.

<sup>2</sup>As used here, the term developing countries should be understood to include the newly industrializing countries. Although in practice it is the latter group that is most affected by safeguards protection, the issue is important for all developing countries. In terms of the Uruguay Round of negotiations, however, it is clear that the more advanced developing countries will have to take a leadership role.

<sup>3</sup>W. Max Corden, "Policies Toward Market Disturbance." In Richard Snape (ed.), *Issues in World Trade Policy: GATT at the Crossroads*. London: MacMillan, pp. 121-40, 1986. The concept of a conservative social welfare function was first described explicitly in Corden's *Trade Policy and Economic Welfare*, Oxford: Clarendon Press, 1974. Patrick Messerlin has made use of the concept in "The Political Economy of Protection: The Bureaucratic Case," *Weltwirtschaftliches Archiv*, 117, pp. 469-96, 1981, as has Alan Deardorff in "Safeguards Policy and the Conservative Social Welfare Function," in Henryk Kierzkowski (ed.), *Protection and Competition in International Trade*. Oxford: Basil Blackwell, 1987.

<sup>4</sup>See Gary Sampson, 'Safeguarding Producers from Serious Injury' in J. M. Finger and A. Olechowski (eds.), *The Uruguay Round: A Handbook for Multilateral Trade Negotiations*. Washington D.C.: The World Bank, 1987.

<sup>5</sup>For a general discussion of the negotiations, see Leslie A. Glick, *Multilateral Trade Negotiations: World Trade After the Tokyo Round*. Totowa: Rowman and Allanheld, 1984 or Gilbert Winham, *International Trade and the Tokyo Round Negotiation*. Princeton: Princeton University Press, 1986. Excellent contemporary discussions that focus in part on the safeguards issue are Hugh Corbet, "On the Importance of Being Earnest about Further GATT Negotiations," *The World Economy*, vol. 2, 1979, pp. 319-42, and Victoria Curzon-Price, "Surplus Capacity and what the Tokyo Round Failed to Settle," *The World Economy*, vol. 2, 1979, pp. 305-19. An evaluation of the operation of the Tokyo Round Codes can be found in Robert M. Stern, John H. Jackson, and Bernard M. Hoekman, *An Assessment of the GATT Codes on Non-tariff Measures*. Thames Essay No. 55. Aldershot: Gower, for the Trade Policy Research Centre, 1988.

<sup>6</sup>The following is based on a much more extensive analysis in Hoekman, "The Uruguay Round of Multilateral Trade Negotiations: Investigating the Scope for Agreement," manuscript, The University of Michigan, 1988.

<sup>7</sup>See John H. Jackson, "The Role of GATT in Monitoring and Promoting Adjustment: The Safeguards System." Research Seminar in International Economics Discussion Paper No. 170, The University of Michigan, 1986.

<sup>8</sup>The legal arguments for nondiscriminatory safeguard actions, while quite strong, are not completely unambiguous. See Jackson, *op cit.* for a discussion of this matter.

<sup>9</sup>See, for example, Robert Baldwin, "The Inefficacy of Trade Policy," *Essays in International Finance*, No. 150. Princeton University, 1982; Robert Baldwin and Richard Green, "The Effects of Protection on Domestic Output." University of Wisconsin-Madison, mimeo, 1987; Gary Hufbauer, Diane Berliner, and Kimberly Elliot, *Trade Protection in the*

*United States: 31 Cases*. Washington D.C.: Institute for International Economics, 1986; Helen Hughes and Anne Krueger, "Effects of Protection in Developed Countries on Developing Countries Exports of Manufactures," in Robert Baldwin and Anne Krueger (eds.), *The Structure and Evolution of Recent U.S. Trade Policy*. Chicago: University of Chicago Press, 1984. and David Yoffie, *Power and Protectionism, Strategies of the Newly Industrializing Countries*. New York: Columbia University Press, 1983.

<sup>10</sup>Deardorff, *op cit.*. A proposal of this type is consistent with the one made recently by a group of Pacific nations in the Uruguay Round (see "Elements of a Proposal on Safeguards," Communication from Australia, Hong Kong, Korea, New Zealand, and Singapore. Geneva: GATT, May 25, 1987).

<sup>11</sup>A detailed analysis of the failure of the Tokyo Round safeguards negotiations is beyond the scope of this paper. The following is based on Hoekman, *op cit.*.

<sup>12</sup>This statement is based on discussions with European Community trade officials. See also *The Economist*, July 18, 1987, p. 71.

<sup>13</sup>According to some American trade officials this cannot be ruled out, given the present mood of the U.S. Congress.

<sup>14</sup>Space constraints make a detailed discussion of the issues raised here impossible. Interested readers are referred to Hoekman, *op cit.*, available on request from the author.

<sup>15</sup>The following arguments should not be taken to imply that there is not a strong case to be made for (unilateral) liberalization of trade regimes by developing countries. An argument along these lines in the context of trade negotiations has been made by Martin Wolf, "Two-Edged Sword: Demands of Developing Countries and the Trading System." In Jagdish Bhagwati and John Gerard Ruggie (eds.), *Power, Passions, and Purpose: Prospects for North-South Negotiations*. Cambridge: MIT Press, 1984, pp. 201-30.

<sup>16</sup>The agenda covers 15 topics: tariffs, non-tariff measures; tropical products; natural resource based products; textiles and clothing; agriculture; articles of the GATT; safeguards; meetings and arrangements; subsidies and countervailing measures; dispute settlement; trade-related aspects of intellectual property (including counterfeit); trade-related investment in goods; functioning of the GATT system; and finally, services (Bureau of National Affairs, *International Trade Reporter*, February 4, 1987, p. 124).

<sup>17</sup>In itself, as noted by Wolf (*op cit.*, 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."

<sup>18</sup>See, for example, Jeffrey Ryser and John Templeman, "In Uruguay, General Disagreement on Tariffs and Trade," *Business Week*, October 6, 1986, p. 31.

<sup>19</sup>Rodney Grey, "Negotiating About Trade and Investment in Services." In Robert M. Stern (ed.), *Trade and Investment in Services: Canada/U.S. Perspectives*. Toronto: University of Toronto Press, 1985.

<sup>20</sup>This reflects a compromise reached between those GATT members that supported bringing services into the negotiations and those countries (led by Brazil and India) which opposed any discussion of extending the GATT to new issue areas.

<sup>21</sup>The degree of inefficiency is, of course, a function of the protective instrument. Thus, for example, tariffs or quotas usually will be less efficient than subsidies as they are more distortionary.

<sup>22</sup>Robert M. Stern and Bernard M. Hoekman, "Issues and Data Needs for GATT Negotiations on Services," *The World Economy*, vol. 10, 1987, pp. 39-60. Examples of demander-located services include many professional services, especially those where face-to-face contact is important.

<sup>23</sup>See Ronald Shelp, J. C. Stephenson, N. S. Truitt, and B. Wasow, *Service Industries and Economic Development: Case Studies in Technology Transfer*. New York: Praeger, 1984.

<sup>24</sup>"Developing Countries and the Liberalization of Trade in Services," manuscript, 1987.

<sup>25</sup>As discussed, for example, in Stern and Hoekman, *op cit.*, data problems severely hamper research on the service sector. The issue, however, is that the kind of information required often is not even sought. The problem then is as much one of demand as of supply. The general argument, of course, applies as much to goods sectors as to services. See in this connection Samuel Laird and Sampson, "The Case for Evaluating Protection in an Economy-wide Perspective," *The World Economy*, vol. 10, pp. 177-92.

<sup>26</sup>"GATT Under Stress - Is there life after 40?" Geneva, November 30, 1987, p. 12.

