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New Trade Relations: A Developing Country Perspective

INTRODUCTION

The Uruguay Round outcome will result in a new pattern of world trade relations. It may mean hope for some countries and internal problems for others. From now on, new challenges and opportunities will appear for trade, but the real task for developing countries will still be that of fostering social and economic development. Trade expansion could be one part of their development strategy.

Within the countries there are considerable differences in the stages of development which have been reached, in their macroeconomic situation, in factor endowment and in their political and social systems. Inevitably, that means that it is difficult to have a common view of how they will each be influenced by the new world trade situation. However, by focusing on their similarities, it is possible to make some generalizations. It is important for developing nations to start looking beyond the Uruguay Round. What is next? What will be the issues for the next world trade negotiations, and what kind of role could the poor nations play in setting the agenda?

Most of the developing nations have been immersed in a process of opening up their economies by unilateral, bilateral or multilateral actions, though in spite of that some of them have had to accept unwanted conditions in the Uruguay Round negotiations, although an imperfect agreement is still better than nothing at all (Samuelson, 1994). It is also important to understand that the Uruguay Round has been dealing with a range of new, or previously neglected, issues framing complex constitutional rules which will now need to be fully implemented. Hence it will have to be judged as a process which has been set in motion, and not as its termination (Bhagwati, 1991). It is also widely recognized that exchange rates movements could affect domestic and international markets, and that it is not trade negotiations alone which are important to the future (Vargas and Hernández, 1993).

Countries which have traditionally behaved like traders, taking the rules as given and maximizing their advantage as best they can, have a great opportunity if they have enough economic strength and bargaining power to go beyond such management of their trade problems and begin playing a major role in sustaining and strengthening the system. The key is to change their trader mentality towards an architect's ambition (Bhagwati, 1991).

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THE URUGUAY ROUND OUTCOME

The agreement in the Uruguay Round Final Act strengthens and gives a new vitality to multilateralism, as a general principle, which will govern international trade relations among the 117 member countries. This situation will be extended as other important countries, such as those of the Commonwealth of Independent States and the People's Republic of China, are brought into the system.

The Latin American and Caribbean countries (LACs) consider the year 1993 as an important historical moment in their international trade relations because the trade openness and the structural transformation they started a decade ago, as a new social and economic development model, is strengthened by the Uruguay Round outcome. This stems from the fact that the legal framework of modern trade rules provides a stable world umbrella for regional economic integration and the creation of free trade areas, which will foster economic cooperation (Quiroz and Chibbaro, 1994).

Nevertheless, there are different perceptions of the Uruguay Round outcome among developing countries in general. The optimistic nations consider it to be an historical moment for international trade. The hard critics come from the group of countries oriented to restricted trade regimes. Others feel that more trade means more environmental degradation and natural resource destruction, which will widen the gap between rich and poor countries. Despite these differences, however, it has to be emphasized that never before have the LDCs taken a protagonistic role in the reform of the world trade system. It was the LDCs who most drastically reduced or froze their tariffs when making a consolidated offer to GATT. They were well aware that the agreement will cover products of great strategic interest to them, including textiles and garments, tropical products and agricultural products, as well as including special measures affecting the countries which are least developed. One of the main achievements of the Round is a gradual and progressive elimination of the Multifibre Agreement.

Although it is still early to define exactly the potential effects of the Uruguay Round outcome on the agricultural trade of the Third World, because of the need for very detailed analysis of the situation of the countries themselves and of their main trade partners, it is possible to suggest some possible impacts. These are as follows (Quiroz and Chibbaro, 1994):

(1) Owing to the conditions placed on the countries of the Organization for Economic Cooperation and Development (the freezing of domestic support levels and the reduction of export subsidies) we can expect an improvement in LAC competitiveness in fruits, vegetables, soybean, cereals, meat, hides and flowers. In tropical products, the problem is overproduction and not simply market access.

(2) The Lomé Convention, The Caribbean Basin Initiative and the Generalized Preference Systems will generally be helpful.

(3) It is expected that there will be some unfavourable effects on the balance of trade of some net food-importing countries because of increasing international prices and diminishing export subsidies.

(4) The phyto- and zoosanitary measures may demand additional investment on physical and organizational infrastructure in many countries.
(5) The intellectual property rights agreement could make access to modern technology in special agrochemical and biotechnological products more expensive. Intellectual property rights violations will be charged to the abusers, resulting in more complexity and greater costs in administration.
(6) Agricultural domestic policies will become more dependent on external rules because of the need to observe the GATT agreement compromises.
(7) All current national legislation will need to be confronted by Uruguay Round dispositions and adjusted to the relevant disciplines. That will demand greater efforts in analysis, training and communication, and in some cases institutional reforms.

The LDCs as a group face tariff and non-tariff barriers of various kinds on agricultural exports to developed countries. Because gains from trade liberalization will not be distributed equally among different groups of developing countries, their interests will not coincide. The middle-income developing countries stand to gain more because the commodity composition of their exports is such that they will gain substantially from the Uruguay Round outcome.

Apart from tariff and non-tariff barriers, the LDCs have considerable interest in the sanitary regulations and standards affecting their agricultural exports, particularly for livestock, dairy and horticultural products. There will be many problems in harmonizing the diverse standards and regulations imposed by developed countries and technical assistance will be needed to help overcome both the substantive and the administrative problems arising from them.

Effects on growth

LDCs are mainly interested in 'development', for which 'growth' is a necessary condition, although it is not a sufficient one if distributional effects do not occur. The open economy strategy may result in growth, but not always. Countries undergoing rapid growth also experience transformations of their consumption, production and trade structures. Some sectors become more important, others less so, in the total economy.

A fast-growing country, apart from the effects on its own structural change, also influences its trading partners. One of the more dramatic growth-related changes can be observed in Japan's exports over the last 30 years. From 1962, Japan had a steady decline in the share of agriculture and light manufacturing (textiles and clothing) while there was a strikingly sharp rise in the share of transport machinery and equipment. But in the United States and Europe there was very little change in their export shares during this period. This is not surprising since the United States and Europe are highly integrated regions with little structural change in recent decades (Gehlhar, 1993).

Rapid growth can occur within a country but it is not a sufficient condition for trade patterns to change, especially if all partners have identical growth rates. It is relative growth across various countries that dictates changes in trade patterns.

The economic success of East Asia is not entirely a result of high rates of capital accumulation and technical changes. Innovation and product quality attributes of manufactured goods have contributed to an expanded market share for such goods. Product differentiation plays a key role here.

Economic policies

Many economic, trade and finance reforms have been introduced in LDC economies during the past decade. The results are heterogeneous, being a function of circumstances, factor endowments, social and political disruptions, previous social investment (education, health, nutrition and so on) and the amount and quality of the infrastructure (Hernández, 1993a). In this sense, the preparedness for trading internationally is weak in terms of product quality and the skills of people.

Latin American and the Caribbean countries make up a region experiencing late industrialization, and are also behind in terms of participation in international markets. Most of the countries competing successfully in world markets are not now using their natural resources base as the source of their comparative advantage, though this remains characteristic of the region (Hernández, 1993b).

Overcoming growth and equity problems simultaneously requires more than mere macroeconomic equilibrium. Latin America cannot wait any longer for a productive transformation which generates higher labour productivity, facing international competitiveness with technical progress, strengthening and widening the entrepreneurial base, increasing labour skills massively and establishing a cooperative relationship between the government, private and labour sectors based on strategic agreements which would result in continuing economic transformation (Fajnzylber, 1991).

It is far from clear that consequences of the GATT reform will be sufficient to improve the situation rapidly. In all likelihood, the success of reform will depend less on the direct consequences of the new trade policies than on the resolution of the macroeconomic difficulties in which these countries are at present engulfed. It is important in the meantime not to oversell trade reform as a cure-all for economic problems. Just as developing countries embraced protectionist policies in the 1950s and 1960s as a holistic solution to the problems of development, there is now a danger that free trade will be seen as the latest answer to the economic crisis of the 1980s. If the pendulum swings too far back, unrealistic expectations will be created regarding what can be accomplished by the use of trade policy alone. A reasonable hypothesis is that trade policy plays a somewhat asymmetric role in development: an abysmal trade regime can perhaps drive a country into economic ruin, but good trade policy cannot make a poor country rich. At its best, trade policy provides an enabling environment for development (Rodrik, 1992).

In that context, the 1980s have seen the beginnings of a change of heart among developing country policy makers with regard to trade policy. The import substitution consensus of the previous decades, with its preference for high levels of tariff and non-tariff trade barriers, has all but evaporated. The simplification of import procedures, reduction or elimination of quotas and the rationalization of the tariff structure are the most common reforms. No fewer than 42 countries have received loans from international finance institutions during the 1980s with the express purpose of reforming their trade regimes. Of course, not all of these countries have strong reform programmes, and only a few carried out most of what they promised (Rodrik, 1992). Nevertheless, the general trend is helpful, though the danger remains that too much faith can be pinned on the magic of liberalization. Governments basing their hopes for future growth and development only on trade reforms are likely to be disappointed.

That conclusion emerges from basic notions relating to protectionism. The fundamental rule of trade politics is that producers count more than consumers. The benefits of a trade restriction are usually concentrated on a relatively small, well organized and well informed group of producers, while its costs are usually spread thinly over a large, diffuse group of consumers (Krugman, 1994). As a result, the beneficiaries of trade restriction are usually much more effective politically than its victims.

Although protectionism is usually harmful, it is worth pointing out that it is not as bad as all that! Protectionism does not cost an economy jobs, any more than a trade deficit does. The real harm done by protectionism is much more modest and mundane: it reduces the efficiency of the world economy. A protectionist country is usually less productive and thus poorer than it would have been under free trade; a protectionist world economy almost always so.

A further complication is that a period of macro instability is the worst time in which to undertake a trade reform in the expectation of instant success. It is particularly important to emphasize that, though it is well known that distortions in foreign exchange markets are equivalent to distortions in trade, this reality is seldom reflected in trade negotiations or in discussions of trade conflicts. Instead, exchange rates tend to be viewed as part of the international monetary system and separated from the trade system. Although generally recognized as an important factor influencing the volume of international trade, the role of exchange rates in distorting trade is generally neglected. The link is one which needs to be borne in mind.

Competitiveness

Most people who use the term 'competitiveness' do so without a second thought. It seems obvious to them that the analogy between a country and a corporation is reasonable. The obsession with competitiveness is not only wrong but dangerous, skewing domestic policies and threatening the international economic system. This issue is, of course, of great consequence from the standpoint of public policy. Thinking in terms of competitiveness leads directly and indirectly to bad economic policies on a wide range of issues, domestic and foreign, whether it be in health care or trade (Krugman, 1994).

Some people use the term 'competitiveness' as a poetic way of saying productivity, without actually implying that international competition has anything to do with it. Many world leaders have found the competitive metaphor extremely useful as a political device. The rhetoric of competitiveness turns out to provide a good way either to justify hard choices or to avoid them. Thinking and speaking in terms of competitiveness poses three real dangers. First, it could result in the wasteful spending of government money supposedly to enhance competitiveness. Second, it could lead to protectionism and trade wars. Finally, and most importantly, it could result in bad public policy on a spectrum of important issues. 'Competitiveness' is a meaningless word when applied to national economies, and the obsession with it is both wrong and dangerous.

African economic reforms

Reports show that African countries have made great strides in improving policies and restoring growth, but that they still have a long way to go in adopting the policies needed to move onto a faster growth path and reduce poverty (World Bank, 1994). However, one should ask if the reforms are paying off, and identify areas where the adjustment strategy needs redirecting. In the 1980s, 29 African countries drew up adjustment programmes which were intended to improve the harmful policies that were the primary cause of the 15 per cent fall in Africa's GDP per capita between 1977 and 1985. The macroeconomic reforms have spurred external competitiveness while keeping inflation low. Trade reforms have increased access to the imports needed for growth, and the reduced taxation of agriculture has helped the poor while encouraging production and exports.

In trade, many countries have substantially reduced the number of imports subject to non-tariff barriers and have begun to rationalize the tariff structure. Most of the flexible exchange rate countries have moved to more automatic systems of granting foreign exchange licences. For public enterprises and financial enterprises, however, there have been few policy changes, but governments have stopped expanding their public enterprise sectors. This turnaround shows that adjustment policies work when implemented properly. Although GDP per capita growth rates remain low, it is unreasonable to expect that African countries would quickly match the rapid rise of the best performers in Asia and elsewhere. Despite the efforts to improve the macroeconomic environment, open up markets and strengthen the public and financial sectors, most African countries still lack policies that are sound by international standards. Even Africa's best performers have worse macroeconomic policies than the newly industrializing economies in Asia. Other countries which never experienced a severe macroeconomic crisis, such as Kenya and Zimbabwe, have moved slowly towards import liberalization. Adjustment is the necessary first step on the road to sustainable, poverty-reducing growth, though adjustment programmes in sub-Saharan Africa have been burdened with unrealistically high hopes.

In Africa, the future is in non-traditional exports, though traditional exports still need to be part of an outward-oriented strategy (World Bank, 1994). African countries should continue to eliminate non-tariff barriers (NTBs), to rationalize trade regimes and increase transparency. The focus should not be on fine-tuning tariff levels, but on establishing a credible schedule for substituting tariffs for NTBs. Perhaps the biggest challenge is to build a more effective civil service to provide the elements necessary for a well functioning market economy, as well as to overcome the government resistance to privatization, especially that of the most important public enterprises, which is clearly an area distinct from trade reform as such.

Reciprocity

On trade itself, progress within a country or region clearly depends not only on an internal willingness to adapt but also on the securing of reciprocity. Here the ability of the developing countries to virtually escape symmetric GATT obligations of access to their own markets by others can be a problem (Bhagwati, 1988). The economic theories and ideological predilections that led the developing countries towards extensive protection and the associated import-substitution programmes were undoubtedly important. But their ability to get GATT to accommodate to the resulting situation by adopting the doctrine of special and differential treatment, under which the members among developing countries could enjoy the benefits of increasing markets abroad while being exempted from having to offer greater access to their own markets, was surprising. It probably arose from their unimportance in trade rather than their political strength in negotiations.

Should developing countries receive differential and more favourable treatment? There are several aspects to this problem, one of which is the question of reciprocity. The Uruguay declaration confirmed that the developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to trade of developing countries. However, the developing countries are often obliged to make reciprocal concessions in bilateral trade negotiations or agreements.

It may be advisable for the developing countries, especially the higher-income ones among them, to grant limited reciprocal concessions in the next GATT negotiations so as to exercise their bargaining strength and ensure trade liberalization in commodities of special interest to them. This does not preclude bargaining for a speedier and greater reduction in barriers on their exports as worldwide restrictions, on a most favoured nation basis, are being lowered. The Generalized System of Preferences for developing countries in its present voluntary form does not bring much gain and is highly uncertain.

THE FUTURE

As economic recovery spreads from the United States to the rest of the G-7 (and with it lower interest rates, lower inflation and substantial capital flows), most developing countries can, on balance, expect a marked improvement in the international economic environment over the coming decade (World Bank, 1994).

Growth in world trade is likely to increase somewhat as a result of the Uruguay Round and the North America Free Trade Agreement, and commodity prices are projected to stabilize after more than a decade of decline. Along with continued domestic policy reforms, these more favourable global economic conditions place many developing countries in a good position to accelerate growth. However, economic performance will continue to be disparate.

East Asia is likely to remain the fastest growing developing region over the next decade, but its performance will probably be less spectacular than in the past, partly as a result of infrastructural and environmental constraints. East Asia has recently been growing at an average of about 7 per cent a year, compared with only 2.6 per cent annual growth in the aggregate GDP per capita of all developing countries.

South Asia's growth prospects for the coming decade will depend on the spread and intensification of its reforms. Compared with other developing regions, South Asia's performance in the 1980s was an improvement over previous decades.

Latin America's growth rate is likely to accelerate modestly, depending on reforms and continued private capital flows. It has witnessed significant changes in economic policies in recent years (World Bank, 1994). Argentina, Bolivia, Chile, Colombia, Mexico and (more recently) Peru have implemented stabilization policies and structural economic reforms, including trade and exchange rate liberalization. But the full benefits of trade liberalization are unlikely to flow immediately.

The Latin American economies which adjusted early, such as Chile and Mexico, show that it takes almost a decade of consistent progress after the initiation of reforms for the potential gains in GDP growth to be realized. The region's growth outlook projected over the next decade takes these long lags into account and recognizes that the speed of policy reform is unlikely to be uniform across countries or over time. The great economic and social heterogeneity prevailing in Latin America demands different policies, specially designed for specific producer groups, population segments and rural regions. This implies recognition of the fact that it is not possible to tackle agrarian structural problems with general economic policies.

THE FORMATION OF TRADING BLOCS

The question of regionalism has emerged recently with the moves to Europe 1992 and the US–Canada–Mexico Free Trade Agreement (Bhagwati, 1991). These regional alignments have led to fears of fragmentation of the world economy into trading blocs in opposition to GATT-wide multilateral free trade.

Under Article XXIV, GATT gives authorization to its members to form a free trade zone, but the important point is that it is open to membership to all who meet the criteria for admission and has generally been inclusive rather than exclusive (Bhagwati, 1991). All the regional blocks are indeed GATT-consistent, even if they may be considered threatening to GATT's basic conception of the world trading system.

In spite of GATT's existence as a major multilateral trade negotiation forum, most of the LDC countries have initiated or deepened negotiations to form free trade zones to spur intraregional trade and increase bargaining power. In Latin

America and the Caribbean there are several groups such as the North American Free Trade Agreement (NAFTA), The Central America Common Market, The Andean Pact, The Southern Common Market and The Caribbean Common Market. In addition, elements of bilateralism spring from such free trade agreements as Mexico–Costa Rica, Mexico–Chile and Mexico–Venezuela–Colombia.

NAFTA has changed the whole alignment of forces in the region, obliging other countries to start looking for new trade allies or to consolidate old trade ties, as with the trade relations with the United States. However, in the short run, LAC interests could differ, since as we move down from Mexico to the south the US trade participation in each country diminishes. Mexico does 70 per cent of its trade with the United States, Central American countries do 40 per cent, with the proportion gradually declining.

Mexico's substantial liberalization of its economy since 1985 has had profound effects on its economic interactions with the United States. The ratification of the North American Free Trade Agreement can be expected to both reinforce and alter those effects. For certain products such as apparel, motor cars and sugar, NAFTA introduces important changes in the US and Mexican governments' interventions in cross-border commerce, changes that are likely to foster new trends in the two countries' trade (World Bank, 1994).

For Central America, the changes in trade between Mexico and the United States will pose both challenges and opportunities. An emerging Mexico will create stronger competition for Central American producers in some sectors, and its relative attractiveness as a destination for foreign portfolio and direct investment might increase. But in other sectors an emerging Mexico will become a profitable new market for Central American products. Clearly, to make sound choices, Central American policy makers need a good understanding of the likely effects on their economies of Mexico's liberalization and the implementation of NAFTA.

To the extent that the Uruguay Round succeeds in substantially lowering tariffs and relaxing import quotas on a most favoured nation basis, the formation of trading blocs and all preferential arrangements become less important. In the extreme case of complete elimination of all trade barriers within GATT, free trade agreements would have no effect on trade (Grennes and Hernández, 1991).

The outcome of NAFTA will also depend on whether membership is restricted to the United States, Canada and Mexico, or whether additional countries in the Americas are added. For example, Chile and Costa Rica have already expressed interest in joining and Mexico has discussed trade arrangements with other Latin American countries. As the number of participating countries gets larger, the effects of NAFTA approach those of multilateral liberalization.

The Enterprise for the Americas Initiative

President Bush announced the Enterprise for the Americas Initiative (EAI) on 21 June 1991. This Initiative takes into account international trade, foreign investment and external debt. The EAI represents the first integrated approach to hemispheric relations made by the United States since the 1960s Progress Alliance Programme. However, owing to the strong budget restrictions in the United States, the EAI emphasis is on trade and direct investment promotion, rather than official financial assistance. The objective is to support the Latin American trend towards greater economic openness and reliance on market mechanisms. The investment flows will come through the Inter-American Development Bank as well as through the World Bank.

Also included is an official debt-reduction plan, though the real long-run objective is that of creating a free trade zone from Alaska to Tierra del Fuego in Argentina. To reach this goal, the United States is willing to sign agreements with other Latin American and Caribbean organizations, particularly with those already created. Most of the countries have shown a positive, though somewhat cautious, response to the EAI.

The Pacific Rim

The Pacific Rim contains many dynamic export-oriented economies which have grown rapidly in recent years, shifting the world's economic centre of gravity towards the east. The Asia Pacific Economic Conference (APEC) includes 15 member economies and accounts for almost 50 per cent of the world's production and 40 per cent of world trade. The goals of the APEC Forum, formed in 1989, included a desire to promote multilateral trade reform and to increase regional trade. A proposal that has resurfaced is the formation of a free trade zone for members of APEC. One reason for that is disillusionment over the effectiveness of GATT to sustain multilateral trade liberalization. Fear over the trade diversion effects of NAFTA and the EC single market have given impetus to the idea that the Pacific Rim should undertake action to create its own free trade area.

The idea of a Pacific Rim free trade area was first proposed by the Japanese economist Professor Kyoshi Kojima in 1964, and the idea has been discussed in various venues since then. However, the diverse nature of the economies, cultures and political systems, combined with the lack of a history of unifying institutions, has prevented serious efforts at integration. It has also been argued that European-style integration is inappropriate for the Pacific region (Young, 1993).

ISSUES FOR FUTURE NEGOTIATIONS

The Uruguay Round of GATT negotiations proved to be unduly lengthy because of the absence of an adequate negotiating framework to resolve complex new issues. Although solutions have been found for many problems, others remain to be addressed, and new matters will require resolution. With a new round likely to start relatively soon, it is useful to identify a negotiation framework that may hasten future discussion.

Trade, environment and sustainability issues are likely to be important in the next round. The complexity of the issues, the divergence of positions among countries, the absence of a dominant leader in world trade and the emergence of trade and negotiation blocs which lack a unified position are factors that may make the next round of multilateral trade negotiations as protracted as the Uruguay Round.

Developing countries can best prepare for the next round of negotiations by establishing their priorities regarding development and environmental resources; attempting to influence the negotiation agenda; developing negotiation blocs with other developing countries on particular environmental issues; ensuring that they are not excluded from a major trading bloc if such blocs come to dominate trade; implementing measures which improve the transparency of trade and environmental policies; and favouring a strengthening of GATT to gain the advantages of an open multilateral trading system (Vanzetti, 1994).

Including discussion of distortions in exchange rates ought to be an integral part of the next negotiation. Steps towards trade liberalization taken without the more general reforms are likely to be short-lived, as monetary and exchange rate disturbances give rise to protectionist pressures that cannot be resisted.

CONCLUDING OBSERVATIONS

(1) Regional negotiations should not focus on discriminatory trade but should be based on most favoured nation principles. The formation of discriminatory free trade zones can damage the capacity for fluid changes in market share that has been crucial to the growth of rapidly developing economies.

(2) In the emerging new world order, LDC and central European countries will establish new economic relations on a variety of fronts. In areas such as direct foreign investments, debt relief and concessional financial assistance, these relations may be competitive.

(3) The European Union single market (along with some new entrants) and the new GATT will affect LDC exporters, although the linkages are complex and the impacts will vary across commodities and countries.

(4) Trying to define the competitiveness of a nation is much more problematic than defining that of a corporation. The bottom line for a corporation is literally its bottom line: if a corporation cannot afford to pay its workers, suppliers and shareholders, it will go out of business. Countries, on the other hand, do not go out of business.

(5) The poorest nations do not have abundant resources for paying the humanitarian and ecological costs demanded by the rich nations.

(6) The trade agreements already completed in the Uruguay Round set tasks even greater than that of their initial negotiation. They need to be administered and require institutional reforms. At the same time, private sectors should develop knowledge and skill in analysing the agreements in order to take advantage of export opportunities and face new international competitors.

(7) The formation of a World Trade Organization is likely to favour trade at the expense of national sovereignty. Negotiators will need to maintain a

delicate balance in strengthening the rules for trade without imposing unacceptable constraints.

(8) The Uruguay Round has finally concluded as a limited success, ushering in a new set of rules concerning how agriculture can be supported, but achieving only a modest degree of liberalization. Rules regarding some non-tariff barriers have been refined. Further liberalization will be necessary. For developing countries, reduction in tariff escalation is particularly important if they are to have access to markets for processed goods.

(9) It is important for developing countries to take a greater role in trade negotiations to prevent rule setting being completely dominated by the major players. A related issue concerns the setting of the negotiation agenda. This is clearly an important determinant of the final outcome.

(10) Small and open economies of many developing countries have a strategic interest in having a multilateral trade framework based on the application of effective and clear rules.

(11) The goals of expanded trade and environmental protection have long been viewed as mutually exclusive. Environmentalists argue that trade liberalization will lead to greater demand for raw materials, overburdening natural ecosystems. Differences in environmental standards, especially between developed and developing nations, can create 'pollution havens' in the south for industries trying to evade regulations. There is danger of sacrificing environment protection to competitiveness. However, it will be important to ensure that environmental concerns do not place unnecessary constraints on world trade by imposing overzealous restrictions on developing countries. Transboundary environmental problems can be addressed by collective international agreements without resorting to discriminatory trade policies.

(12) Another aspect of the world economy, the arrival of flexible exchange rates, has added another dimension to trade issues. Volatility in the exchange rate can wipe out tradeable sectors, whose only recourse may be to cry 'foul' (Bhagwati, 1991). The rival who gains from a changed rate is not going to complain, leaving the floor to those who lose. Dramatic shifts in rates underline the intensity of the problem that can arise. It is clear, that unless some degree of stability in the structure of exchange rates is achieved by coordination of underlying macroeconomic policies, the rise of unfair trade allegations will be hard to contain and will lead to demands for a fixed-quantity rather than a fixed-rule trading regime. The choice in practice may well be between managed rates and managed trade.

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