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Sessional Committee I

**DRAFT REPORT OF SESSIONAL COMMITTEE I OF THE TRADE AND DEVELOPMENT BOARD  
ON THE SECOND PART OF ITS FORTY-FIRST SESSION**

Rapporteur: Mr. Carlos Amorín (Uruguay)

**INTRODUCTION AND ITEM 2**

Speakers: Secretariat  
India  
China  
European Commission

**Note for Delegations**

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by **Friday, 7 April 1995 at the latest** to:

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## INTRODUCTION

(i) At its 855th (opening) meeting on 20 March 1995, the Trade and Development Board decided to establish a sessional committee of the whole (Sessional Committee I) to consider and report on the following agenda items:

Trade policies, structural adjustment and economic reform: developments relating to structural adjustment policies in developed countries, and their implications (agenda item 2);

Sustainable development: policy review of UNCTAD's activities on sustainable development (agenda item 3).

(ii) As indicated in the agenda (TD/B/41(2)/1), it is understood that those officers elected to serve the sessional committees at the first part of the session may be retained to serve in the same capacities at the second part of the session. Thus the Chairman of Sessional Committee I was Mrs Anne Stoddart (United Kingdom) and the Vice-Chairman-cum-Rapporteur was Mr. Carlos Amorín (Uruguay).

(iii) In the course of the second part of the forty-first session, Sessional Committee I held ... formal meetings and ... informal meetings.

Chapter I

**TRADE POLICIES, STRUCTURAL ADJUSTMENT AND  
ECONOMIC REFORM:  
DEVELOPMENTS RELATING TO STRUCTURAL ADJUSTMENT  
POLICIES IN DEVELOPED COUNTRIES, AND THEIR  
IMPLICATIONS**

(Agenda item 2)

1. For its consideration of this item, the Board had before it the following documentation:

"Trade policies, structural adjustment and economic reform: developments relating to structural adjustment policies in developed countries and their implications", report by the UNCTAD secretariat (TD/B/41(2)/8).

Consideration in Sessional Committee I

2. In opening the discussion on this item, the Officer-in-Charge of the International Trade Division said that pressures on industries to adjust were likely to increase as the liberalization commitments of the Uruguay Round were implemented and international competition intensified. Structural adjustment policies would therefore have to be reconsidered and made more relevant to the realities of current developments. The secretariat's report had reflected three major concepts: (i) A new international partnership for development was needed to ensure the enhanced participation in the world economy of developing countries and economies in transition; (ii) Markets did not always fulfil their resource-allocation functions satisfactorily and so Governments often had to implement microeconomic policies influencing the adjustment process; (iii) A positive approach to promote structural adjustment would be one in line with a country's comparative advantage while recognizing other countries' abilities to produce. Evidence suggested that Governments of developed countries had increasingly favoured investment in technological innovation, basic research and the learning of skills to promote shifts towards high-technology and skill-intensive industries where they saw a comparative advantage. In a few cases, policies had also facilitated the relocation of declining industries to lower cost developing countries. Such an orientation of structural adjustment policies was conducive to moves out of production in low- and middle-market segments of traditional industries, where many developing countries and economies in transition had competitive supply capabilities.

3. He noted that serious concerns nevertheless remained, with frequent deviations from the principle of positive structural adjustment, insufficient attention to the global perspective and lack of transparency in many adjustment assistance programmes or inadequate factual information to evaluate their effectiveness. Preliminary conclusions could be drawn from developed countries' experiences with policy implementation. First, there was a need for a positive approach to adjustment assistance and for enhancing its transparency, and especially for close monitoring of the effectiveness of government assistance to industries under adjustment pressure. In addition to having a global perspective, policies had to be conducive to greater complementarity of production and trade for all countries and in all sectors.

4. Governments might, he suggested, consider new approaches to promote the positive aspects of globalization, in particular the relocation of production which had lost competitiveness in developed countries to those developing countries and economies in transition which now enjoyed a comparative advantage. Thus, schemes of developed countries in support of investment abroad and other forms of cross-border production cooperation might focus more on encouraging such enterprise relocation. Increased globalization of corporate strategies also required greater coherence of national structural adjustment policies at the multilateral level. Growing liberalization could create new kinds of adjustment pressures in all countries and so the structural adjustments needed as a result would have to be consciously fostered by policy-makers. Likewise, it would be essential to ensure compatibility of adjustment assistance with the Uruguay Round commitments, in particular the Agreement on Subsidies and Countervailing Duties and the Agreement on Agriculture. The extent to which structural adjustment policies had stimulated new market opportunities for lower-cost supplies could be examined along with the crucial role played by those policies in terms of further liberalization of international trade.

5. The spokesman for the Asian Group (India) referred to the tremendous social cost of the structural reform process being implemented in the developing countries, although efforts were being made to put in place safety nets, and relocation and retraining programmes. The liberalization process in the developing countries had given greater market access to the products from developed countries and had, therefore, provided support for the structural reform process in the latter countries but it remained to be seen how their

reforms could help a similar process in the developing countries. TD/B/41(2)8 had usefully identified many relevant issues for debate with the objective of reaching an understanding.

6. Commitments undertaken in the Uruguay Round to give greater market access

had resulted in producers in developed countries facing greater competition, especially from products in which the developing countries had a greater comparative advantage. For the developing countries to make full use of the new market access, those subsidization policies which encouraged non-competitive developed countries' industries could more profitably be directed elsewhere. Areas where developing countries had a competitive advantage included clothing, footwear, iron and steel, marine products, fertilizer, ship-building and agro-based industry. This approach would be in line with positive structural adjustment mentioned in TD/B/41(2)/8 and the call for elimination of subsidies for unviable lines of production.

7. The developed countries could also examine ways in which intra-industry trade could enhance greater integration of production processes. Joint ventures, sub-contracting, licensing and other sourcing of semi-manufactured or manufactured goods from the developing countries would be some examples of enhanced integration. Similarly, transnational corporations could take advantage of the liberalized trading environment for further distribution of their production networks. If the structural reform policies in both the developed and developing countries reflected the global perspective, this might lead to policy cohesion for overcoming negative effects, such as marginalization of certain areas of the world in the growing international trade, and help maximize the positive effects. The expanding services sector deserved attention as a number of developing countries had acquired the requisite skills and were in a position to provide skilled workers who could enhance the competitiveness of the developed countries. If greater access were provided for temporary movement of personnel as service providers from the developing countries, the developing countries would enjoy a greater share in this expanding sector. In closing, he said that the developed countries could help mitigate some of the social costs in developing countries, in terms of unemployment and other dislocations due to economic reforms, by examining how best to sequence their reforms so that the structural adjustment costs could be eased for all member States. The Asian Group would like the secretariat to make a more detailed study of such coordination for a future Trade and Development Board agenda.

8. The representative of China observed that the trend towards globalization and liberalization of the world economy was gaining ever greater momentum. Various countries were taking measures to institute reforms and structural adjustments so as to be better prepared for intensified international competition. The structural adjustments carried out in the developed countries would have very important impacts on the world economy as a whole, as well as direct bearings on the ability of developing countries to realize comparative advantages for their exports and to expand their market access. Despite the decisive role of the market in resource allocation, the importance of government

in macroeconomic control and guidance could not be ignored. If the Governments of developed countries pursued "positive" adjustment by backing away from subsidies to declining industries, the effect would not only benefit the developing countries through export expansion, but would also help the developed countries themselves to upgrade their economic structure. However, the developed countries had widely neglected support for the relocation of declining lines of production to the developing and transition countries with a comparative advantage in these sectors. Many were still following a policy of "negative protection", particularly in the textile and clothing industries, although trade protectionism harmed the country taking such measures as well as the target country and not only failed to protect employment or economic growth but also aggravated adjustment further down the road.

9. Many developing countries, including China, had made great efforts to promote a rational division of labour and liberalization of trade in the world economy. These efforts had included reforms to bring trade systems into line with international practices, to open up domestic markets, to improve their investment climate, etc., with favourable results already visible in some countries and a positive impact on the world economy as a whole. The rapid economic growth of developing countries in South-East Asia had unquestionably contributed to the trade growth and economic recovery of the developed countries. The latter countries, in their structural adjustment policies, should therefore feel encouraged to take duly into account globalization and liberalization trends and the principles of "positive" adjustment with due regard to the comparative advantage of developing countries. The Uruguay Round Agreement had provided a basis for the elimination of protectionism. Positive structural adjustment measures would help implement the Agreement with the reward being greater stability and prosperity around the world.

10. The representative of the European Commission said that TD/B/41(2)/8 constituted a good basis for the discussion then went on to elaborate on the policies pursued by the European Community as a whole in the field of structural adjustment. Such adjustment was a constant process in response to market forces, technological change and the development of comparative advantage. The Community had remained open for imports from developing countries, which had resulted in growth of imports of manufactured goods from these countries at an average rate of 19.7% per annum from 1970 to 1991. Hence paragraph 83 of TD/B/41(2)/8, to the effect that "regional economic integration groupings often limit the influence of external pressures on the adjustment process..." did not apply to the European Community.

11. Two recent policy statements of the Commission relating to structural adjustment had identified as key policy areas the maintenance of open markets,

a sound macroeconomic framework, measures to stimulate employment, the development of an active policy of industrial cooperation with third countries, the development of non-physical investment through training, research and technical assistance and the development of trans-European networks and infrastructure. This policy did not seek to slow the pace of structural adjustment nor to protect declining industries, notwithstanding the serious concern over unemployment. Concerning global enterprise relocation strategies, almost half of the largest transnational corporations pursuing more diffuse geographical distribution strategies were based in the European Union. In 1993, outflows of foreign direct investment from France, Germany and the United Kingdom amounted to \$64 billion, compared to outflows of \$50 billion from the United States of America and \$12 billion from Japan. In closing, he proposed calling on the UNCTAD Working Group on Enterprises in Development to analyse in detail the relationship between dynamic performance of developing countries and foreign investment inflows. However, structural adjustment in industrial countries should not be considered in itself a priority for future UNCTAD work, as resources could be better deployed by focusing on specific changes in developing countries.