# Emerging Issues in International Trade Relations: Some Research Directions

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## I. Background

The ambit and complexity of international trade relations is considerably larger today than it was even a decade ago, when the "end" of the Uruguay Round began seeming to be in sight. There are several reasons for this, salient among which would surely be these.

First, the primarily tariff-reducing (and that too on manufactured goods trade) goal of the early GATT discussions starting with the Geneva talks of 1947 and through to the culmination of the Tokyo Round in 1979 has reached an end, and it is widely accepted that future reform within the international trade sector can only come by expanding the nature and scope of the issues covered in trade talks.

Second, international trade reform is no longer a hegemony of large and/or rich Northern nations controlling a limited multilateral process. The "new regionalism" coupled with unilateral liberalization and opening up at the national level in many countries places the current GATT- based system as one among several players in the international trade arena where, of course, some remain more equal than others.

Third, the rapid and accelerating trends towards integration throughout the world and in many spheres of economic and social activity - in a word, globalization - highlight the importance of interdependence of economic policies, roles and performance. To take just one example, international financial flows are in value much larger than trade flows (the most common numbers bandied about are the famous US$ 1 trillion per day in capital movements versus the US$ 5 trillion annually in trade). These capital flows, be they a cause or a consequence of macroeconomic instability, create exchange rate movements that swamp in speed and magnitude the ponderous and drawn-out changes in nominal tariff rates that are typically the result of pain- staking and politically charged trade negotiations. NAFTA already has a partly implicit and partly explicit "exchange rate mechanism". It should be no surprise, then, that investment patterns are now seen to be part of the "trade" agenda, a start to which may be found in the current discussions of investment codes which, as discussed below, while microeconomic in their scope have significant macroeconomic implications for both sender and recipient countries.

This paper is not meant to be a review of the literature on national and international trade reform. Rather, its purpose is to stimulate discussion on key developments in the international trade relations agenda, with a view to organizing a research and policy discussion network on some or all of these topics. In doing so, two points are highlighted and presented as "entry points" (though in true IDRC fashion even these are up for discussion).

First, discussion of the new and emerging issues in international trade relations no longer break down along North-South lines. They never did. But in the past, the North-South divide was more pronounced than others, and so dominated the agenda. Today, other considerations (intra-South, intra-North) have correctly come to the fore. The constituencies driving the new trade issues are diverse, and span the different regions of the globe. There is now a realization in many circles that the least developed countries of the world have little in common with larger developing countries like Brazil and India, who in turn find the Asian Tigers to be competitors as often as they are allies in trade talks. Within the developed countries, NGOs may have more in common with grassroots organizations and labour unions in developing countries than they do with their own governments, business organizations or labour unions. Not surprisingly, business interests in developing countries have more in common with their counterparts in developed countries than with other national organizations closer to home.

A flavour of things to come has already been seen with the organization of the Cairns Group during the Uruguay Round. Its functioning and effectiveness is assessed in Tussie (1993), and this line of argument is pursued in the concluding section of this paper. For now, I simply re- iterate that analysis of the new issues in international trade relations - including, from the point of view of the proverbial hard-nosed trade negotiator, promotion of national or group interests - is best conducted in the context of shifting and eclectic coalitions of countries and/or interests.

As a more formal analytical issue, I argue later that the theory of clubs as espoused by, for example, Buchanan (1965), is worth bearing in mind as the theoretical under-pinning of the current and likely future international trade relations scenario.

Second, the explosive growth in the potential and use of so-called information technologies (ITs) coupled with a "shifting coalitions" view of the trade world implies a strong role for connectivity in the research and policy process of the project likely to emerge after discussion of this paper. This issue, too, is taken up again in the concluding section of this paper.

The rest of this paper is designed as follows. The next section briefly outlines key developments and research possibilities in five "new" topics on the international trade relations front. These are (alphabetically) competition policy, the environment, investment codes, labour standards, and trade in services. The "new regionalism" is not treated separately as a "new issue" but rather is seen as a leitmotif in discussing all the other issues. Specifically, the "new regionalism" poses questions common to all the other topics, such as - which is the appropriate forum to discuss and adjudicate disputes in these areas, and what lessons are to be learnt from existing trade agreements that have taken the lead in attempting to deal with some of the new issues? Finally, the third and last section of this paper concludes by suggesting, without I hope pre-ordaining, a coherent framework within which a project may be designed.

## II. Key Emerging Issues

### i. Introduction

No attempt is made here to either pass judgement on the five areas covered below or prioritize them. The latter should be self-evident because only a highly selective and judgmental view can emerge on whether environmental issues "matter" more than competition policies. In any case, the project group can pronounce more credibly on such matters than a single IDRC official. This list is also not meant to be exhaustive or exclusionary (the Latin American group involved in this work with IDRC has identified government procurement as an issue that merits attention.)

As to the former, by selecting only these issues because they are clearly on the front- burner of international trade negotiations I am making a deliberate judgement call. Significant portions of the international community may well consider the fine art of the EU's application of non-tariff trade barriers, or Canada's balkanized inter-provincial trade system, or some countries' obsession with a notion of intellectual property that ignores indigenous knowledge as important issues that merit a place on the international trade relations agenda. I also acknowledge the concerns of those who argue that concentration on "new" issues should not come at the expense of resolution of "old" and "left over" issues (these words now almost carry a pejorative meaning) from previous international trade discussions. But the fact is that they do not have a place on the front burner of the international trade relations agenda at present, though it is a perfectly reasonable line of enquiry in the project to investigate how emerging issues "emerge" - through what process, pushed by which constituencies, with what gestation period and with what degree of back-up evidence as to the nature of the "problem" at hand. I delineate these possible research angles because of the interesting and quite convincing hypothesis put forth in Krueger (1997) that the link between labour standards and trade-related responses cannot be attributed to a straightforward political economy view of policy making processes, at least in the U.S. Instead, labour standards are viewed as a "normal good", which is to say they are income elastic.

The inter-relationships between an enlightened social outlook (say, of certain northern NGOs), narrow self-interest (say, of Congressmen representing constituencies adversely affected by cheap labour-intensive imports) and technical analysts (such as those who marshal in their favour efficiency wage arguments) probably explain better why labour standards enter the international trade agenda than over-reliance on any single factor. Note that even this already complex equation has not considered forces in countries that export "cheap labour intensive" goods that push with or against the move to turn the spotlight on labour standards, nor the forces at play in determining the "response" from the relevant export constituencies. Note also that even in this seemingly North-South issue the analysis would be severely hampered if it took a purely or even largely North-South view of the world, of which more later.

A similar tale could be told - and in my view has not as yet been told - for why and how other topics have entered or have not entered the priority list of the on-going trade discussions regionally and globally.

ii. Competition Policies

Although competition policies and investment codes are conceptually and practically separate the WTO invariably treats the two together. This is in part a procedural/institutional matter - both are somewhat covered by the TRIMs (Trade-Related Investment Measures) Agreement - and equally a strategic one - although ostensibly the reason given for the WTO's interest in these subjects is that there is a close relationship between trade and investment and trade and competition, the fact is work on these matters also proceeds in the OECD and in some regional groupings. The WTO wishes to pre-empt these other initiatives, and it is a matter of active and open discussion that developed countries might have a preference to "prestructure" issues within the confines of the OECD and then present them as a near fait accompli to the rest of the world community. I treat these two issues (investment and competition) separately, recognizing fully that in significant areas of their progress on the international trade front they may move in lock-step.

The concern with trade and competition policies at the multilateral level is neither new nor (arguably) opportunistic. The origins of their connection go back to the proposal for an ITO which saw the light of day only as the GATT. Specifically, the principal of non-discrimination which underlay the founding of the modern international trade system was taken to mean that market access could not be differentiated according to the source of the supplier (principally domestic versus foreign but presumably also among foreign suppliers.)

Also, as government-related barriers to trade have been reduced, attention has naturally turned to the nature, structure and behaviour of the private sector. To be sure, patterns of industrial organization have not arisen independently of government action. But this is a far more complex relationship than the one that exists between governments and national tariff structures, for example.

What is new is the move to go beyond conventional, or at least, historic, notions of market access (of which the classic example is the ability of Japan's automobile retailing network to exclude American car imports) to now include "fair" conditions of competition and the multilateralization of the control of anti-competitive practices. Defining and measuring "anti- competition" has been notoriously difficult, even at the national level. There are significant differences in - indeed in tolerances of - oligopolistic and monopolistic behaviour among countries even in cases where the public good has been demonstrated to have been damaged, which in theory and in practice it need not always be under a monopoly/oligopoly.

Moreover, a coordinated effort to control anti-competitive practices will of necessity be highly selective and highly intrusive. If adequately enforced, it could result in changes to national structures which would give the WTO more visibility in the affected country than almost any other international organization has had. In the event, the best that the WTO's Singapore Ministerial Conference (henceforth SMC) could do was announce the creation of a working group to study issues raised by WTO members.

It remains to be seen which issues are raised and by which members. It should also be interesting to see whether indeed the OECD or others can move any faster on this topic. At first blush, this is an area that pits the U.S. against the rest of the world. Equally, it is a small country- large country issue, to the extent that smaller countries of necessity have more oligopolistic production and marketing structures than larger countries. At the same time, small countries are on average more open, and may benefit disproportionately from generally more competitive (and therefore less-trade distorting) economic structures in the rest of the world. Given the evident success, not to mention historic lineage, of chaebol-like structures in the East and South-East Asian countries, it is not at all clear on what economic principle the notions of trade-distortion and efficiency that underlie action in this area will be based, nor how these countries will (or can) respond to any significant moves to enforce "competition" from abroad. It is for these reasons among others that Vautier and Lloyd (1997) argue for a gradualist approach among small groups of countries, rather than a more plurilateral attempt to deal with this issue. They cite, with considerable and convincing detail, the example of the Closer Economic Relations Agreement between Australia and New Zealand as a case where even a relatively favourable political economic environment still resulted in only a partial practical application of the principles of industrial competition in trade.

As Feketekuty and Rogowsky (1996) point out, the connotation that the word "contestability" has in the trade institutional literature emanating from the WTO and OECD is simply to signify whether or not a given market is open to foreign competition. This is quite different from the meaning of the term in the theoretical literature, where it simply connotes the existence of socially optimal outcomes even in the absence of perfect competition. (It should be said, though, that these authors are arguing for a competition-based trade agenda, not against it.)

### iii. The Environment

Of the five topics covered in this section, the environment and labour standards have the most in common. Each can clearly be analyzed using economic tools and methodologies, though each has a significant social dimension - concern for "exploited workers" on the one hand, concern for "the environment" on the other - which while important, may also lead to rushed, inappropriate policy responses. Each embodies a range of specific topics that defy a common or generic solution though here the environment surely covers more territory than the discussion of labour standards does.

Also, each has an external driver, namely itself, which is to say one wishes to consider "saving" the environment or "treating" labour well for its own sake, not just as a means to an end, such as more or more efficient trade. But finally, each is linked to trade in ways that seem valid and invalid at the same time. The classic exposition of the link between trade and the environment is contained in the opening chapter of Anderson and Blackhurst (1992) and re- iterated in Anderson (1997). This connection may be summarized as follows.

First, trade and trade policies, by altering the volume and international location of global production and consumption activities, impact on the environment. Some see international trade liberalization as worsening environmental problems, while others see it as the vehicle through which incomes and awareness of the environment are both raised, thus contributing to the solution to the problem.

Second, environmental policies in one country (implemented through taxes, subsidies, standards, and regulations) can have an impact on others. The asymmetries they create affect relative competitiveness among countries, and thus the volume, composition, and direction of international trade flows. Indeed, trade-restrictive policies, under the guise of environmentalism, could be (and already have been) abused by protectionist countries to further domestic interests.

Third, multilateral or even bilateral trade negotiations, can be seen as promoting the types of international co-operation and dialogue needed to deal with an essentially cross-border issue, the environment.

Thus, in the context of a greening world dialogue, trade policies may be seen as the "carrot" which will promote awareness, dialogue and resource availability for sustainable development, as well as the "stick" which could be used (and abused) to alter trade flows currently based on the existing international competitiveness and institutional milieu.

Although I state at the start of this section that these links may be both valid and invalid there is now little doubt that environmental considerations have entered the international trade arena permanently. Still, it is worth bearing in mind Sen's (1996) assessment of the role of economic principles in better understanding the trade-environment nexus of topics. Among other things he argues that while classical principles of trade are not helpful by themselves in either understanding trade in the presence of externalities or in developing policy responses to them, "strategic" models of trade are well suited to do so. For example, a country's abundance of "environment" may well be used inappropriately ("environmental dumping") or appropriately, to create a dynamic comparative advantage. Moreover, a point that is often over-looked in the trade-environment literature is fundamental to any basic treatment of externalities - in the face of non-trivial transactions costs and imperfect information, the presence of an externality does not in and of itself confer a role for public action.

On this score, Sen cites the case of a carbon tax, which to be effective would have to be levied and administered globally. In the absence of such an institutional arrangement, there is no reason to believe that other second-best solutions, such as national, bilateral or regional agreements, are superior to the (sub-optimal) status quo. Also, there are enough examples of non-harmonized taxes, such as the VAT in Europe and sales taxes in the US to suggest that this is primarily an empirical matter. But it is understood that at present, some of the "double dividend" proposals (such as combining a national carbon tax with lower payroll taxes and contributions) that have so much appeal nationally have little or no resonance at the supranational level.

On the other hand, there are instances where regional agreements have set th such agreement to do so between three countries with quite different economic structures. Wiebe (1996) argues that ASEAN members, too, are increasingly inclined to use this historically security-based forum for adjudicating environmental matters, while Tussie and Vásquez (1996) find that Mercosur has been less useful as a forum to handle environmental matters among members. This is surprising because, as Tussie and Wiebe (1996) argue, Mercosur is the "stronger pillar" [page 9] to bring members together on natural resource management issues, which form a sub-set of environmental issues.

The tendency to see regionalism as the building bloc for multilateralism, at least in a "second-best world", is also echoed by Saez (1996) in his study of timber extraction, where the fact that [a] a large share of forest products do not enter international trade and [b] forests represent specific ecosystems, mitigate against a globally harmonized trade regime that has any chance of being either credible or effective. In his assessment of the ISO 14000 and EU eco- labeling schemes Motta Veiga (1996), too, suggests that the superiority of a rules-based (that is, not voluntary) multilateral scheme in each case remains to be demonstrated in theory and in practice. The recent pact between 28 European and North American countries to restrict the production and use of 15 known toxic pesticides is another example of regional action that may eventually broaden.

In short, there is now powerful evidence to suggest that not only is public action via trade not inherently likely to improve upon an existing sub-optimal situation, the value of action at the WTO level must be carefully weighed against the likelihood that limited (what Motta Veiga calls "minilateral") agreements including unilateral ones may well be more achievable and more effective.

Still, areas of concern remain to be explored where the global multilateral route may well be the best option. One such is PPMs (production processes and methods) where even the enunciation of a common set of principles between countries is problematic. Another is the movement of hazardous waste, which typically crosses not just national but also regional boundaries. If work ever gets started on linking finance to the environment - which is to say extending legal responsibilities for the environmental consequences of economic activity to its financiers - then a global multilateral framework may well be the only way to progress as a regional agreement would be either unenforceable or highly distortionary. Facilitation of trade in environmentally-sound technology is another area where the framework of the TRIPs (Trade- Related Aspects of Intellectual Property Rights) already exists to enable such trade though here it is not clear why market forces and private action alone, at the firm level, are insufficient to achieve the task at hand.

The trade-environment area remains rich for further research, both to scope out the potential and limits of joint action and also to develop a positive agenda for trade and development. Although conceptually, there is no neat analog for the "efficiency wages" argument discussed below in section v, it is intuitively apparent that there is considerable promise in outlining a course of action internationally wherein sustainable use of the bio-physical environment and growth go hand in hand. It is less clear where and how exactly trade enters this picture though for our purposes the Anderson-Blackhurst logic cited at the start of this sub- section might suffice.

iv. Investment Codes

Traditionally, this area has been contentious in the international economic relations arena because it harkens back to the days of simple North-South rivalries, in particular the suspicion in many developing countries of the activities of American- and European-based TNCs. Today, the entry of investment codes in the international trade relations dialogue is driven by three developments.

First, as WTO (1996a) points out, there has been a dramatic increase in the annual global flow of foreign direct investment (FDI), from US$ 60 billion in 1985 to US$ 315 billion in 1995. Second, the links between trade and FDI, while having always existed, are now better understood. The general reduction in average national tariff levels has meant that there is less "tariff-jumping" occurring now than did previously. At the same time, the creation of regional trading blocs allows inward investment to enjoy economies of scale in production and marketing which did not exist previously. Also, the evidence indicates that FDI and trade are mutually re- inforcing, thus countering more pessimistic views of their interaction. This is particularly true in the Asia/APEC region. Although the entire trade-investment story has yet to be written, Dobson and Yue (1997) and Urata (1993) demonstrate convincingly how the interplay of macroeconomic forces (sound and stable policies) and microeconomic/institutional forces (savings rates, technology flows, initial conditions) has led to a "virtuous circle" between trade, investment and growth in East Asia. Industry Canada (1996) estimates the correlation between total trade and FDI stock in APEC member economies to vary between 0.768 and 0.995, while the elasticity of trade flows with respect to FDI varies between 0.3 and 0.8 and averages 0.6. In sum, FDI today is neither distortionary nor does it inhibit - in fact, it encourages - trade and growth. This is admittedly a sweeping statement on which at the very least regional perspectives should be sought. But there is little question that FDI is no longer seen with quite as much suspicion as it used to be (the mantle has now passed to portfolio investment!) and that its very size suggests that serious thought be given to its assessment whatever its net impacts on trade, growth and ultimately development.

Third, the current regime governing FDI is a patchwork of literally hundreds of bilateral agreements which WTO (1996a and 1996b) compares to the situation that prevailed in the trade area in mid-nineteenth century Europe. The benefits, then, from multilateralizing this array of agreements arise from lower transactions (read negotiations) costs, more transparent and coherent investment regimes, more predictability in their operation as countries "lock in" their commitments under WTO rules, and less potentially beggar-thy-neighbour competition for FDI among host countries.

From the point of view of our project, three potential research and policy issues arise here. First, just because FDI and trade are empirically linked does not imply that the WTO is automatically the appropriate "vehicle" through which the multilateralization of investment codes should be pursued. As its detractors frequently point out, trade is related to everything, giving the WTO no automatic call on adjudicating on such a wide array of issues. But this still leaves open the questions, if not the WTO then who and how? Second and related to the first point, the debate on the "new regionalism" hinges on whether smaller, more cohesive groups of countries are better able to arrive at consensus than a single, large, multi-faceted grouping such as the WTO members. This in no small part explains why the OECD and APEC are working in this area as well. It may worth be exploring which regional blocs are best suited to deal not just with this, but all new trade-related issues where learning-by-doing and then knowledge transfer - from one bloc to another - may be more effective than the push for a single global consensus. Third, it is not immediately apparent who is (or more precisely who should be) "for" and who "against" regionally or globally harmonized investment codes. This is almost a prototypical "eclectic coalitions" issue. It is not readily apparent why net recipients or net senders of FDI, developed or developing countries, dynamic economies or sluggish ones, should prefer a WTO-based regime over a regionally-based one. I would argue that this statement rests even if one considers the push by some countries - admittedly all developing countries - to link discussion of multilateral investment codes with multilateral standards for corporate conduct.

In fact, under some conditions individual countries may well prefer the current regime and this could be rationalized in terms of the economist's familiar "agency problem", which is to say the delegation of decision making at the heart of the agency issue is significantly different under a bilateral as opposed to regional as opposed to global investment regime. Equally evident, from the point of view of the individual firm or country contemplating inward or outward investment, there is no a priori basis to assume the superiority of one regime over the other two. Indeed, there is no way of predicting which "sort" of country will prefer which regime unless the issue is much better thought through than it is at present.

v. Labour Standards

Although there are subtle but no doubt important distinctions to be made here, I treat "human rights", the "social clause" and "labour standards" as synonymous concepts, particularly the last two. This issue more than any of the others covered in this paper has a North-South dimension to it but as I argue at the end of this sub-section, even here this dichotomy is strained and likely to wither rather than intensify in future.

That labour standards are an emotional issue is not in doubt. That they go to the heart of international trade - because they are the very embodiment of many countries' comparative advantage - is also not in doubt. Recent policy-based responses have centered on the need to differentiate between what Stranks (1997) terms the "developmental" aspects of labour utilization and the "exploitative" aspects. But these issues have been known and considered by the international body politic ever since the founding of the current international economic system. In fact, of the five principal conventions ratified by ILO members only one dates to a "recent" year (1973). All others go back several decades. These key conventions cover: freedom of association; collective bargaining; abolition of forced labour; prohibition of child labour; and prohibition of discrimination in employment
and equal renumeration of male and female workers.

Duperrut (1996) summarizes the reasons behind the current move to link labour standards with trade (and more specifically with the WTO) as these: [1] moral; [2] employment problems; [3] the increasing importance of non-economic themes in international trade relations; and [4] lack of enforcement power of the ILO.

The first is self-evident, and while no less important for it, is not in and of itself an economic or political economic research topic. The third reason is related to the first, meaning that in addition to the fact mentioned at the outset of this paper - that tariff reductions are no longer key in trade talks - a globalization of values and mores would explain why concerns about trade go beyond economics.

The second is a statement of the "political economy" view mentioned at the start of this section. Although the evidence on low wages and trade success is mixed at best, economists are almost categorically "positivist" on this score. For example, Golub (1995) finds a positive correlation between wage levels and productivity in a broad sample of developed and developing countries. One implication of this result is that low wage levels do not confer any advantage much less an unfair one to countries because they simply reflect low productivity. However, obviously, low wages even if reflective of low productivity may still be offensive to the values of the international community and thus explain the drive to "do something" about them. Perhaps more appealing is the now famous "Wood Hypothesis" which purports to show changes in income distribution and wage dispersion in industrialized countries that are linked to their trade with developing countries, which then explains why protectionist sentiments arise in industrial countries. Significantly, Wood's own policy recommendation is not protection but rather targeted education, training and taxation policies in industrial countries. Finally on the subject of a purely economic perspective on this issue, mention should be made of the efficiency wage line of reasoning which is as applicable in low wage sectors and countries as it is in high wage ones. I do not believe that enough thought has gone into understanding why a certain wage pattern prevails in an industry if in fact a different one would yield equal or better results in terms of productivity and output. If one combines efficiency wages with Golub-type results then the implication is that "beggar-thy-worker" sorts of wages and working conditions do not yield superior export results. It may be worth exploring under which conditions and industries this is indeed the case, and under which ones it is not.

The fourth reason to link labour standards to trade is one that drives a considerable portion of the current discussion on this topic. There is ample anecdotal evidence to suggest that some constituencies pushing for the primacy of the ILO in this area do so out of no love for or loyalty to this institution, but precisely because it has no teeth. By the same token, some constituencies pushing to incorporate labour standards into the WTO discussions no doubt do so because this further enables their agenda, be it a genuine concern for workers in developing countries or be it straightforward protection for unskilled labour-intensive sectors in developed countries.

But this precisely illustrates why this issue, too, does not break along neat, readily identifiable lines. As the previous paragraph implies, in developed countries, socially-conscious groups and some of the more socially-concerned labour unions will find common cause with owners of firms in unskilled labour-intensive sectors and some labour unions operating in these sectors to inject labour standards into the WTO dialogue. More intriguingly, there is hardly unanimity among developing countries on this score. Duperrut (1996) reports that South Africa is on the one hand concerned about cheap imports (such as textiles) from "low social standards countries" [page 21] while at the same time not wishing to antagonize its developing country partners and not wishing to lose its own comparative advantage vis-a-vis exports to the U.S. and Europe. There is recent evidence to indicate that the Bangladeshi silk industry is concerned about "social dumping" from China. If one buys the Krueger argument cited at the start of this section that labour standards are a "normal good" then there is no discontinuity among North-South (ie. rich-poor) lines, but rather a continuous progression in concern and in policy as countries - all countries - become richer.

I summarize possible research issues here as being two-fold. First, the link between labour standards and trade is indirect rather than direct, varies by country and sector, and in any case depends on the type of protocol and enforcement mechanism that is negotiated, none of which are at all clear at this stage. And to continue the theme of this paper, second, the various actors on each side are driven by interest, experiences and perceptions which make a priori judgements of who will say what difficult to portend.

vi. Trade in Services

Unlike the other topics covered in this paper, it is easy to see why services have become a trade issue. They are directly and indirectly traded in large and growing numbers. As such, and despite the fact that they do not hurt if dropped on your foot, they can be analyzed in much the same manner as goods trade. In particular, their welfare effects and the conditions under which the different effects hold are similar to movements in more solid merchandise, as Sapir and Winter (1994) conclude in their survey of the topic. Given the peculiar nature of services (storage and transportation have unusual connotations in their case) I use the Sapir-Winter taxonomy to distinguish between the various forms of services trade.

| | Provider does not move | Provider moves |
|---|---|---|
| User does not move | Often called "commodity trade" because neither provider nor user has to move for trade to occur. Examples include some financial services and telework more generally, where transactions flow via telecommunications networks. | Here the provider must travel to provide the service to the user. Examples include some engineering services where frequent or close interaction is not required, or more permanent forms of movement such as FDI and migration to provide accounting, advertising, banking, consulting and distribution services. |
| User moves | Here it is the user that must travel to consume a service. Examples include tourism, education, health care, ship repair and airport services. | No known examples according to Sapir-Winter. Konrad von Moltke suggests that examples include ship salvage and certain wildlife operations including animal counts, tagging and research. |

Two points should be noted about trade in services. First, since services trade was not covered by high tariffs in the first place, its liberalization is almost exclusively centred on lowering non-tariff barriers to trade, in particular institutional and regulatory hurdles. Second, the taxonomy above shows the diversity in what constitute traded services, and therefore the diversity of national interests that are covered by the rubric of the GATS (General Agreement on Trade in Services), the only multilateral arrangement in the area of services.

The three most significant areas to have come under the GATS are telecommunications, skilled labour movement and financial services. The recent telecommunications agreement is perhaps best seen as a triumph of consumer interests (as championed by large American and a few European telephone companies) over regulation-based producer interests in the rest of the world.

Substantial portions of the issues in financial services trade come under investment codes which are discussed in sub-section iv above. However, as a rule financial services trade remains largely illiberal. Large swathes of the sector, particularly in insurance and banking, come under severe national regulation in most developing countries with the possible exception of Latin America. Two reasons are usually offered for this. First, prudential regulation of this sector may well argue in favour of a status quo even under demonstrably high levels of inefficiency. Second, the GATS permits an "economic needs test" whereby a country is entitled to limit foreign entry to sectors where the net effect of enhanced competition is deemed to be beneficial.

In surveying the post-liberalization experience of a set of African countries, Medhora and Zarrouk (1996) find that greater competition in the banking sector has not resulted in appreciable improvements in the sector's efficiency. This is borne out by quantitative indicators such as lending spreads and lag times in processing financial transactions as well as more qualitative indicators such as the level and range of service provided by financial service firms. Such evidence, when coupled with more general assessments of financial sector reform, suggest that non-tariff negotiations are likely even more complex than tariff negotiations, especially in light of seemingly unattainable benefits at the end of the process. Not surprisingly, "buy in" into the GATS is spotty and some observers compare concessions made under GATS at the end of the Uruguay Round to what prevailed with goods trade at the start of the GATT system 50 years ago.

Still, the telecommunications agreement suggests that when agreement happens it can happen relatively quickly. The next Round of service negotiations is due to start on January 1, 2000 at the latest. It is clear, then, that while conceptually services do belong in trade talks by anyone's definition, their range and the non-tariff nature of their liberalization make them one of the most difficult issues in the current trade agenda. That significant segments of services form a comparative advantage of developed countries does not make the matter any easier, though it should be noted here that barriers to their trade within developed countries (say between the U.S., EU and Japan) suggest that much progress remains to be made on many fronts by all sides. Also, as Ajit Bhalla points out, some of the comparative advantage currently residing in developed countries (say, in low-end financial services) is likely to move to developing countries in the foreseeable future.

## III. Conclusion

### i. The Cairns Group as a Model for Future Trade Negotiations

By now it should be evident that the emerging international trade agenda comprises a diverse and evolving set of issues driven principally by the need to move beyond price to non-price impediments to freer trade. It is expressly not the purpose of this paper to seek a common formal method of analysis of this trend in the manner of Axelrod (1984) or Nicholson (1989). However, two themes that have run throughout the treatment of the individual issues of the new trade agenda are [1] their multi-faceted nature, meaning they are not just economic issues, and [2] the diversity of interests involved in the presentation - and therefore ultimate resolution - of each in the international trade arena.

Both these points call for flexibility and agnosticism in their treatment both, as research issues, and as policy processes. There are precious few precedents to this style of operation save one. The Cairns Group formed towards the end of the Uruguay Round (1986) to deal with agricultural issues is termed by Tussie (1993) as "an unprecedented type of partnership in international trade negotiations, one in which developed and developing countries crossed old boundaries and converged" [page 181]. Drawing heavily on Tussie's analysis and that of Anderson (1994), this sub-section describes briefly the Cairns process and its possible application to future issues in trade relations. The point here is, to be sure, to bring out the immense potential for this form of action to "make a difference" in the international trade arena, but also to highlight the specific conditions which perhaps pointed to success (or at least not abject failure) from the very start.

First and foremost, the Cairns Group was galvanized into action by a historically implacable issue and widely accepted fault line in freer international trade, the agricultural sector. In practically all parts of the world but especially in Europe, Japan, Canada and the U.S., agriculture is characterized by sometimes spectacularly inappropriate policies which are visibly so. It is unclear that every other emerging topic in trade relations will carry the same connotation that agriculture does, but in their ability to grab attention, perhaps labour standards and the environment come close.

Second, this widely disparate group of countries with latent common interests would not have come together as explicitly as it did but for [a] the catalytic role that Australia played in the Group's construction, and [b] the sumo-style confrontation between the U.S. and the EC (now the EU), where the intervention of a third force had not only the potential to tilt the balance one way or the other but also the ability to reduce the degree of polarization between the two principal protagonists. It is unclear if these exact conditions hold in the current issues, though it would be ironic if the lesson to be learned here is that movement is only possible on an issue if there is a total impasse between two heavy-weights.

Third, the Group itself was hardly homogenous, but still managed to turn potential fissures (such as those between the more outward-oriented and hard-line Latin American members and the avowedly supply-management minded Canadians) into strengths, by creating a division of labour and responsibilities within the Group. Here again, there is no a priori reason to expect future coalitions to perform as successfully as the Cairns Group did (though it should also be noted that since the end of the Uruguay Round and "disbanding" of the Group there has been little progress globally on the agriculture front.)

Fourth, there were developments within Europe itself which made it easier for the EC to consider the reform of the CAP. One was the expected integration into the EC of the EFTA countries, whose levels of distortion in agriculture were even higher than those prevailing under the CAP. The other was the need to accommodate the countries of Eastern and Central Europe, even the advanced ones of which had a comparative advantage in simple manufactured goods and agricultural commodities. Therefore, for purely "domestic" European reasons, the principle that the CAP was sacrosanct within the framework of EC policy was beginning to wear just as the Cairns Group itself picked up steam.

Clearly, the conditions which brought about the establishment and functioning of the Cairns Group will not exist in all cases involving international trade negotiations. However, the very precedent that this Group has set suggests that other such ventures are more likely to be formed. I would argue that despite the undesirability of trying to "fit" a unique theory to assess trade negotiations, the economic theory of clubs is well suited to explain much of what we observe in international trade negotiations today.

Simply stated, the theory of clubs argues that "pooling" occurs if members are thus better able to either increase the net benefits accruing to them or decrease the risk they face from a particular situation relative to doing so individually. It is apparent that this logic is well positioned to explain both, regionalism as well as fluid coalitions, particularly the latter. The Cairns Group allowed a group of countries to come together to influence an outcome in a manner which was superior to the one that might have prevailed otherwise (that is, either the then status quo or the "EC view" or the "U.S. view" on agriculture). At the same time, "clubbing" lowered the risk that each member would have faced (in possible sanctions by the U.S. or the EC, or loss in prestige associated with having tilted, alone, against a windmill) had it acted alone.

The same logic may be used to explain the proliferation of formal regional economic blocs. In fact, the choice that countries now face on emerging issues is essentially between [1] dealing with a certain issue exclusively through a regional grouping rather than the WTO (for example, the NAFTA side agreement on the environment), [2] having their regional group represent them at the WTO level (the way Singapore on behalf of ASEAN dealt with labour standards issues at the SMC last december), and [3] forming a Cairns-type (ie temporary, fluid, single-issue) coalition at the global level.

In fact, the existence of this range of choices may well be the entry point into the international trade negotiations arena for countries who have hitherto been insignificant in either influencing or even participating in such negotiations. (I have in mind traditionally open but marginalized countries such as those in sub-saharan africa and central america as well as more transitional cases such as Cuba and Vietnam.)

"Connectivity" that is rapid, credible and operationally effective lies at the core of developing a positivist cross-country approach to emerging issues in international trade relations, and I conclude this paper with a brief discussion on this matter.

ii. Connectivity and Networking do  to Make a Difference

For the purposes of this paper (that is to say, for the purposes of motivating the creation of a global research for policy network on emerging trade issues) connectivity and networking imply the following.  First, country positions and perspectives have to be appropriately articulated and backed by solid analysis.  This requires not only a link between the "research sector" and the "policy sector" in individual countries but also the creation and development of a civil society on trade issues.  In other words, credibility implies both an internal consensus or national dialogue so that country perspectives carry a degree of moral authority, as well as public stances that are backed by strong analytics.

Second, for common perspectives to be identified, developed and pursued expeditiously, the internet can play a key role.  In other words, knowledge creation is more effective when it is generated with the ready and rapid exchange of information among a large number of participants, and the internet is uniquely positioned to bring this form of electronic connectivity to several sets of groups (research institutions, government agencies, universities, NGOs) concerned with international trade issues the world over.  I am assuming here that "virtual networking" of the sort associated with the internet is more congruent with the notion of "fluid coalitions" proposed in this paper than any other procedural modality known to us at present.

Third, and especially relevant for our immediate purposes, electronic connectivity cannot in and of itself constitute an "IDRC project".  What is being argued for here is a global network that operates at two levels.  At one level, it will be a traditional research for policy network that would produce a set of national, regional or thematic studies on the topics covered in section II of this paper, bringing together in the process researchers and trade officials nationally and internationally.  At another level, this network would be a mechanism for a larger number of groups than the "research" portion of our work would comprise, to come together and establish a more-or-less permanent forum on the current and future international trade agenda.

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