

Department of International Economic and Social Affairs

**SUPPLEMENT  
TO WORLD ECONOMIC SURVEY, 1978**

**THE EXPANSION OF EXPORTS FROM DEVELOPING COUNTRIES  
AND POLICIES OF STRUCTURAL ADJUSTMENT IN DEVELOPED COUNTRIES**

**UNITED NATIONS**

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## FOREWORD

The studies presented in this publication were carried out in response to a request made by the Committee for Development Planning. They formed part of a broader programme of work on prospects and policies for the 1980s which was intended to assist the Committee in formulating its recommendations to the Economic and Social Council on a new international development strategy for the third United Nations development decade.

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## Explanatory notes

The following symbols have been used in the tables throughout the report:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (-) indicates that the amount is nil or negligible.

A blank in a table indicates that the item is not applicable.

A minus sign (-) indicates a deficit or decrease, except as indicated.

A full stop (.) is used to indicate decimals.

Use of a hyphen (-) between dates representing years, e.g., 1971-1973, signifies the full period involved, including the beginning and end years.

Reference to "dollars" (\$) indicates United States dollars.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals, because of rounding.

The following abbreviations have been used:

ACP	Commonwealth countries of Africa, the Caribbean and the Pacific
CAP	Common Agricultural Policy / <u>European Economic Community</u> /
CMEA	Council for Mutual Economic Assistance
EEC	European Economic Community
FAO	Food and Agricultural Organization of the United Nations
GATT	General Agreement on Tariffs and Trade
GSP	generalized system of preferences
MFN	most favoured nation
MTN	multilateral trade negotiations
NEHEM	Netherlands Restructuring Corporation
OECD	Organisation for Economic Co-operation and Development
SITC	Standard International Trade Classification
UNCTAD	United Nations Conference on Trade and Development



The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The term "country" as used in the text of this report also refers, as appropriate, to territories or areas.

The designation "developed" and "developing" economies in the text and the tables is intended for statistical convenience and does not necessarily express a judgement about the stage reached by a particular country or area in the development process.

## Chapter I

### MANUFACTURING INDUSTRY

#### SUMMARY

Exports of manufactures from developing countries increased at a remarkable pace over the period from the early 1960s to the mid-1970s. The bulk of these exports was directed towards developed market economies which accounted for two thirds of the total exports of manufactures from developing countries. The centrally planned economies accounted for only about 3 per cent of the total. Future prospects for the growth of these exports will depend largely on access to the markets of developed market economies, though there is scope for expansion of exports both to the centrally planned economies and to other developing countries.

Despite the fast rate of growth of exports of manufactures from the developing countries, their importance in the consumption and total imports of manufactures in developed market economies remains very small. Moreover, the growth of exports of manufactures from the latter to the former group of countries has also been high, with the developed market economies enjoying a very large surplus in their trade in manufactures with developing countries (over \$100 billion in 1977).

Exports of manufactures from developing countries still remain concentrated in a narrow range of mainly labour-intensive commodities, though some diversification is becoming evident. Future prospects for growth will depend, partly, on the extent to which these countries succeed in further diversifying the commodity composition of these exports. The export structure is also likely to undergo changes through a process of evolution in which the relatively advanced developing countries will shift more into non-traditional exports, leaving an increasing proportion of the more traditional and highly labour-intensive commodities to the less industrialized developing countries.

Future prospects for the growth of exports of manufactures from developing countries to developed market economies will largely depend on the response of the latter to such exports. A number of factors which tend to shape this response have been examined. First, in most developed market economies, unemployment has assumed major proportions in recent years, creating concern about "job loss" owing to increased imports. But imports from developing countries have contributed very little to this problem which is basically of a structural nature. The answer to the problem is structural adjustment and not protectionism. Secondly, it has to be recognized that short-term adjustments to increased imports can be difficult if their rate of growth is very high. In point of fact, compared with the 1960s, there has been little acceleration in the growth of imports as a whole from developing countries in the 1970s. Moreover, exports of developed market economies to developing countries have also grown fast, resulting in a very large and growing net balance of trade in favour of the former. It remains true, however, that difficulties of adjustment can arise when imports are concentrated in a narrow range of commodities. It is in such cases that adjustment assistance is most needed.

Most of the post-war years has been a period of unprecedented prosperity, especially in industrialized countries. The period has also been noted for a great deal of trade liberalization, particularly in manufactures, from which developing countries have also derived some benefit. In recent years, however, progress in trade liberalization, affecting exports from developing countries, has slowed down, and new and more selective protectionist measures have been introduced in developed market economies, jeopardizing export expansion from developing countries.

Increased trade necessitates adjustments in industrial structures, involving a transfer of resources from one activity to another, though trade is not, of course, the only source of pressure for change. In some cases, a measure of State assistance can facilitate such adjustment. Many developed economies have general labour market policies as well as special policies to assist specific industries and regions. Although both of these types of policies can be, and sometimes are, geared to the objective of facilitating adjustment, they have sometimes also been used to prevent or delay adjustment rather than to aid it.

Adjustment policies directed towards trade-related adjustment problems are relatively new. Recently, some developed market economy countries have established assistance policies designed specifically to meet the need for adjustment arising out of increased imports. These policies are concerned with all imports rather than imports from developing countries. They are, nevertheless, steps in the right direction.

The experience gained so far and current discussions on the subject point to a number of elements which are essential to a forward-looking adjustment assistance policy. There is a need for a fully developed organizational arrangement to monitor incipient changes in the structure of the economy. Moreover, in order to be effective, adjustments related to increased imports from developing countries need to be an integral part of a comprehensive set of structural adjustment policies which take into account other sources of pressure for change as well. The need is for a capacity to anticipate major changes as far as possible, and to act quickly when changes occur in order to facilitate transfer of resources from affected industries through speedy and generous aid for retraining and relocation of labour. In so far as aid to depressed regions is concerned, such aid needs to be provided by locating dynamic industries in the region rather than by protecting declining industries.

Exports of manufactures from developing countries to centrally planned economies constitute a very small fraction of the total exports of manufactures from the former. In centrally planned economies, trade is fully integrated in their planning systems. Domestic considerations, especially growing labour scarcity, have recently induced these countries to put emphasis on growth through steadily improving productivity. This calls for a greater participation in world trade and structural adjustments in line with comparative advantage.

Increased exports of manufactures from developing countries are possible if the planned economies decide to make greater use of their comparative advantage and to incorporate such a target in their medium- and long-term plans. Because of the organizational structure of these economies, increased imports from developing countries need to be achieved through detailed intergovernmental trade and co-operation agreements. Whatever the form of trading arrangement, there would seem to be wide scope for the expansion of imports from developing countries in view of the significant differences in comparative advantage and the declared policy of the planned economies to seek greater specialization.

## EXPORTS OF MANUFACTURES FROM DEVELOPING COUNTRIES

### Some salient features of recent exports of manufactures from developing countries

Exports of manufactures from the developing countries expanded at a remarkably fast rate during the 1960s and 1970s. Between 1960 and 1975, their volume rose by over 12 per cent a year while total world exports of manufactures increased by some 9 per cent a year. Between 1970 and 1975 the volume of developing country exports rose by an average of 12.7 per cent annually, compared with 10.5 per cent in the 1960s. These exports have, moreover, been growing at a faster rate than the total exports from the developing countries, raising their share in the total (excluding petroleum products) from less than one fifth in 1955 to over two fifths in the mid-1970s.

Apart from their remarkably high rate of growth, exports of manufactures from the developing countries have been characterized by a high degree of concentration with respect to suppliers, commodities and market destination. These features of exports to developed market economies are briefly reviewed below. A short description is then given of the characteristics of exports to centrally planned economies.

#### Exports to developed market economies

Of the total exports of manufactures, except metals, from the developing countries in 1975, more than half originated in seven countries and more than two thirds were imported by the developed market economies. Eight countries with the most rapid growth of exports in the 1970s accounted for three quarters of the total developing country exports of manufactures in 1976.

Five countries of South and South-East Asia (Hong Kong, India, Malaysia, the Republic of Korea and Singapore) accounted for half of total developing country exports of manufactures (except petroleum and non-ferrous metals) to developed market economies. Hong Kong and the Republic of Korea alone accounted for well over one third of the total. The three large Latin American countries (Argentina, Brazil and Mexico) accounted for around 20 per cent of the total exports of manufactures to developed market economies. The geographical concentration of supply was at least partly owing to the industrialization policies followed by the exporting countries. While some of the relatively small countries of South and South-East Asia followed an outward-looking industrialization policy, some of the larger countries, especially in Latin America, pursued until recently a predominantly import-substitution strategy of industrialization. The emergence of a number of rapidly industrializing countries as major exporters of manufactures is another notable phenomenon of recent years.

Of greater significance in the present context is the commodity composition of exports of manufactures and their share in the total imports or consumption of the developed market economies. These exports remain concentrated in a few groups of commodities, although in recent years there has been a trend towards diversification. A recent study by the United Nations Conference on Trade and Development (UNCTAD) <sup>1/</sup> shows that 50 products out of a total of 422 accounted for

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<sup>1/</sup> "Dynamic products in the exports of manufactured goods from developing countries to developed market economy countries, 1970 to 1976; a statistical note by the UNCTAD secretariat" (UNCTAD/ST/MD/18).

75 per cent of the total developing country exports of manufactures <sup>2/</sup> to developed market economies in 1976. Among these groups of commodities, clothing, footwear and textiles retain their prominence. In recent years, however, exports of certain non-traditional items, such as radio and telecommunication equipment and certain items of machinery, have advanced very quickly, leading to an increase in their share in the total exports of manufactures. A salient feature of exports of manufactures from the developing countries is the very large role that relatively labour-intensive products play.

Despite the fast growth of imports of manufactures from developing countries, their market penetration in developed countries has remained very small. The share of these imports in the apparent consumption of developed market economies was around 2 per cent in 1975. However, there are considerable variations at the sectoral level in the degree of that penetration. Thus, in 1975, clothing imports from developing countries accounted for 8.6 per cent of total consumption of clothing in the European Economic Community (EEC), the United States of America and Japan, while the corresponding figure for chemicals was only 1.7 per cent.

The textile and clothing sectors have been the spearhead of the growth of exports from developing countries. Clothing accounted for between 20 and 25 per cent of total developing country exports of manufactures into both the United States and EEC in 1976, compared with a combined average of one tenth at the end of the 1960s. The developing country share in the aggregate consumption of clothing of EEC, the United States and Japan quadrupled during the 1960s and had doubled again by 1975. By 1976, imports from the developing countries accounted for around 35 per cent of the total clothing imports of these countries. <sup>3/</sup> The capturing by the developing countries of new domestic demand for clothing in the developed market economies has been particularly pronounced in the United States.

Penetration of the textile market by exports from developing countries is more difficult to evaluate. Shares in sectoral consumption mask wide divergences in import-penetration ratios in selected lines of production. The most dynamic trade in textiles has been in synthetic fibres. But developing countries were largely precluded access to the major markets for these products by restrictions on imports imposed by the developed market economies even before the former had become substantial exporters. These restrictions were further confirmed by the broadening of the Multi-fibre Agreement in 1974 to include man-made fibres. While exports from the developing countries to the developed market economies have been growing rapidly in some textile product lines in which the developing country share in developed economy markets is still small, in the traditionally high growth products of the developing countries, such as unbleached cotton products, the large share of developing countries in imports into the developed market economies appeared to have been contracting in the 1970s. It was mainly in the case of silk that the share of developing countries rose dramatically: by 1976 they were supplying more than half of the demand for imports in the developed market economies.

In other broad categories of manufactures, the degree of penetration by developing countries has been much less marked. The growth of developing country exports in these sectors has taken place within a framework of rapidly rising trade among the developed market economies themselves. Thus, the developing country share in the aggregate consumption of chemicals of the United States, Japan, the six original EEC countries and the United Kingdom of Great Britain and Northern Ireland,

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<sup>2/</sup> At the four-digit level of the Standard International Trade Classification (SITC).

<sup>3/</sup> The figure excludes imports from Taiwan Province, China.

is second only to their share in the clothing and textiles sectors, but amounted in 1975 to only 1.7 per cent. Their share in total imports of chemicals into those countries was also small, amounting to 17 per cent. Similarly, exports of chemicals to Western Europe accounted for only between 2 per cent and 4 per cent of the consumption of chemicals of that region in 1975. The share of developing country exports in the aggregate consumption of machinery and miscellaneous manufactures of the nine developed market economies mentioned above, was only 1.73 per cent in the mid-1970s and their share of total imports of these products was also small, accounting for only 12 per cent.

While it is true that over-all exports from the developing countries have grown fast, it is necessary to put the increase in its proper perspective in order to judge the impact of these exports on the developed market economies. Despite the impressive rates of growth of developing country exports, they still constitute only a small fraction of the total imports of manufactures into the developed market economies. In 1960, developing country exports to the latter constituted less than 6 per cent of total imports of manufactures into the developed market economies. By 1976, the share had increased to less than 9 per cent. The share of developing country exports <sup>4/</sup> in the total consumption of manufactures (excluding non-ferrous base metals) of the developed market economies was estimated to be 1.2 per cent in 1975 (compared with 0.4 per cent in 1970). It was somewhat higher in some of the major developed market economies, but still very much smaller than the shares of other developed market economies.

To assess the net impact of the trade with the developing countries on the economies of the developed countries, it is equally necessary to consider flows in the other direction. The growth of exports of manufactures from developed market economies to the developing countries has not been any less remarkable, considering the large base from which it started. The value of these exports increased at an annual rate of 7.5 per cent between 1960 and 1970 and at 24 per cent between 1970 and 1976. The net balance of the developed market economies in their trade in manufactures with the developing countries increased from \$13.84 billion in 1960 to \$24.34 billion in 1970 and to \$91.94 billion in 1976. The following table summarizes the growth of trade between developing countries and developed market economies:

	Developing country exports to developed market economies		Developed market economy exports to developing countries	
	Value (Billions of dollars)	Rate of growth (Percentage)	Value (Billions of dollars)	Rate of growth (Percentage)
1960	2.5		16.4	
1970	9.2	13.7 (10.0)	33.5	7.5 (6.0)
1976	31.0	22.0 (11.7)	122.8	24.0 (10.0)
1977	35.2	13.9	143.5	16.9

Source: Office of Development Research and Policy Analysis of the United Nations Secretariat, based on United Nations, Monthly Bulletin of Statistics (June 1978).

Note: The figures are preliminary estimates. Figures in parentheses are approximate rates of growth at 1970 prices.

<sup>4/</sup> Excluding those of capital-surplus oil exporting developing countries.

It is worth noting that exports from the developed market economies to the developing countries grew at least as fast as the growth of exports from the latter group of countries to the former during the 1970s. Equally significant is the fact that the rate of growth of exports from the developed to the developing countries accelerated more sharply between the 1960s and the 1970s than that of exports from the latter to the former.

A comparable pattern is evident in trade at the sectoral level. The gains of the developing countries in the textile and clothing sectors, for example, were roughly balanced by the substantial gains of the developed market economies, particularly if account is taken of trade in textile-related sectors. A recent analysis of trade between the developed market economies and the developing countries in 1960 and in 1974 shows that the net import surplus of clothing and textiles of the developed market economies was only \$2.7 billion in 1974. <sup>5/</sup> Moreover, the further rise in developing country imports of textile machinery, which resulted from their increased specialization in textile industries (textile machinery exports from developed market economies to developing countries rose from \$0.3 billion in 1960 to \$2.4 billion in 1974), led to a reduction in the net import surplus in the balance of trade of the developed market economies in the textile and textile-related industries to only \$480 million (compared to an export surplus of \$560 million in 1960).

Thus, although comparative advantage appears to have changed fast, the large and growing net balance of trade in favour of the developed countries casts doubts on whether the fast-growing imports from the developing world have by themselves significantly increased the magnitude of the problem of adjustment in the importing countries in the recent past.

#### Exports to centrally planned economies

Exports from the developing countries to the centrally planned economies remain particularly small. The share of such exports in the total exports of manufactures (SITC 5-8) from the developing countries was around 3.5 per cent in 1970 and had actually declined to 2.5 per cent by 1976. In the latter year, the Union of Soviet Socialist Republics accounted for 1.5 per cent of the total while Eastern Europe accounted for 1 per cent.

These exports are largely concentrated in manufactures other than chemicals and machinery. Product concentration in these "other manufactures" (SITC 6 and 8) is quite high. Textile yarn and fabric, iron and steel, non-ferrous metals and clothing accounted for 56 per cent in 1970 and 63 per cent in 1976 of imports of "other manufactures" from developing countries into Eastern Europe, the corresponding figures for the USSR being 70 per cent and 51 per cent. Textile yarn and fabrics are by far the largest component: they account for about two thirds of the four groups combined in the case of the USSR and between 51 per cent and 78 per cent for Eastern Europe. In imports of the USSR, a declining trend could

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<sup>5/</sup> See General Agreement on Tariffs and Trade, Trade Liberalization, Protectionism and Interdependence (Geneva, November 1977).

be observed for metals which was offset by a rising share of clothing. For Eastern Europe, both groups increased their share though metals increased more than clothing.

#### Growth prospects of exports of manufactures from the developing countries

The changes that have taken place since the end of the late 1960s in the penetration of world markets by exports of manufactures from the developing countries, together with the present uncertainties regarding future growth of demand in the developed market economies, provide a poor basis for predicting the future growth of exports of manufactures. However, some indications of broad trends may be noted.

On the supply side, the scope for expansion of production and exports of manufactures from the developing countries in the foreseeable future is obviously large. Export-oriented policies bearing upon the manufacturing sector are still a relatively new phenomenon in most developing countries. Many countries with a large and, as yet, relative untapped, export potential have only recently begun to shift from import-substitution industries to export-oriented production. In many of the less trade-oriented, but more industrialized, developing countries, a lack of domestic policy incentives continues to impede the expansion of exports of manufactures.

Projections made by the World Bank of the future expansion of developing country exports of manufactures suggest average annual growth rates in the region of 10 per cent a year during the 1980s. One set of World Bank estimates, based on the assumption of a modest recovery in the rates of growth in industrialized economies from their recent performance and a corresponding growth in world trade, projects the rate of growth of exports of manufactures from developing countries at around 11 per cent during the 1980s. An alternative and more pessimistic projection puts the rate at around 9 per cent. 6/

The extent to which the developing countries diversify their exports will be an important factor in their future prospects. Even within the present market structure, there is room for developing country penetration of the markets of developed market economies in many product lines. Non-electronics engineering exports of developing countries, for example, supply only 3 per cent of imports and 1 per cent of consumption in the developed market economies. In other markets, such as those for some electronic products, in which demand has already been saturated, further penetration by developing country exports will depend on the ability of these countries to displace other foreign suppliers.

It is likely that current export structures in the developing countries will undergo significant change. Growing competition among the developing countries themselves can be expected to contribute to this change. The higher wage levels

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6/ The uncertainty inherent in these projections, which were made only for the purpose of discussing related issues, has been clearly expressed by the World Bank. See World Bank, World Development Report, 1979 (Washington, D.C., August 1979).



which tend to accompany industrialization will diminish the competitive position of the more industrialized countries in relatively labour-intensive commodities vis-à-vis other developing countries and lead them into more capital-intensive and skill-intensive production. It is possible to visualize a stratification of production among developing countries, in which the few with a large industrial base will concentrate on the expansion of exports of relatively more capital- and skill-intensive industries, while the less advanced developing countries will capture the major share of import demand for more traditional labour-intensive products.

Significant changes may be expected in the product composition of developing country exports. A major slowing down of the rates of growth of exports of clothing, textiles and footwear to the developed market economies may be expected in the 1980s, leading to a relative decline of their importance in the total exports of manufactures from the developing countries. The expectation of a slowing down of the growth of these exports is based largely on the nature of the recent quantitative restrictions placed on their entry into developed market economies. Despite the rapid increase in exports of some other items, clothing, textiles and footwear, taken together, still account for around 40 per cent of the total exports of manufactures from the developing countries to developed market economies; and because of their weight, any substantial deceleration in the growth of these exports cannot fail to reduce the rate of growth of manufactured exports as a whole.

On the other hand, some of the non-traditional exports which still form a very small proportion of total imports of developed countries may gain in importance. Some developing countries with a substantial and broadly based industrial sector may increase their exports of a few iron and steel items and of some types of machinery and transport equipment. An increased volume of trade in these commodities is also expected among developing countries themselves. Some developing countries, particularly the oil producers, have made large investments in building up substantial capacities in the petro-chemical industry. Most of these capacities will be operational in the 1980s. It is too early to say, however, whether this will have a significant impact on the volume of exports of chemicals from these countries.

The consequences of increased international specialization are unlikely to bring about the abandonment of whole industrial sectors in the developed market economies. Even in such a sector as textiles in which the expansion of developing countries has been most rapid, the growing importance of synthetics has brought about a narrowing of specialization by product lines. Evidence suggests that the most rapid growth of intra-industry trade among the developed market economies may also develop in trade between the developed market economies and the developing countries. Imports of developing countries from other economic areas will continue to grow, not only of capital goods and industrial inputs, but also of specialized consumer goods.

#### THE NATURE OF THE RESPONSE IN DEVELOPED MARKET ECONOMIES

##### Factors shaping the response of developed market economy countries

Three factors stand out as major determinants of the current attitudes of the developed market economies to freer trade in general and to increased imports from developing countries in particular. They are unemployment in the developed market economy countries; the speed of change in comparative advantage; and the unevenness of the impact of imports on their economies.

## The problem of unemployment in developed market economies

Unemployment has assumed major proportions in almost all developed market economies. The proportion of the labour force unemployed recorded a sharp increase in the recession of 1974-1975 and even in the recovery that followed remained higher than at any time since the depression of the 1930s. It also appears that the high rates of unemployment in the 1970s represent a fairly long-term trend; rates of unemployment have been persistently higher in successive peaks of business cycles since the late 1960s. Since the present outcry in the developed countries against imports from the developing world is often generated by the alleged erosion of employment opportunities through such imports, it is worth while investigating the nature of the problem.

The rising unemployment in developed market economies is not strictly a recent phenomenon and is only remotely related, if at all, to increased imports from the developing world. Such imports have been small. Their employment displacement effects have indeed been negligible compared with those of other factors. This is so even when the employment-creating effects of rising exports from the developed to the developing countries are not taken into account. In fact, the search for factors behind this rising trend in unemployment in the developed market economies points to changes of a structural nature rather than to trade with the developing world.

Both the increasing participation of women in the labour force and the expansion of the working-age population have contributed to an increasing ratio of unemployment to total labour supply. The first factor is self-evident in so far as such participation is at the expense of jobs previously held by male workers, or in so far as the rate of unemployment is higher among women. The second factor is the consequence of the past high birth-rates which have begun to taper off only recently. In some countries - for example, the United States - a rising proportion of school leavers joining the labour force in preference to higher education has also tended to swell the ranks of job seekers.

Perhaps no less important has been the increased rigidity and immobility to be found in the labour market. Part of the rigidity has arisen from labour laws and changing industrial relations and practices which have tended to enhance the guarantees and benefits associated with specific jobs. <sup>7/</sup> The rigidities have also been reflected in the imbalance between the supply of, and demand for, specific skills. The coexistence of unemployment among workers of certain skill categories with a shortage of labour in others has become a common phenomenon in some countries

Two other underlying changes in the industrialized economies have been of particular importance in accounting for increased unemployment. First, as noted in many studies, the rate of gross fixed capital formation has been lower during the 1970s than it was in the 1960s. The factors behind this phenomenon are complex. But the fact remains that the slackening of investment activity has had a direct bearing on the rising trend of unemployment in these countries. Secondly, and probably not unrelated to the above, there is the evidence that wage rates have tended to outstrip increases in productivity. While rising wages in relation to

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<sup>7/</sup> David H. Freeman, "Employment perspectives in industrialized market economy countries", International Labour Review, vol. 117, No. 1 (January-February, 1978).

profits may have socially desirable income distribution effects, they have tended to increase the unit cost of labour as compared with that of capital, thus strengthening the incentives to economize on labour use.

Clearly, a complex set of socio-economic factors lies behind the problem of unemployment in the developed market economies. A solution is bound to be equally complex and will call for great ingenuity and far-sightedness. Whatever its nature, however, the seemingly intractable problem of unemployment in developed market economies has provided a fresh impetus to protectionist forces. Given the apparent relationship between increases in imports and losses of job opportunities, a "remedy" is sought in shutting out imports. This appears to be a wrong response to a very real problem, one that could only delay the search for a real solution. What is of immediate relevance in the present context, however, is the fact that such a response exists and is making itself felt.

#### Employment effects of increased manufactured imports

On a priori grounds, it has been frequently argued that "cheap" imports from developing countries have had a considerable impact on employment opportunities in the manufacturing sector of developed countries. Empirical studies, however, have not supported this point of view. In fact, several studies reflecting in various developed market economies before the 1970s showed that labour displacement in manufacturing industry caused by increased imports from developing countries was small in relation to total employment in manufacturing industry or to employment in the industrial branches affected. 8/ These studies indicated that the annual labour displacement that could be attributed to imports from developing countries in relation to employment in specific industrial branches did not exceed one half of one per cent at most, and was generally well below 0.2 per cent. Moreover, such labour displacement was only a small fraction of the displacement associated with productivity increases and labour turnover.

Three more recent studies - in the Federal Republic of Germany the United Kingdom and the United States - point to similar conclusions. 9/ The study

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8/ See "Some labour implications of increased participation of developing countries in trade in manufactures and semi-manufactures; report by the International Labour Office", Proceedings of the United Nations Conference on Trade and Development, Second Session, vol. III, Problems and Policies of Trade in Manufactures and Semi-manufactures (United Nations publication, Sales No. E.68.II.D.16); "Adjustment assistance measures; report by the UNCTAD secretariat", ibid., Third Session, vol. II, Merchandise Trade (United Nations publication, Sales No. E.73.II.D.5); The Kennedy Round Estimated Effects on Tariff Barriers (United Nations publication, Sales No. E.68.II.D.12), Part Two; and Ian Little, Tibor Scitovsky and Maurice Scott, Industry and Trade in Some Developing Countries: A Comparative Study (London, Oxford University Press, 1970).

9/ See "The impact on the causes and consequences of worldwide inflation on the developing countries" (TD/B/AC.26/Misc.1) (study prepared for the Intergovernmental Group of High-Level Experts on the Effects of the World Inflationary Phenomenon on the Development Process); and Frank Wolter, "Adjusting to imports from developing countries", Reshaping the World Economic Order: Symposium 1976, Herbert Giersch, ed., Institut für Weltwirtschaft an der Universität Kiel (Tübingen, J. C. B. Mohr (Paul Siebeck), 1977); and Vincent Cable, "British protectionism of LDC imports", Overseas Development Institute Review, No. 2, 1977.

for the Federal Republic of Germany estimates that the total displacement of labour by German imports of manufactured goods from developing countries between 1962 and 1975 was 0.13 million, compared with 1.55 million displaced by imports of manufactured goods from other sources, and 6.53 million displaced by changes in labour productivity. Moreover, the study stresses that the loss of employment due to imports of manufactured goods from developing countries might have been eased considerably by employment created by additional exports to these countries. The study for the United Kingdom focuses on unemployment and its causes in four manufacturing activities - footwear, clothing, cotton fabrics and textile yarns - during 1970-1975. Estimates of the average annual loss of employment due to trade with developing countries amount to 0.4 per cent in footwear, 1.7 per cent in clothing, 0.8 per cent in cotton fabrics and a negligible amount in textile yarns. In the four activities, estimated losses were usually well below - at most a quarter of - the losses attributable to productivity change or to trade from all sources in the respective activity. 10/ The study for the United States, in which three five-year intervals during the period 1960-1975 and 20 manufacturing subsectors 11/ are identified, suggests that there is no significant relationship between the rate of growth of imports and of employment, and that subsectors with more rapidly growing imports have tended to have more rapidly growing outputs. The study also concludes that in no subsector would the total cessation of import growth have permitted a reversal of a decline in employment during the period, nor would the annual rate of increase of employment in any manufacturing subsector have increased by as much as one percentage point.

#### The speed of change in comparative advantage

One of the factors which might increase the short-term difficulties of structural adjustment within the developed market economies is obviously the speed at which their comparative advantage is changing. In the present context, a proxy for such change may be taken to be the rate of growth of imports from the developing countries; it is assumed that the higher the rate of growth of competing imports, the greater the need for structural adjustment in the importing countries. Thus, a possible rationale for the resistance to imports from developing countries is that the growth of these imports has been too fast and has created serious problems of unemployment.

The rate of growth of exports of manufactures from the developing countries both to the rest of the world and to the developed market economies was not only high during the 1960s but accelerated substantially during the period 1970-1976. At the same time, imports from the developing countries still constitute a small segment of total imports of manufactures by the developed market economies. More important, perhaps, is the fact that the net balance of trade in manufactures between

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10/ The only exceptions were the estimated loss of employment attributable to trade with developing countries in clothing, which represented about two thirds of the estimated loss due to trade from all sources in this product, and the estimated loss of employment attributable to trade with developing countries in cotton fabrics which represented about half of the estimated loss due to productivity change in this activity.

11/ At the SITC two-digit level.

the two economic groupings registered a very substantial growth in the surplus of the developed market economies; it rose from \$13.84 billion in 1960 to \$91.94 billion in 1976, reflecting the high rates of growth of exports of manufactures from these countries to the developing countries during the 1970s. While the high rates of growth of exports from both economic groupings may indeed be taken to indicate equally significant changes in the comparative advantages in both areas, given the favourable balance of the developed market economies it is questionable whether the fast-growing imports from the developing countries have, by themselves, increased in any substantial way the magnitude of the problem of adjustment in the developed market economies in recent years. It is not the growth of total imports of manufactures which seems to intensify the problem of adjustment; it is rather the unevenness of the impact of such imports.

#### Unevenness of the impact of imports

The problems of adjustment to increased imports from developing countries seems to be measured most by the unevenness of the impact of these imports on the domestic economy of the developed countries. The magnitude of these imports varies widely among sectors. Indeed, if the forces of comparative advantage work, some industries are bound to be more affected than others by increased imports. Since the developing countries have a greater comparative advantage in some industries than in others, they are likely to export more of the commodities in which their advantage is greater. Assuming unhampered access to the markets of the developed countries, imports into these countries will be larger for some commodities than for others.

The question that arises is why the problem of adjustment should be more difficult when imports are concentrated in a few commodities than when they are more widely dispersed. From the point of view of a national balance sheet, what should matter in that context is the total amount of productive resources displaced by imports rather than the extent of displacement in individual industries. Thus, it should not apparently matter whether a thousand workers displaced by imports were originally employed in two industries or in ten. The total cost of redeploying them could possibly be about the same for the society in both cases.

In practice, however, two factors seem to make the adjustment problem more difficult in this situation than it should otherwise be. First, since import "injuries" are concentrated in a few sectors, demand for protection can be a more effective force. Thus, when a relatively significant proportion of a large industry is adversely affected by import competition, a relatively substantial number of workers are displaced. Because of such concentration of unemployment in one industry, its total loss of earnings seem disproportionately large and evident while the benefits to consumers, though perhaps larger, are diffused and not so apparent. In this situation, the opposition of trade unions and employers to increased imports assumes considerable force, especially as no countervailing force emerges on the side of consumers.

Secondly, industries which are becoming uncompetitive are sometimes located in economically depressed areas. It may well be that the region is depressed because it has failed to move out of such uncompetitive industries into higher productivity ones. Whatever the reason, the fact remains that the depressed condition of a region is often put forward as an additional argument for protecting uncompetitive industries. Since regional socio-economic development is an important element in national policies for most countries, the argument for protection often acquires an additional political force.

## The case for further trade liberalization

Since the Second World War, the world economy has experienced unprecedented growth, partly as a result of decreasing barriers to international trade. The benefits have been widely, though unevenly, spread over both the developed and the developing countries. The resurgence of protectionism in the mid-1970s and the resistance to structural adjustment discussed earlier have raised doubts about the commitment of the developed countries to free trade and have strengthened the call for reassertion of the case for further trade liberalization.

For consumers, the advantages of freer trade are that it usually opens up less expensive and more diversified sources of supply. Where domestic industries earn monopoly profits, increased competition from abroad leads to more normal profits, thus benefiting consumers through lower prices of domestically produced goods. An additional benefit at the global level is that at each stage of trade liberalization, there is a one-time impact on the wholesale and consumer price indices, lessening the inflation rate or reducing inflationary pressure. From the point of view of production, freer trade provides the opportunity to reallocate domestic labour and capital to those industries in which the country has a comparative advantage, thus increasing over-all productivity. An enlarged market also makes possible the greater exploitation of economies of scale in the use of one or more factors of production. It further ensures a satisfactory degree of competition and thus tends to minimize inefficiencies and to prevent the abuses that accompany the concentration of market power. The corollary is a generally more efficient industry and an added stimulus in the search for new, and technologically superior, production processes.

The most common argument against trade liberalization in the developed countries is that it hurts activities which have a comparative disadvantage, causing unemployment of factors of production in these activities. This is likely to occur if the economy is sluggish or factors of production in the affected activity lack mobility. On the other hand, if the domestic economy is growing or the affected factors of production have a sufficient degree of mobility, unemployment of factors in these activities should not become a serious problem. Such arguments, therefore, should not be used against further trade liberalization; they are, rather, further evidence of the need for comprehensive adjustment assistance in the activities that are likely to be affected by trade liberalization. In fact, in the large majority of cases, adjustment assistance costs are likely to be only a fraction of the benefits derived from freer trade, including increased employment in the new export activities resulting from such trade. 12/

Recent studies in some developed market economies have attempted to quantify the costs and benefits relating to further trade liberalization, and these suggest that benefits tend to outweigh costs considerably. 13/ A study carried out in France,

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12/ New export activities should come about as a result of the increased foreign exchange revenues in the countries which have increased exports to the referred country or as a consequence of shared liberalization with other countries.

13/ See G. K. Helleiner, "Manufactured exports from less developed countries and industrial adjustment in Canada", Jacques de Bandt, "Structural adjustment in the textile industries: costs and benefits", Gerhard Fels and Hans Hinrich Glismann, "Adjustment policy in the German manufacturing sector", Adjustment for Trade: Studies on Industrial Adjustment Problems and Policies (Paris, Development Centre of the Organisation for Economic Co-operation and Development (OECD), 1975); and Robert E. Baldwin, "Trade and employment effects in the U.S. of multilateral tariff reductions", American Economic Review, May 1976.

for example, was concerned with estimating the costs and benefits of structural adjustment in the French textile industry resulting from a policy designed to liberalize imports. The study estimated that, while the benefits to consumers would amount to 1.7 per cent of the gross domestic product each year, or about 14 billion francs in 1970, the costs - loss of tariff revenue, fixed capital losses, unemployment - associated with this measure would amount to less than 9 billion francs a year, of which 7.5 billion francs were likely to be labour-related costs. It was stressed, however, that estimated labour-related costs could diminish considerably if labour market conditions were such that an important part of the unemployed was speedily absorbed. A study in the Federal Republic of Germany estimated the following: (a) the costs - unrealized consumer surplus not including income transfer effects and loss due to relative inefficiencies in production in protected activities - as a result of tariff protection of German industrial subsectors in 1972; (b) the income transfers from consumers to producers and Governments associated with such protection; (c) the employment effects by industrial subsector of a tariff removal; and (d) the costs, income transfers and employment effects of non-tariff protection in textiles and clothing. Two important conclusions emerged from this study: one was that income transfers from consumers to producers - which could be avoided as a result of tariff removal - were considerable; and the other was that costs in textiles and clothing due to non-tariff protection were about 20 times as high as costs due to tariff protection. A study in the United States estimated, under different assumptions of trade elasticities, the net trade changes and the net employment effects of a 50 per cent multilateral tariff reduction in 310 trading industries. <sup>14/</sup> The main conclusion of the study was that any adverse trade and employment effects as a result of the suggested tariff reduction were likely to be small, except under one rather extreme assumption of trade elasticities. If exchange rate adjustments to eliminate net aggregate trade changes were taken into account, total employment shifts would become minimal even under the most adverse trade elasticity assumptions. The study also concluded that normal industry growth could handle any adverse impact on employment, in all but 20 of the industries under consideration, if the tariff reduction was staged over a 10-year period.

#### Trade barriers facing exports from developing countries

Developed market economy countries are generally committed to the principle of free trade across national boundaries. The post-war period witnessed an unprecedented degree of trade liberalization which coincided with over two decades of economic prosperity in the developed world. Attempts at liberalization on a global scale have also been reflected in a gradual lowering of barriers to exports of manufactures from the developing countries. Without such liberalization, the rapid expansion of manufactured exports from these countries to the developed market economies would not have been possible, although supply factors also played a crucial part in such expansion.

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<sup>14/</sup> A previous study by the same author (see Robert Baldwin and John H. Mutti, "Policy issues in adjustment assistance: the United States", Prospects for Partnership: Industrialization and Trade Policies in the 1970s, H. Hughes, ed. (Baltimore, The Johns Hopkins University Press, 1973) suggested that the benefits from the removal of tariffs in textiles, chemicals, radio, television and communications equipment, and primary iron and steel outweighed considerably the costs associated with labour displacement, even if a period of 24-week unemployment was assumed for those displaced.

Yet, in practice, the commitment to free trade has always remained much less than complete. Attempts at liberalization have been hedged about not only by tariffs but, more important, by numerous "escape clauses", "voluntary restraints", quotas and other forms of quantitative restrictions. Though the Kennedy Round of trade negotiations resulted in a sizable reduction of tariff barriers, the rates of tariff, on the average, remained significantly higher on imports of the developed countries from the developing world than on their imports from one another. The generalized system of preferences (GSP) which was introduced in 1971 allowed mostly duty-free entry of manufactured imports from the developing countries into most developed market economies. But a number of products of export interest to the developing countries have either been kept entirely outside the scheme or are subject to quotas and ceilings. In some cases, preferential entry has been denied to some countries for certain products on the grounds that those countries are already competitive in the products in question. These and numerous other provisos and exceptions as well as the complexities of the scheme have rendered it a far less useful vehicle for the expansion of exports from developing countries than was originally hoped for.

In recent years, even the spirit of liberalism in trade seems to have been swamped by protectionist pressures in many developed countries in the wake of economic stagnation and growing unemployment. Demand for protection against imports from developing countries has grown stronger than at any time in post-war history.

The principal forms of barriers to imports are tariffs and quantitative restrictions in various forms. There are other, less direct, forms of trade barriers, such as government purchases which discriminate against imports, subsidies to domestic industries and import licensing. Only tariffs and quantitative restrictions are discussed in the following paragraphs.

#### Tariff protection

The structure of tariffs on imports from the developing countries is such that it discriminates against products in which these countries are expected to hold a decisive comparative advantage. A number of empirical studies have demonstrated that the rates of tariff in the developed market economies are positively correlated with labour-intensity. In other words, the higher the labour-intensity of a product, the higher is the level of tariff. Since developing countries in general have a comparative advantage in relatively labour-intensive products, which they tend to export, the tariff structure of the developed market economy countries, by implication, tends to discriminate against their exports. This is further confirmed by the fact that whereas the average nominal tariff imposed by the developed market economies on most industrial products is 7 per cent to 10 per cent and non-tariff barriers are few, in labour-intensive products they tend to be very high. For example, tariffs on textiles and clothing are around 18 per cent and 25 per cent, respectively, and quantitative restrictions are prevalent.

Calculations undertaken in the late 1960s indicate that the Kennedy Round of negotiations - completed in 1967 - produced significant reductions in the rates of tariff on imports of manufactures from the developing countries. On the other hand, they show that while the average nominal tariff on imports of manufactures from the developing countries into the developed market economies was lowered by almost one third, the average tariff applied to those imports was still almost twice as high



as that applied to total imports of manufactures. <sup>15/</sup> Thus, while the average rate of nominal tariff on imports from developing countries was 17.1 per cent before the Kennedy Round and 11.8 per cent after the Round was completed, the corresponding averages for total imports of manufactures of the developed countries were 10.9 and 6.5 per cent, respectively. This was true not only of nominal tariffs, but also of effective tariffs. The pre-Kennedy Round and post-Kennedy Round average rates of effective tariff were 33.4 per cent and 22.6 per cent for imports of manufactures from developing countries and 19.2 per cent and 11.1 per cent for total imports of manufactures. <sup>16/</sup>

It should be emphasized, however, that an average rate is not an entirely satisfactory indicator of tariff barriers to trade, since it conceals wide variations in the incidence of tariffs on various products, and it is often found that some products of export interest to developing countries carry import duties which are much higher than the average. Thus, it is quite common to find that imports of metals are subject to a nominal rate as low as 5 per cent while the rate on apparel can be as high as 30 per cent. It is thus the structure of tariffs rather than their average rate which matters when the real impediments to trade are discussed.

In so far as tariff barriers are concerned, perhaps the most significant development of the 1970s has been the launching of GSP. Existing schemes under GSP permit mostly duty-free imports of a large number of industrial and semi-industrial products. As mentioned above, the schemes either exclude some important items of export interest to developing countries or subject them to quota restrictions. This reduces the usefulness of GSP. Moreover, not all developing countries or regions are covered by the individual schemes. Given the coverage of the schemes, however, the duty-free status of most commodities means that some import liberalization has taken place.

Some idea of the trade liberalizing implication of the GSP schemes can be given. <sup>17/</sup> In 1976, imports of industrial products <sup>18/</sup> from developing countries into major developed market economies amounted to \$45.9 billion, of which \$28.9 billion was most favoured nation (MFN) dutiable. The value of GSP covered imports from developing countries was \$18.5 billion (of which \$16.7 billion was duty-free). Thus, GSP covered imports accounted for 64 per cent of MFN dutiable

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<sup>15/</sup> Industrial Development Survey: Special Issue for the Second General Conference of UNIDO (United Nations publication, Sales No. E.74.II.B.14), p. 60.

<sup>16/</sup> See Bela Balassa, "The structure of protection in the industrial countries and its effects on the exports of processed goods from developing countries", Report No. EC-152a, mimeo (Washington, D.C., International Bank for Reconstruction and Development, 1968), cited in Little, Scitovsky and Scott, op. cit., chap. 8.

<sup>17/</sup> See General Agreement on Tariffs and Trade (GATT), The Tokyo Round of Multilateral Trade Negotiations (Geneva, April 1979).

<sup>18/</sup> Industrial products here cover CCCN (Customs Co-operation Council Nomenclature) chapters 25-99 and do not strictly conform to the definition of manufactures adopted in the present report.

imports from developing countries. However, in view of the important qualifications of the GSP schemes noted above and their administrative complexities, it should be pointed out that this figure probably overstates the extent of actual trade liberalization. In fact, only about 40 per cent of the total imports from developing countries under the GSP schemes actually received preferential treatment in 1976. 19/

The Tokyo Round of multilateral trade negotiations, concluded in April 1979, has been a significant step towards further liberalization of international trade in general. After a period of intensive negotiations, agreements have been reached on a wide variety of liberalization measures covering both tariff and non-tariff barriers. According to preliminary calculations by the GATT secretariat, the negotiations would mean a tariff reduction of around 33 per cent on industrial products. 20/ For developing country exports of industrial products, the depth of tariff cut has been estimated at around 26 per cent which is lower than the over-all tariff reduction. This is partly because some of the products of export interest to developing countries were subject to a less than average tariff cut. A number of these products were totally or partially excluded from application of the general tariff cutting formula adopted at the negotiations. They include such important items of export interest to developing countries as textiles, footwear, leather goods and cutlery.

The Tokyo Round of negotiations is expected to have only a marginal effect on the coverage of imports from the developing countries under the GSP schemes. According to the GATT estimates cited above, imports eligible for GSP accounted for 64 per cent of all MFN dutiable imports of manufactures from these countries in 1976. This percentage would remain practically unchanged as a result of the negotiations, or may decline slightly. On the other hand, cuts in MFN tariffs on imports covered by GSP are deeper than cuts on GSP tariffs (already low), so that the absolute differential between the two is expected to be reduced, eroding to some extent the preferences for developing countries.

In concluding this section, it should be emphasized that exports of manufactures from developing countries are highly responsive to reductions of tariff barriers. In this respect, a number of studies have demonstrated that the demand for manufactures from the developing countries is highly elastic with respect to reduction in the tariff rates. 21/

#### Quantitative restrictions

In recent years, while the level of tariffs has tended to decline, the developed market economies have been placing an increasing reliance on non-tariff

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19/ See "Review and evaluation of the generalized system of preferences; report by the UNCTAD secretariat" (TD/232).

20/ Op. cit.; the calculations are based on imports of all major developed market economies.

21/ See, for example, J. M. Finger, "Effects of Kennedy Round tariff concessions on the exports of developing countries", Economic Journal, March 1976.

restrictions on imports from developing countries. These quantitative restrictions, in their various forms, are now acting as formidable barriers to this trade. They are most frequently applied to such products as cotton and other textiles, petroleum products, ferro-alloys and ceramic products, jute products, leather and leather goods and woollen goods. They are also sometimes applied to processed food, aluminium products, electronic components, pharmaceuticals and rubber manufactures. 22/ In the case of some of these commodities, such as textiles, clothing and processed agricultural products, the restrictions may have more serious consequences than tariffs. 23/ Only some illustrative examples of such restrictions are discussed here.

One of the oldest examples of attempts to regulate imports from the developing countries is provided by the Arrangement Regarding International Trade in Cotton Textiles. Put into operation in 1962, the Arrangement aimed at orderly expansion of world trade in cotton textiles with the important proviso that such trade should not be disruptive of domestic production in importing countries. Under the Arrangement, an importing country which felt threatened by disruptive imports could ask a particular exporting country for consultation with a view to avoiding such disruption and impose quantitative restrictions on imports from that country if no mutually satisfactory solution could be found. Most of the restraints which resulted from these consultations were accepted by the exports on a "voluntary basis".

The agreement was extended, in various phases, until September 1973. In December of that year, a new four-year agreement under the title "Arrangement Regarding International Trade in Textiles" was negotiated and covered trade in non-cotton textiles and products as well. This Arrangement, also known as the Multi-fibre Arrangement (MFA), was later renegotiated and extended for another four years, beginning in January 1978.

Under the new textiles Arrangement, the restraints placed on exports of textiles from the developing to the developed market economies are more stringent than ever before. In some cases, importing countries, faced with increased imports, have actually reduced these imports from certain countries from their former level. Thus, EEC has reduced the 1978 quotas for imports of textiles from some principal suppliers (for example, Hong Kong and the Republic of Korea) below their actual 1976 level. Under the new Arrangement, the rate of growth of over-all imports of textiles into EEC countries would range from a mere 0.3 per cent for certain products to 4.1 per cent for others, which means a sharp reduction in the rate of growth achieved in the past. A number of other countries, including Canada, Norway, Sweden and the United States, have also recently imposed severe limitations on the growth of textile imports.

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22/ Industrial Development Survey, vol. V (United Nations publication, Sales No. E.73.II.B.9), p. 60; based on findings contained in "Programme for the liberalization of quantitative restrictions and other non-tariff barriers in developed countries on products of export interest to developing countries; report by the UNCTAD secretariat (TD/120/Supp.1 and Corr.1 and 2), paras. 18 and 19.

23/ Ibid.

Import restrictions have also proliferated in other areas. For instance, Canada has imposed global restraints on imports of footwear, reducing the permissible imports in 1978 to a level lower than that of 1976. Similarly, the United States, under a bilateral agreement, has arranged a restraint on the growth of imports of footwear from the Republic of Korea for four years beginning in January 1977. The EEC placed a quota restriction on exports from the Republic of Korea to the United Kingdom, permitting a substantial increase in 1977 over the 1976 level (which was very low), but keeping the 1978 imports at the same level as they were in 1977. These and other restraints have indeed affected major products of export interest to the developing countries. The list of such products includes clothing, carpets, textile fabrics, yarns, footwear and other leather goods, plywood, tableware, iron and steel products, and television sets.

While it is too early to judge the impact of the recent protectionist measures on the over-all growth of exports of manufactures from the developing countries to the developed market economies, it is nevertheless clear that they are likely to lead to a significant slowing down of such growth since these recent restrictions were instituted with the full knowledge that they would seriously affect the type of products which are of major export interest to the developing countries. An equally important consideration is that the atmosphere of market uncertainty created by the recent upsurge of protectionism may seriously undermine the attraction of the outward-looking policies which have been successful in promoting exports of manufactures from developing countries as well as enabling them to use their resources for economic development in a more effective way.

#### Need for structural adjustment policies

##### Adjustment assistance policies

It is only in the past two decades that trade-related adjustment assistance has begun to emerge. With the exception of certain policies within the framework of the European Common Market, the first attempts in this direction were rather weak and had only limited success. Over time, however, many countries have intensified their efforts and widened the scope of their trade-related adjustment assistance. Of particular importance in the context of the present paper, is the new direction which such assistance started to take in a few developed market economies in the 1970s, namely, the special attention being accorded to increasing imports from developing countries. In the paragraphs which immediately follow, a brief review of certain policies which have a direct bearing on the adjustment process is presented. While these policies may not appear to be trade-related, they nevertheless have a significant impact on both the level and the composition of trade in manufactures. In a later part of the present section, an attempt is made to review a number of trade-related adjustment assistant policies.

##### General labour market policies

The recognition that a main source of resistance to structural change comes from the fears of those workers who are likely to be affected by such change and that a geographically mobile and easily adaptable labour force tends to absorb change much more easily, has played an important role in shaping the variety of policies that have emerged in the developed market economies. Three main lines of

policies may be distinguished: measures to delay or to prevent the negative effects of adaptation, namely, the emergence of unemployment; measures to compensate for the loss of jobs; and measures to train displaced workers and to speed up their transfer to other jobs.

Among the first set of measures are the "prior tripartite discussions" introduced by Canada and France to cope with the problems associated with job redundancies following mergers or structural reorganization of firms. A crucial element in these schemes is the advance warning of impending redundancies. Another measure which the Governments of several Western European countries have adopted since 1974 (largely as a reaction to the economic recession) is the use of subsidies aimed at increasing or maintaining employment. Since these subsidies, which are supposedly of a temporary nature, are periodically revised to deal with lingering, or perhaps structural, unemployment, they tend to make the labour market more rigid, and to prevent the required adjustment. In the United Kingdom, for instance, a Temporary Employment Subsidy (TES) was introduced in 1975. Its initial purpose was to assist certain firms in relatively depressed areas not to displace workers; but the purpose has been gradually modified and the subsidy is now being used to prevent displacement in general. As a result, by the end of 1977, TES-supported jobs accounted for nearly 14 per cent of total employment in the clothing industry throughout the United Kingdom. The corresponding figures were 8 per cent for the textile and 6 per cent for the leather and leather good industries.

Regarding measures to compensate for the loss of jobs, developed market economies have established income maintenance programmes of various kinds. The usual arrangement is a form of unemployment insurance which compensates for a proportion of the loss of income, generally for a limited period of time. Although these schemes may help to weaken the resistance to change, they do not necessarily result in a smooth structural adjustment. Further, if there is a geographical concentration of ailing industries, the partial loss of income and the likely negative multiplier effects of such loss can compound the problem in the affected area.

The third type of response revolves around the establishment of programmes to speed the transfer of displaced workers to other activities. It usually entails the least social cost in the long run. These programmes include measures such as training, assistance to increase the geographical mobility of the unemployed, establishment of an efficient employment service network, and research to identify in advance the activities in which labour imbalances might occur.

Among the developed market economies, the scheme established by Sweden to reallocate labour as a means of facilitating the adjustment process is perhaps the most comprehensive. The scheme which is administered by the National Labour Market Board comprises various elements. These include travel allowances for job seekers; moving costs of the family; lump-sum installation grants; special allowances in the event that a worker's family is unable to move immediately to the new location; purchase by the Government of the worker's house in the event of his inability to sell it; provision of new dwellings in areas where jobs are available but housing is scarce; allowances to workers participating in Government-sponsored retraining courses; subsidies to employers who operate vocational training programmes; access to a national occupational counselling service; prospective studies, based on the information collected by the local offices of the national employment services, to

anticipate changes in labour market conditions; and a system whereby employers are obliged to give advance information to the employment service about lay-offs or plant close-downs. The importance that the Government attaches to these programmes may be illustrated by the fact that in recent years, actual expenditure related to the implementation of such programmes amounted to about 8 per cent of the national budget. Although these programmes are not directly related to imports from developing countries or, for that matter, to trade in general, the main direction of such measures is towards easing - and in some cases anticipating - the adjustment process. As such, they may be looked upon as a valuable body of experience in the establishment of an efficient, comprehensive and non-discriminatory set of measures to cope with structural changes, including those changes arising from a growing international division of labour.

#### Policies to assist specific industries and depressed regions

With differences in emphasis on objectives and through the use of different policy instruments, developed market economies have generally evolved systems whereby certain industries and regions affected by economic change receive government assistance. Although in many instances the final objective of the assistance - which is usually considered to be of a transitory nature - is to permit of a smooth adaptation to new conditions, in other instances the intent or, at least, the effect, of the assistance, is to protect the affected industry or area.

The policy instruments to assist industries in developed market economies comprise measures such as tax incentives, financing (directly through loans and grants or indirectly by guaranteeing commercial loans), preferential public sector purchases of the industry's output, protection from foreign competition, export subsidies, provision of services such as training, technical advice, and subsidies for research and development. The expectation is usually that the use of one or more of these measures on a temporary basis will permit the industry for which conditions have changed to modernize and rationalize its activities - including redeployment of manpower - so as to become competitive again. The explicit objective has sometimes been to scrap old plants, and special programmes have indeed been devised on these lines, as in the case of the textile industry in Japan, Sweden and the United Kingdom. In other instances, a more direct form of action has been the use of government pressure or nationalization, as in the case of shipbuilding in the Netherlands and Sweden, to bring about mergers or rationalization of firms.

At the regional level, assistance programmes, in most cases, have the objective of restoring economic viability in specific areas affected by changes in demand patterns or loss of competitive edge. The policy instruments most frequently used by developed market economies range from incentives to increase the rate of investment in the area - such as financial assistance and accelerated depreciation allowances - to the provision of infrastructure (industrial estates) and the granting of special services such as manpower training. In addition, in most of these countries special tax allowances or subsidies have been introduced with the aim of improving conditions in the depressed areas.

A brief evaluation of current policies to assist specific industries or regions suggests that such policies have usually been effective in significantly upgrading labour productivity and in helping displaced workers in the short run. On the other hand, their longer-term consequences for the assisted industries and other

interrelated activities, as well as for the assisted regions, may be questionable. Given the dynamics of structural transformation and the speed of change in comparative advantage, a once and for all increase in productivity might not be enough in the long run. As some experiences have already shown - for example, the restructuring of the coal industry in the United Kingdom - the emphasis should be on long-term policies geared to a gradual phasing out of ailing or potentially ailing activities, while at the same time assisting the transfer of human and capital resources to more productive activities. When, for political reasons or because of the existence of a large infrastructure, massive labour transfers from a depressed region are not desired, the adjustment policy should then embody decisive measures which aim at replacing the ailing industries with new and dynamic ones in the region. 24/

#### Trade-related adjustment programmes

The recognition of the need for assistance to ease the problems caused by the changing pattern of trade accompanying economic integration or trade liberalization measures, has led many developed market economies to adopt measures of various kinds. As early as 1954, under the provisions of the Treaty of Paris, the High Authority of the European Coal and Steel Community started the implementation of programmes designed to aid workers displaced by the industry's rationalization process. Later on, the Treaty of Rome established the Social Fund to ensure employment and guarantee the income of workers against the risks associated with market integration. Both of these programmes have assisted a considerable number of displaced workers and have shown that it is possible to devise measures on a multilateral basis to face adjustment problems as a result of trade liberalization.

At the country level, several developed market economies have established various kinds of assistance policies designed to cope with the consequences of increasing imports. Some of these policies or measures are of an ad hoc nature and are aimed at industries affected by specific imports, while others are intended to cope with imports in general. Policies of an ad hoc nature usually have the same ingredients as those policies designed to cope with the problems of industries for which demand is decreasing. While the emphasis in such policies is sometimes placed on protective measures, in other instances it is placed on rationalization of the industry in question or on genuine adjustment efforts. Noteworthy examples of the latter are the adjustment policies for the Canadian car industry and - more recently - for the United States footwear industry.

In Canada, the Automotive Manufacturing Assistance Regulations, which accompanied the Canadian-United States Automotive Products Trade Agreement of 1965, provided for supplemental unemployment benefits to displaced workers and for special loans to automotive firms to be used to modernize existing facilities or to convert production into other lines. Automotive firms and workers could base their petition

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24/ The regional development policy of the Federal Republic of Germany is a case in point. The thrust of the policy is to encourage the creation of alternative sources of production in five well-defined geographical areas. From 10 per cent to 20 per cent of new investments in these areas are eligible for government subsidy. The specific sectors in which investments are made are to be decided at the discretion of interested private firms.

for assistance on the basis of threatened or actual injury caused by the implementation of the 1965 Agreement. There is evidence, particularly from the substantial increase in trade in automotive products, that both the Agreement and the Assistance Regulations led to a considerable reallocation of resources.

In the case of the footwear industry in the United States, the International Trade Commission concluded that the domestic footwear industry was being seriously injured. In April 1977, tariff increases recommended by its panel were rejected by the President, who ordered a full review of adjustment assistance programmes. Pending the completion of the review, the main exporting countries agreed to voluntary restraints on these exports, and an interim adjustment programme for the shoe industry was launched on an experimental basis in July 1977. Rationalization, marketing improvement and development of new lines of production are the main ingredients of the over-all assistance programme whose cost is estimated at \$56 million over a three-year period.

Several developed market economies - Australia, Canada, the Netherlands, Norway and the United States - have also established assistance policies to cope with increasing imports in general. In Australia and Canada, within these assistance policies, two types of measures have evolved: (a) those that put the emphasis on providing adjustment assistance to cope with rapidly increasing imports; and (b) those that emphasize temporary trade barriers in order to permit of improvements in the conditions of industries currently or potentially affected by increased imports. Although in both countries the original guide-lines for assistance policies preferred those measures that eased the adjustment required because of rapidly increasing imports, in practice, however, the accent has been put on some forms of import restrictions.

In Australia, for example, a 25 per cent across-the-board reduction in tariffs in 1973 was accompanied by the introduction of assistance measures and the creation of the Industry Assistance Commission. The Commission was authorized both to take restrictive measures, such as tariffs and quotas, and to provide adjustment assistance to workers and producers affected by rising imports. Until the present time, partly as a result of domestic problems and flagging international markets, the former measures have taken precedence over adjustment assistance.

In Canada, the General Adjustment Assistance Programme was introduced in 1968, as a way of easing eventual problems associated with the Kennedy Round of tariff cuts. The approach was to rationalize affected or threatened industries, while assisting redundant workers with training and reallocation. In 1971, the Department of Industry and the Department of Trade and Commerce were merged, the new Department being charged with the development and implementation of programmes to assist the manufacturing sector to adapt to changing conditions in domestic demand, export markets and techniques of production. One of the instruments of this new Department, the Textile and Clothing Board Act passed in 1971, placed the accent on protection rather than on adjustment assistance. In fact, the current problems confronting the Canadian economy have not permitted any significant industrial restructuring resulting from the programme for general adjustment assistance.

While it is too early to make a more definitive evaluation of the Australian and Canadian experience in the field of general adjustment assistance to industries, it is important to state that recognition of the need to adjust the productive structure and to establish institutions to formulate and implement forward-looking adjustment policies may, in itself, be considered a step forward.



In the United States, the Trade Expansion Act of 1962 was, at least in formal terms, an important step in the establishment of trade-related adjustment policies. This Act included measures for adjustment assistance for workers (supplemental unemployment benefits, retraining, placement services and relocation allowances) and for enterprises (tax relief, loans, loan guarantees and technical advice) that could be actually or potentially affected by increased imports as a consequence of the Kennedy Round. As the conditions of eligibility for assistance were too stringent, assistance provided until 1969 was negligible. Since 1970, the provision of assistance has increased significantly, but did not reach substantial levels. From 1970 to September 1974, only 16 proposals for adjustment assistance to firms were accepted, four of which were related to the shoe industry. During the same period, 197 groups of workers, comprising less than 50,000 workers, were certified by the Department of Labor to receive some form of assistance; the total cost of the programme did not exceed \$120 million.

The Trade Act of 1974 was indeed a marked improvement upon the 1962 Act. Under this new Act, conditions for eligibility of workers and firms have been liberalized, the readjustment allowance for workers has been increased and a new benefit - a job search allowance - has been introduced. An important additional feature is assistance to communities, through which special programmes for trade-impacted areas are planned and implemented under the provisions of the Act. In the first 20 months of the operation of the Act, 180,000 workers were found to be eligible for assistance and the amount paid in benefits was slightly over \$140 million. Although these figures are still not very high in relation to the size, and speed of structural change, of the United States economy, their growth may give an indication of the increasing importance attached to adjustment assistance policies.

A feature of the adjustment assistance programmes in Australia, Canada and the United States, which have been reviewed above, is the non-discriminatory approach regarding the geographical origin of imports. These programmes seem to have been based on the notion that the implications of additional imports from developing countries, at least in terms of the measures required to achieve a smooth adjustment, are very much the same as the implications of additional imports from other developed countries. In that sense, they cannot be described as adjustment assistance programmes which are specifically geared to cope with the adjustment problems related to increased imports from developing countries, nor for that matter do they accord these problems any special treatment. More recently, however, government statements in Norway (1975) and in the Netherlands (1976) have advocated the idea that policies oriented to the readjustment of industrial structures within the framework of an increasing international specialization should pay special attention to the accommodation of growing manufactured imports from developing countries. The Norwegian view is that rapid - but efficient - industrialization is a crucial factor in accelerating the growth of the developing countries and hence the importance of liberal trade policies in the developed countries. According to this view, adjustment assistance to domestic industries becomes an important ingredient in the country's over-all aid programme to the developing countries.

Adjustment policies in the Netherlands date back to the 1960s. In December 1974, partly in recognition of the fact that some of the problems affecting the economy were not of a cyclical but rather of a structural nature, a proposal containing new guide-lines was presented to the States General. A notable feature of that proposal was the explicit expression of the need for the restructuring programmes to pay due attention to the interests of developing countries. The

proposal served as the background for the formulation of the programme launched in 1976, which was contained in the "Memorandum on Selective Growth" presented to the States General in June of that year. By far the most important aspect of this programme is the recognition that competitiveness can be ensured only through openness of the economy. Two main lines of action have been taken in the context of this programme: (a) the allocation by the Government of substantial sums of money 25/ to assist restructuring at the enterprise level 26/ and to improve jobs as well as labour mobility; 27/ (b) the strengthening of the Netherlands Restructuring Corporation (NEHEM), established in the 1960s, which, up to 1976, was the main institution for purposes of industrial restructuring.

A necessary condition for government assistance is the agreement by the sectoral committees (tripartite committees in NEHEM) and the joint support of management and worker representatives of the industry requesting the assistance. An important task of NEHEM is also to identify which individual sectors should be expanded or contracted and to study the most suitable forms of restructuring the sector. In this context, the explicit intention is to give preferential treatment to those sectors in which production is declining in relation to imports from developing countries.

As in other countries, the implementation of the programme in the Netherlands has been affected by relatively high unemployment and a depressed international market. It seems important, however, to pinpoint those features in the Netherlands programme that are of special significance for a forward-looking adjustment assistance policy. In the first place, the policy is a comprehensive one in the sense that adjustment assistance could be forthcoming regardless of the source of the structural change. Secondly, research to anticipate future difficulties is an important ingredient of the programme. Meanwhile, open trade is assumed to play a crucial role in the whole approach, thus leading to a strong rejection of protectionist policies. In addition, the institutional mechanism embodied in the programme aims at promoting a social consensus - among representatives of different groups in the industrial sector - as a means of securing the required changes. Finally, steps for further co-operation for development seem to be stressed through the special consideration given to increasing manufactured imports from developing countries.

In conclusion, the preceding review of current adjustment policies in developed market economies suggests that on the whole there is still much that can be done in this field. Only a few of these countries have established comprehensive adjustment assistance policies and, in most cases, resources devoted to the promotion of industrial restructuring are still rather small. In many instances, ad hoc assistance is used to prevent rather than to facilitate structural change. Furthermore, trade-related assistance, an actual concern of only a few countries, has been considerably blurred by the recession in most developed market economies.

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25/ One half of 1 per cent of gross domestic product, or about 1.3 per cent of total government expenditure.

26/ Around a billion florins are to be allocated annually between 1977 and 1980 to carry out improvements in large-scale business activities and production technologies, as well as to support regional policies.

27/ More than 200 million florins are to be allocated annually between 1970 and 1980 to assist among other things, in increasing labour mobility and in improving jobs.

Notwithstanding these observations, some favourable developments - although admittedly still weak - can be observed. There is at present a growing recognition in various developed market economies of the need to facilitate structural change through comprehensive adjustment assistance policies. Moreover, the notion of anticipatory adjustment and the recognition of the need to for cast likely structural changes are gaining some attention in a few countries. Trade-related adjustments are also receiving increasing attention. In a few instances, the interests of developing countries are being taken into consideration. Non-discriminatory labour market policies to increase functional and geographical mobility of labour are being enhanced, thus removing what is perhaps the main constraint to structural change. In sum, it may be stated that recent experiences, particularly those related to the 1970s, have shed light on the problems associated with the acceptance, institutionalization and further implementation of adjustment assistance policies as well as the required political and social atmosphere for their success. In other words, it may be concluded that all the elements are present for intensified action based on a clearer understanding of the political economy of industrial transformation and structural change.

#### Elements of forward-looking adjustment policies

Although imports from the developing countries have only marginally contributed to the problem of structural adjustment in developed market economies, there is a consensus on the need for smoothing out the short-term difficulties that a large increase in the volume of such imports may entail. As stated earlier, the history of adjustment assistance is relatively short in most countries and the experience in the field, particularly in measures directed towards trade-related changes in the domestic economy, has neither been very long, nor shared by many. Nevertheless, the considerable debate that has taken place on the subject in recent years, not only among professional economists but also among those concerned with policy, has focused on some broad areas, indicated below, in which adjustment assistance policies call for improvement. In a number of countries, however, some measures in the right direction have already been initiated.

The extent of desirable government intervention in the market for the purpose of facilitating structural adjustment is largely a matter of national economic policy. A certain amount of government intervention is, however, clearly involved. At the very least, such intervention should include gradual removal of obstacles to trade and competition. The restoration of an atmosphere of free trade is a prerequisite for smooth adjustment. This, however, is unlikely to be enough, and an organizational apparatus designed to take care of the problems of adjustment is clearly needed. In some developed countries, the nuclei of government machinery concerned with particular aspects of some trade-related adjustments already exist. The need is for a fully fledged government or semi-government organization capable of formulating comprehensive adjustment assistance programmes and monitoring incipient changes in the structure of the economy, particularly those related to trade with developing countries.

In order to be effective, adjustments related to increased imports need to be an integral part of a comprehensive set of structural adjustment policies that take into account problems related to changes in technology and shifts in demand, as well as those related to changes in comparative advantage. Ad hoc responses to increased imports of particular products are unlikely to be adequate. Adjustments to imports have a better chance of success when other sources of

structural changes are simultaneously tackled. This does not mean, of course, that adjustment assistance should be provided in all cases of structural change. To suggest that would be to deny the efficacy of the market mechanism in taking care of most structural changes. What it means is that policies, especially those related to labour market adjustment, should lead to positive action to monitor and identify the nature of changes that are taking place in major fields, and that the programmes in each should be consistent with those in others. This would also help to put the problem of adjustments to imports from developing countries in its proper perspective not only in the mind of the policy maker but also in the public mind.

It is sometimes argued that adjustment policies should be fully anticipatory. In practice, this is neither possible nor, perhaps, necessary. It is not difficult to define broadly the major industries that are likely to be affected by increased imports from developing countries in the near future. It is also not difficult to distinguish the broad categories of export industries which are likely to grow fast, thus identifying areas into which resources released by increased imports could be transferred. There already exists a substantial body of knowledge about the comparative advantage of countries at different levels of development. Further information and study, particularly at more disaggregated levels of industries, are obviously necessary and international exchange of data and results of studies in the field would be essential.

Yet the magnitude of practical difficulties in any anticipatory adjustment policy should not be overlooked. These difficulties stem, first, from the fact that shifts in comparative advantage are constantly taking place. The sources of these shifts are complex and are not well understood in a world which consists of a large number of countries and factors of production and which, moreover, is subject to continuing technical changes. A second consideration reflects both the difficulties of anticipatory adjustments as well as a need for shift in existing adjustment policies. This is the consideration that, given the definition of an "industry" as usually understood, intra-industry adjustments may be as important as interindustry ones. This aspect of adjustment has received far less attention than it deserves. A broadly defined industry may be adversely affected by increased imports and yet some activities or branches within the industry may continue to be competitive. The need, then, is to shift resources from the uncompetitive branches to more competitive ones within the same "industry" and not necessarily to other "industries". The large scope for such adjustment is, in fact, being reflected in the increasing importance of intra-industry or even intra-firm specialization in international trade. Since intra-industry changes may involve less dislocation of factors of production than interindustry ones, closer attention to the former may perhaps make adjustment a more attractive proposition. Yet it is here that changes are difficult to anticipate, though easier to manage when they take place.

The above consideration suggests that while a forward-looking adjustment policy must try to anticipate changes as far as possible and should be able to monitor incipient changes, the mainstay of such policy needs to be the ability to act quickly as and when changes occur. A crucial element of an adjustment assistance programme is thus the speed at which resources, particularly labour, can be transferred from the ailing industries to more highly productive ones. Some of the existing programmes in various developed market economies already include allowances to compensate workers for loss of jobs due to increased imports,

financial aid for those seeking new jobs, and assistance for retraining. A clear eligibility criterion for adjustment benefits and speedier aid for retraining and redeployment are no doubt needed for the greater success of these programmes. Retraining of older as well as handicapped workers deserves special measures.

Existing adjustment policies are, in some respects, actually protective in nature. Uncompetitive industries faced with increased imports are often subsidized by means of low-interest loans as well as by various forms of tax exemptions in order to increase their competitiveness. The object of adjustment policies, however, should be to facilitate the transfer of resources from such industries. A forward-looking adjustment policy needs to avoid such defensive action, unless it promotes the transfer of resources from a less competitive branch to another within the same industry.

Finally, adjustment policies cannot ignore the special needs of particular regions. It is often in economically depressed areas that the industries rapidly losing comparative advantage are located. Aid to economically depressed regions is an important part of national economic policies. Such aid, however, should be provided through locating dynamic industries in the region rather than through protecting declining industries.

TRADE PLANNING AND STRUCTURAL ADJUSTMENTS  
IN THE CENTRALLY PLANNED ECONOMIES

The problems of adjustment in the industrialized centrally planned economies to the requirements of an international division of labour are different in nature and scope from those arising in the developed market economies. It is important to take these differences into account in designing effective policies to enhance the export prospects of the developing countries, especially for manufactured products.

Features of the foreign trade system in  
the centrally planned economies

Three institutional features of the centrally planned economies are of particular relevance in this context: state control of foreign trade and payments; regulation of the domestic market; and comprehensive central planning.

In the centrally planned economies, foreign trade is under central government control. Though actual transactions are undertaken by foreign trade companies or special branches of large enterprises, the authority to engage in foreign trade can be granted solely by central policy makers, who also control the physical level and structure of trade, harmonizing it with the objectives of national economic policy as embodied in short-term and medium-term development plans. Barring major errors in planning, imports thus cannot destabilize local production and employment in those countries.

Trade activity in the centrally planned economies is guided not by instruments of indirect economic administration, such as prices and customs duties, but generally by mandatory plan targets issued by the central planning authorities. Derived from a comprehensive network of material balances, these targets specify the level and commodity composition of trade. While relative prices play a role in choosing among options, for example in investment strategies, comparative advantage as such is not the chief determinant of the production structure and trade behaviour of the centrally planned economies. Development targets are normally set to effect the structural changes envisaged by the policy makers and may reflect goals other than those deriving from actual or potential comparative advantage. Furthermore, the level of, and changes in, domestic prices do not directly depend on foreign trade results. Since economic activity is centrally planned, employment and the level of economic activity are not directly affected by imports.

To dovetail trade with domestic production and consumption, to marshal available resources for domestic growth and to improve the stability of development plans, the centrally planned economies negotiate comprehensive intergovernmental agreements on future trade transactions whenever feasible. However, the regulation of trade through detailed contractual obligations may complicate trade relations with countries having different economic systems. The fact that Governments of market economies cannot normally regulate trade with other countries in detail is one important reason for the strong reliance of the planned economies on trade with each other. While the level and composition of trade with market economies is tentatively earmarked in the trade plan by broad currency regions, its geographical distribution depends partly on tariffs and partly on foreign policy considerations.

The external commercial policy of the centrally planned economies is thus fully integrated with their over-all economic policy. Potential foreign competition is confined to the domain in which the authorities have chosen to "open up" markets for imports within the planning framework. From this it follows that the nature and causes of structural adjustment in the centrally planned economies are different in nature from those in developed market economies.

#### The nature of adjustments to foreign trade opportunities

For a long time, the strategy of the centrally planned economies emphasized broad-based industrialization. Trade was adapted to domestic availabilities and requirements. Products were exported in order to secure the foreign exchange needed to finance essential imports not produced domestically as well as to support over-all foreign policy. In the more recent past, while industrial expansion has been rapid, it has approached limits which reflect the gradual absorption of labour resources, the diminution of opportunities for redeploying manpower out of agriculture, slowing demographic growth, and rising capital-output ratios; and this has brought about changes in the approach to foreign trade.

During the past decade or so, the member countries of the Council for Mutual Economic Assistance (CMEA) have been seeking to counter these constraints through a shift in development strategy from extensive to intensive growth. The latter is based on steady improvements in productivity through technological innovation, administrative reorganization, modernization and automation of production processes and, not least, increased participation in world trade.

The exploitation of the potential gains from specialization to stimulate national economic growth requires, for example, structural adjustments that are comparable in scope to those faced by the developed market economies. So far, the focus of these policies has been largely on modernization in production and has involved a sharp increase in imports of modern technology, especially from the developed market economies; it has been less on the curtailment or elimination of relatively inefficient lines of activity in favour of imports. While all countries, especially in Eastern Europe, expect to reshape their national economic structures gradually in accordance with considerations of comparative advantage, the implementation of this policy objective has slowed down in the 1970s, particularly because of the sharp deterioration in the terms of trade and the severe balance-of-payments deficits. As a consequence, the growth of economic co-operation with the developing countries has probably been somewhat slower than was initially anticipated, particularly in comparison with the very pronounced upsurge in trade with developed market economies. There are, therefore, still considerable opportunities for the expansion of trade with the developing countries.

#### Major adjustments faced by the centrally planned economies

In addition to the structural change contemplated on the basis of national development considerations, the transition towards intensive growth in the late 1970s and the 1980s will be affected by three sets of goals calling for adjustments to external changes. These are the process of economic integration in the CMEA area; the re-establishment of balance in the relations with the developed market economies; and the intensification of trade with the developing countries.

## Regional economic integration

Although for a number of years the CMEA member countries have embraced the goal of gradually equalizing their levels of development, it is only since the adoption in 1971 of the Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration by the CMEA Member Countries that they have sought to buttress this policy objective by a variety of instruments going beyond the co-ordination of trade intentions. Through detailed bilateral and multilateral specialization agreements, the CMEA members seek to eliminate duplication in output structures and to exploit economies of scale in support of intensive growth. The effort of fostering region-wide economic development also encompasses joint forecasting of growth sectors, collective planning of the process of technical innovation and its exploitation, concerted investment policies and, in some instances, the pooling of investment resources. In a number of key production sectors (especially fuels, raw materials and investment goods), in addition to the exploitation of comparative advantage, these efforts are directed towards securing the stability of future supplies from within the region, though CMEA integration is not aimed at regional autarky.

## Relations with developed market economies

The modernization policies of the past decade have been accompanied by a sharp upsurge in trade with developed market economies. Steeply rising prices for the imports of most centrally planned economies and sluggish demand for exports from the area have contributed to a sharp increase in the foreign indebtedness of the CMEA countries. The improvement and diversification of production of marketable export goods could reverse this imbalance without curtailing imports. Since the centrally planned economies have been only modestly successful in widening their sales of engineering products in developed market economies, more than half of total exports continues to consist of non-manufactured goods. 28/ However, a substantial proportion of the movement in trade in the 1970s was realized in non-food consumer manufactures, such as footwear, textiles and clothing. 29/ The increased presence of traditional non-food manufactures from the centrally planned economies in the developed market economies has offered competition to exports from the developing countries. Although for such commodities the market share of the centrally planned economies in the developed market economies is not yet large, 30/ increased efforts of the centrally planned

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28/ For Eastern Europe and the USSR, the share of manufactures (SITC 5-8) in exports to developed market economies was 43 per cent in 1970 and 35 per cent in 1976. The corresponding share in non-fuel exports was 52 per cent in 1970 and 50 per cent in 1976.

29/ For example, exports of textile yarn and fabrics (SITC 65) and clothing (SITC 84) to the developed market economies grew substantially faster than total non-fuel exports. The increment in exports of these products accounted for 14.5 per cent of the increment in total non-fuel exports to all developed market economies and 12.4 per cent in the case of EEC.

30/ For example, the share of the centrally planned economies in imports of textile yarn, fabrics and clothing by all developed market economies increased from 2.3 per cent in 1970 to 5.1 per cent in 1976. The corresponding figures for EEC are 2.5 and 3.5 per cent.



economies to achieve a better balance of trade by boosting exports of traditional manufactures may come into increasing conflict with the export intentions of the developing countries.

It would be to the general advantage to eliminate this potential conflict in export intentions. In the light of the expected slowdown in the rate of growth of the labour force and the increasing labour costs in the centrally planned economies on the one hand, and the competitive position of the developing countries on the other, the comparative advantage of the centrally planned economies will, in any case, shift from traditional exports to more technically complicated, capital-intensive product lines. This would imply a modification in the export supply capacity and underlying economic structure of the centrally planned economies, reflecting the anticipated shift in comparative advantage.

#### Trade with developing countries

In view of their small volume, imports of manufactures from the developing countries have not in the past posed adjustment problems in the centrally planned economies. Their planning framework has easily coped with any adjustments to the production structure that were required to absorb such imports.

Limited expansion in labour resources and steadily rising labour costs are important considerations in the future growth of the centrally planned economies. These and other developments are likely to shift the comparative advantage of the centrally planned economies from more labour-intensive to more capital-intensive and technically more complex lines of production. Combined with the desire of the centrally planned economies to contribute to the growth of the developing countries through trade and co-operation, these factors will necessitate in the near future a number of adjustment measures. It would be desirable to promote export prospects for the developing countries within the over-all framework for structural change, required by the domestic and external factors examined above, rather than to seek ad hoc preferential treatment.

#### Expanding exports of manufactures from the developing countries to the centrally planned economies

In view of the small volume of manufactures imported from the developing countries, the geographical and commodity concentration of such trade, and the concerns about raising productivity through labour-saving technologies, there would seem to be ample scope for trade expansion with the developing countries. Since trade opportunities in the centrally planned economies are largely shaped by administrative decisions for the management of the economy, by the growth objectives underlying the plans, and by the variety of institutional trading arrangements appropriate to these planned systems, these economies dispose, in principle, of sufficient machinery to adapt their economic structure smoothly to perceived opportunities for trade expansion. The aim of increasing imports of manufactures from the developing countries, possibly on a preferential basis, would therefore need to be provided for in the decision-making process of centrally planned economies.

A basic condition for expanding trade with the developing countries would appear to be that the centrally planned economies make room for such trade expansion in their medium-term and long-term development plans. While such adjustments as tariff reductions or such mutations in trading arrangements as the replacement of bilateral clearing agreements with settlements in convertible currencies may ease the implementation of trade intentions, the overriding determinant of the centrally planned economies' trade will remain domestic economic policy considerations. Though the potential advantages of substituting manufactures from the developing countries for domestic production on a selective basis may be clear, their incorporation into national economic plans is primarily contingent on the policy choices of the decision makers. Concrete implementation will, of course, depend on the accommodation of these decisions in the systems of economic administration of the centrally planned economies. Without agreements enabling the centrally planned economies to co-ordinate production and consumption with anticipated foreign procurements, the developing countries cannot succeed in broaching new markets in these economies on the strength of their competitive position.

The mechanism of bilateral and multilateral co-operation that has been emerging over past decades needs to be widened and strengthened to effect a climate favourable to the expansion of manufactures exported by the developing countries. At present, it consists of a system of agreements of various forms enacted at the government or organization levels 31/ which enable both parties to harmonize mutual interest, to take initiatives, and to supervise the course of co-operation. 32/ Such umbrella protocols or more specific ad hoc agreements might offer considerable opportunities for expanding industrial specialization and co-operation. However, the agreements need not focus exclusively on trade prospects. As the centrally planned economies stated at the fourth session of UNCTAD, the issue of increasing exports of manufactures by the developing countries should be dealt with primarily from the perspective of the national industrialization policies of the developing countries rather than in the light of market demand in the developed countries. 33/

A considerable proportion of the imports of manufactures from the developing countries has, in fact, arisen as a consequence of economic and technical co-operation agreements. Typically, the centrally planned economies have extended loans and provided technical expertise and equipment for the establishment and operation of a joint venture, and repayment of these costs has been in the form of part of the output of the venture. This type of co-operation guarantees security of supply for the planned economy and stable export prospects for the co-operating developing country. However, in view of the relatively small volume of credits extended by the centrally planned economies and their limited ability to step up capital transfers, 34/ it is unlikely that this traditional form of co-operation

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31/ For some details, see V. I. Kartsev and A. V. Komissarov, SEV: sotrudnichestvo razvivaetsja (Moscow, Nauka, 1975), pp. 68-94.

32/ See "Identification of trade opportunities in favour of developing countries which may result from the implementation of various multilateral schemes by the countries members of the Council for Mutual Economic Assistance; report by the Secretary-General of UNCTAD" (TD/B/AC.23/2), pp. 2 and 3.

33/ DDR Aussenwirtschaft (Berlin), 1976, No. 27, Supplement, p. 9.

34/ See "Transfer of resources in real terms to developing countries; note by the Secretariat" (A/AC.191/26), pp. 2 and 3.

alone could sharply increase the exports of manufactures from the developing countries.

In view of the above, new policy initiatives aimed at significantly improving the export prospects of the developing countries need to be formulated against the backdrop of the trade and economic policy framework typical of the centrally planned economies. Developing countries with a large state sector or state-controlled part of the manufacturing sector can negotiate comprehensive trade agreements with centrally planned economies and incorporate them in their own administrative decisions. For other developing countries, the prospects for expanded trade could be enhanced by negotiating framework agreements on co-operation, possibly under the auspices of a joint government commission. The process of harmonizing the intention of the Government with the interests of producing or trading organizations calls for detailed specifications of expected trade flows or co-operative ventures. To the extent that the centrally planned economies co-ordinate their structural changes at the multilateral level, for instance under the aegis of CMEA, the developing countries could benefit from concluding multilateral agreements in one form or another with these bodies as well. <sup>35/</sup> This would also be true if a developing country were to join the multilateral clearing system organized by the International Bank for Economic Co-operation or if it were to seek loans from the special fund for developing countries administered by the International Investment Bank. Regional groupings of developing countries could also negotiate framework agreements that would guide implementation in the member countries.

Given the relative scarcity of foreign exchange reserves in the centrally planned economies and the concern of these countries to secure an external supply of fuels and raw materials without incurring large payments deficits, there is need for agreements with the developing countries based on reciprocity and trade expansion. Increased exports of manufactures by the developing countries could then be the result of vigorous trade expansion rather than a consequence of substituting manufactures for traditional exports of fuels and raw materials. Implementation of such agreements may be facilitated by a greater degree of multilateralism or by preferential tariffs, though such changes are not likely in the present circumstances to become the prime stimulus to trade with the planned economies.

In view of the significant differences in comparative advantage and the declared policy of the centrally planned economies to seek greater specialization, there would seem to be ample room for the expansion of exports from the developing countries, including exports of manufactures; and this would, in turn, provide a stimulus to exports from the centrally planned economies. While the planning and organizational framework of the centrally planned economies may at first sight appear to be formidable obstacles to the expansion of reciprocal trade, closer acquaintance with each other's markets and the will to accommodate trade intensification through mutually acceptable trade agreements can both provide stable export markets for the developing countries and facilitate smooth structural adjustment in the centrally planned economies.

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<sup>35/</sup> See "Identification of trade opportunities ..." (TD/B/AC.23/2), pp. 2 and 3.

Table I-1. Developing countries: growth in value of exports of manufactures to developed countries, 1955-1975

(Percentage)

	Average annual rate of growth				
	Total manufactures <u>a/</u>				Manufactures, excluding metals <u>b/</u>
	1955-1965	1965-1970	1970-1973	1970-1975	1970-1975
Developing country exports of manufactures					
To all destinations	8	16	29	22	28
To developed market economies	8	17	30	20	27
To centrally planned economies	17	19	19	20	22
Western hemisphere					
To all destinations	6	18	22	20	31
To developed market economies	4	18	19	15	29
Africa					
To all destinations	6	12	19	5	16
To developed market economies	5	13	19	-1	12
West Asia					
To all destinations	14	-2	52	47	45
To developed market economies	18	-12	49	42	38
South and East Asia					
To all destinations	9	18	34	26	27
To developed market economies	13	21	39	27	28
World exports of manufactures	9	13	22	21	21
Developed market economy imports of manufactures	11	14	22	18	19
Centrally planned economy imports of manufactures	11	10	22	24	24

Sources: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on United Nations, Handbook of International Trade and Development Statistics, 1976 (United Nations publication, Sales No. E/F.76.II.D.3), and Monthly Bulletin of Statistics (June 1978).

a/ SITC 5-8.

b/ SITC 5-8, less 67 and 68.

Table I-2. Developing countries: regional composition of exports of manufactures to developed countries by major industrial sector, 1965 and 1975

	1965					1975				
	Total manufactures a/	Chemicals b/	Machinery and transport equipment c/	Metals d/	Miscellaneous manufactures e/	Total manufactures a/	Chemicals b/	Machinery and transport equipment c/	Metals d/	Miscellaneous manufactures e/
(Billions of dollars)										
<u>Current value of trade in manufactures</u>										
World exports	109.73	12.22	45.69	16.39	35.43	519.00	61.53	244.46	63.82	149.39
Centrally planned economy imports	12.82	1.32	6.04	2.08	3.38	61.32	6.39	30.90	10.92	13.11
Developed market economy imports	71.55	7.67	27.74	11.70	24.44	323.57	38.35	141.14	37.32	106.76
Developing country exports, total	6.39	0.51	0.39	2.12	3.37	36.33	3.71	7.13	5.10	20.39
Of which:										
Exports to centrally planned economies	0.23	0.02	-	0.04	0.17	1.34	0.19	0.06	0.19	0.90
Exports to developed market economies	4.24	0.24	0.12	1.81	2.07	22.38	1.73	3.56	3.47	13.62
Of which:										
OPEC	...	...	...	...	...	0.68	0.25	-	0.24	0.19
Western hemisphere	1.05	0.12	0.02	0.72	0.18	4.74	1.04	0.64	1.07	1.29
Africa	1.12	0.05	0.02	0.79	0.26	1.90	0.15	0.08	1.10	0.57
West Asia	0.26	0.02	0.01	0.01	0.22	0.61	0.29	0.13	0.16	0.23
South and East Asia	1.61	0.05	0.07	0.28	1.41	14.95	0.25	2.71	1.14	10.63
(Percentage)										
<u>Share of developing country exports of manufactures</u>										
In world exports	5.8	4.2	0.9	12.9	9.5	7.0	6.0	2.9	8.0	13.6
In centrally planned economy imports	1.8	1.5	-	1.9	5.0	2.2	3.0	0.2	1.7	6.9
In developed market economy imports	5.9	3.1	0.4	15.5	8.5	6.9	4.5	2.5	9.3	12.7
Of which:										
OPEC	...	...	...	...	...	0.2	0.6	-	0.6	0.2
Western hemisphere	1.4	1.6	0.1	6.2	0.7	1.5	2.7	0.4	2.9	1.9
Africa	1.6	0.6	0.1	6.8	1.1	0.6	0.4	0.1	2.9	0.5
West Asia	0.4	0.3	-	0.1	0.9	0.2	0.8	0.1	0.4	0.2
South and East Asia	2.5	0.6	0.2	2.4	5.8	4.6	0.6	1.9	3.1	10.1
<u>Destination of developing country exports of manufactures</u>										
To centrally planned economies	3.7	4.7	0.8	1.8	5.1	3.7	5.1	0.9	3.7	4.4
To developed market economies	66.3	47.1	29.6	85.5	61.4	61.6	46.6	49.9	68.0	66.8
To developing countries	30.0	48.2	69.6	12.7	33.5	34.7	48.2	49.2	28.3	28.8

Sources: See table I-1.

a/ SITC 5-8.

b/ SITC 5.

c/ SITC 7.

d/ SITC 67 and 68.

e/ SITC 6 and 81, less 67 and 68.

Table I-3. Developing countries: total exports of manufactures by major exporters

Major exporter <u>a/</u>	Total exports of manufactures <u>b/</u>				Share of manufactures in total exports			Percentage of total exports accounted for by three major manufactured products <u>b/</u> 1973
	Value		1975 as multiple of 1970	Average annual growth rate 1967-1974 (Percentage)	1960 <u>c/</u>	1970 <u>b/</u>	1975 <u>b/</u>	
	1970 (Millions of dollars)	1975						
Total exports of manufactures of developing countries	9 170	30 080	3.3	27	10	17	15	...
Hong Kong	1 940	4 460	2.3	22	80	95	97	52.2
Republic of Korea	621	3 895	6.3	48	14	75	77	38.5
Singapore	415	2 145	5.2	35	26	27	43 <u>d/</u>	14.2
Brazil	265	2 021	7.6	48	3	10	23	4.4
India	908	1 837	2.0	13 <u>e/</u>	44	45	42	23.6
Israel	536	1 431	2.7	20	61	69	73	49.0
Mexico	361	1 065 <u>f/</u>	2.9	35 <u>e/</u>	12	30	36 <u>f/</u>	11.7
Argentina	217	699	3.2	34 <u>e/</u>	4	12	23	6.9
Malaysia	121 <u>g/</u>	658	5.4	20 <u>h/</u>	6	7 <u>g/</u>	17	5.8
Pakistan	397	560	1.4	...	22	57	54	45.6
Thailand	30	481	16.0	58 <u>e/</u>	2	4	20	6.7
Egypt	199	451	2.3	18	10	26	32	16.4
Colombia	58	302	5.2	41 <u>e/</u>	2	8	21	11.1
Iran	99	238	2.4	23	3	5	1	2.6
Philippines	68	236 <u>f/</u>	3.5	...	7	6	9 <u>f/</u>	5.6 <u>j/</u>
Morocco	47	200 <u>f/</u>	4.3	19 <u>e/</u>	8	10	11 <u>f/</u>	6.4
Tunisia	26	166	6.4	32	10	14	19	11.9
Ivory Coast	28	129	4.6	20 <u>i/</u>	1	6	11	2.6
Indonesia	12	85	7.1	28	0	1	1	...
Kenya	25	58 <u>f/</u>	2.3	18 <u>e/</u>	12	12	13 <u>f/</u>	4.4 <u>j/</u>

Sources: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on United Nations, Handbook of International Trade and Development Statistics, 1976 (United Nations publication, Sales No. E/F.76.II.D.3) and Supplement, 1977 (United Nations publication, Sales No. E/F.78.II.D.1); and World Bank, World Development Report, 1978 (Washington, D.C.).

a/ Listed in descending order of value of exports in 1975.

b/ SITC 5-8, less 67 and 68; estimated at the SITC three-digit level.

c/ SITC 5-9, less 68.

d/ 1976.

e/ 1967-1973.

f/ 1974.

g/ 1971.

h/ 1968-1972.

i/ 1967-1972.

j/ Two commodities.

Table I-4. Developing countries: exports of manufactures to developed economies, growth and market penetration by broad categories

SITC section	Description	Developing country exports of manufactures to developed market economies					
		Total value (Billions of dollars)		Sectoral composition (Percentage)		Share in total developed market economy imports of each product group (Percentage)	
		1970	1976	1970	1976	1970	1976
5-8	Total manufactures <u>a/</u>	9.18	30.90	100	100	6	8
5-8, less 67 and 68	Manufactures, excluding metals	5.68	26.01	62	84	5	8
6 and 8	Manufactures, excluding chemicals and machinery	7.99	24.11	87	78	12	15
67 and 68	Metal and metal products	3.54	4.89	38	16	16	12
6 and 8, less 67 and 68	Manufactures, excluding chemicals, machinery, transport equipment and metals	4.49	19.22	49	62	10	15
5	Chemicals	0.43	1.66	5	5	3	4
7	Machinery and transport equipment	0.76	5.13	8	17	1	3

Sources: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on United Nations, Monthly Bulletin of Statistics (June 1978) and Yearbook of International Trade Statistics, 1975 (United Nations publication, Sales No. E.76.XVII.10).

a/ Excluding fuel and food etc., products not included in SITC 5-8.

Table I-5. Developed market economies: major categories of imports as percentage of apparent consumption of manufactures in EEC, a/ the United States and Japan

	Total manufactures	Metals	Textiles	Clothing	Wood products, paper and printing	Chemicals	Transport and equipment	Machinery and other manufactures <u>b/</u>
<u>Total imports</u>								
1959-1960	5.7	10.9	6.3	3.7	8.8	6.9	3.2	4.4
1971-1972	8.1	14.3	11.1	10.3	9.0	9.4	6.6	9.0
1973-1974	10.1	16.6	13.4	13.2	10.5	12.2	8.3	10.8
1975	9.6	17.7	10.0	16.3	9.2	12.1	8.3	10.6
<u>Imports from developing countries</u>								
1959-1960	1.2	2.9	1.6	1.0	0.4	1.3	0.1	0.1
1971-1972	1.3	3.2	2.6	4.1	0.7	1.3	0.1	0.6
1973-1974	2.0	4.1	3.6	6.0	0.9	1.8	0.2	1.0
1975	2.0	3.5	3.3	8.6	0.8	1.7	0.2	1.2
<u>Imports from centrally planned economies</u>								
1959-1960	0.2	0.4	0.2	0.1	0.5	0.3	-	0.1
1971-1972	0.3	0.9	0.5	0.7	0.5	0.4	0.1	0.2
1973-1974	0.5	1.3	0.8	1.1	0.5	0.7	0.1	0.2
1975	0.5	1.1	0.8	1.3	0.5	0.6	0.1	0.2
<u>Imports from developed market economies <u>c/</u></u>								
1959-1960	4.3	7.6	4.5	2.6	8.0	5.3	3.1	4.2
1971-1972	6.5	10.1	8.0	5.6	7.9	7.7	6.4	8.3
1973-1974	7.6	11.3	9.1	6.1	9.0	9.8	8.0	9.6
1975	7.1	13.2	5.9	6.4	8.0	9.8	8.0	9.2

Sources: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on United Nations, Handbook of International Trade and Development Statistics, 1976 (United Nations publication, Sales No. E/F.76.II.D.3) and Supplement, 1977 (United Nations publication, Sales No. E/F.78.II.D.1), table 7.1.

a/ The six countries of the original EEC (Belgium, France, Germany, Federal Republic of, Italy, Luxembourg and the Netherlands) considered as one trading unit; i.e., excluding EEC intratrade.

b/ Excluding rubber, non-metallic mineral products and processed food products.

c/ Including imports from the original EEC, the United Kingdom, the United States and Japan, but excluding EEC intratrade.



Table I-6. Developed market economies: imports of individual products from developing countries as percentage of total imports

SITC	Product description	Value of imports (Millions of dollars)	Imports as share of total developed market imports (Percentage)	Share of the product in total imports from developing countries (Percentage)
5	Chemicals	1 646	3	6.1
611	Leather	640	35	2.4
631	Plywood, wood products	714	23	2.6
65	Textiles	3 419	16	12.6
6513	Grey cotton yarn	378	44	1.4
6516	Yarn of synthetic fibre	101	4	0.4
6521	Grey cotton fabric	501	49	1.8
6522	Cotton fabric, bleached	320	13	1.2
6531	Silk fabric	156	39	0.6
6534	Jute fabric	209	81	0.8
6535	Synthetic fabrics	182	7	0.7
664-665	Glass products	64	2	0.2
67	Iron and steel	857	4	3.2
68	Non-ferrous metals	418	5	1.5
691-694	Metal products	121	2	0.4
695	Tools	77	3	0.3
696	Cutlery	103	14	0.4
71	Non-electrical machinery	1 223	2	4.5
72	Electrical machinery	4 121	10	15.2
7241	TV receivers	187	6	0.7
7242	Radio receivers	834	26	3.1
7249	Telecommunication equipment, not elsewhere specified	534	9	2.0
7293	Transistors, valves etc.	1 419	26	5.2
73	Transport equipment	798	1	2.9
7328	Motor vehicle parts	266	1	1.0
7358	Ships and boats	230	4	0.8
841	Clothing	6 724	35	24.8
851	Footwear	947	17	3.5
864	Watches and clocks	410	17	1.5
893	Articles of plastics	281	8	1.0
894	Toys, sports goods	962	24	3.5
897	Jewellery	344	21	1.3
	All others	3 317	5	12.0

Source: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on United Nations, Handbook of International Trade and Development Statistics.

Note: Data exclude imports from Taiwan Province, China.

## Chapter II

### AGRICULTURE

#### SUMMARY

The post-war process of trade liberalization, which has been so important for world trade in manufactures, has had little positive effect on trade in agricultural products, especially competing agricultural products. Agriculture in the developed economies remains a highly regulated activity, and the barriers to imports from developing countries are stiff.

The relative importance of agricultural products in the total exports of developing countries has declined since the early 1960s. Over the same period, the developed market economies have absorbed a diminishing share of these exports of agricultural products, an increasing share being directed towards other developing countries. In part, these trends have reflected the relatively slow growth in demand for agricultural products within the developed market economies. But imports of competing agricultural products as a group from the developing countries have also declined as a share of both consumption and total imports of the same products by the developed market economies. The counterpart of these trends has been the rising self-sufficiency ratios recorded by the developed market economies in important competing products.

Very substantial structural changes have taken place in the agricultural sector of the developed market economies over the post-war period, clearly demonstrating the capacity for adaptation to changing circumstances. However, the changes have taken place behind highly protective barriers and have not been consonant with comparative advantage.

In the developed market economies, two key considerations have dominated agricultural policies: the need for a degree of intervention to stabilize an activity that is prone to supply-induced fluctuations; and the attempt to deal with the problem of lagging incomes among the small, often family, farmers. The corner-stone of these policies has usually been some form of price support scheme, accompanied by the regulation of foreign trade. The most elaborate of such schemes has been that practised by EEC. But despite the measures taken, the problem of lagging income among small farmers has not been satisfactorily resolved. At the same time, the better-off farmers have benefited from the policies and output has risen in disregard of comparative advantage.

Over the post-war period, as noted above, there has been little progress in the liberalization of trade in agricultural products. In principle, the establishment of a free trade zone in EEC was the main single act of liberalization; but its effect on international trade has been, on balance, negative. Exports of agricultural products from the developing countries have benefited modestly from GSP. But the predominant obstacles to trade in agricultural products are non-tariff barriers, and there has been little, if any, progress in dismantling these barriers. In the recent round of multilateral

trade negotiations, among the competing agricultural products of interest to developing countries, it was only on bovine meat that there was any significant action.

The economic costs of agricultural protection are being increasingly recognized, at least in some developed countries. Given a readiness to accept, in principle, some liberalization of agricultural trade policies, steps towards the curtailment of output should be taken in an orderly way. Perhaps the appropriate starting point would be to reduce progressively the differential between supported domestic prices and world prices for individual products. Measures to facilitate structural adjustment within the developed economies would be an essential complement to reductions in support prices. There would remain a need to protect the income of small farmers, but it should be done in ways which help to dissociate income from production and prices. Elements in the solution are land retirement programmes and measures to supplement the income of small farmers through non-farming activities. With appropriate pricing and adjustment policies being pursued in the developed market economies, the share of developing countries in their markets for competing agricultural products could be increased. For some of these commodities, such an increase in the share could be the subject of international agreements.

#### THE PROBLEM AND ITS SETTING

Agriculture and international trade in agriculture are highly regulated. There has been no process of trade liberalization comparable to that affecting industrial products; and there has been no comparable stimulus to trade in agricultural products. Trade opportunities for the more competitive producers of agricultural goods have been limited and the pace at which global adjustments of production have taken place in response to the pressure of market forces has been very slow.

Regulation affects producers in developing countries in two distinct ways. First, domestic policies of the developed countries, particularly the United States and EEC, determine the international market for important food-stuffs and agricultural raw materials. Developing countries tend to be cast in the role of residual suppliers, facing a highly unpredictable and unstable market. Furthermore, some of the export policies and practices of the developed countries impede exports of certain commodities from developing countries to third countries. Secondly, while developing countries as a whole are large net importers of some agricultural commodities, especially grains, and will almost certainly remain so in the foreseeable future, there are a number of other commodities in which some developing countries have a comparative advantage over developed market economies and in which there is considerable scope for expansion of exports to the latter group of countries. Yet exports of these commodities face some of the stiffest barriers that exist in trade with developed countries.

Although the problems of over-all agricultural development in developing countries stem largely from the well-known constraints of domestic origin, the prospects for expansion of production of some agricultural commodities in these countries depend heavily on their access to international markets. This consideration is important for those developing countries in which agriculture is still the mainstay of the economy and in which a limited range of commodities accounts for the bulk of their agricultural production and total exports; and it

is also important for countries trying to diversify into non-traditional products. Such increased trade in agriculture requires some significant changes in the structure of production in developed countries. In these countries, while important changes have taken place in agriculture and while it now constitutes only a small part of the total economy, some agricultural activities survive only because of policies which effectively impede trade in certain commodities both among the developed countries and between developing and developed countries.

AGRICULTURAL EXPORTS FROM DEVELOPING COUNTRIES  
TO DEVELOPED MARKET ECONOMIES

The relative importance of agricultural products in exports from developing countries has declined. At current prices, their share in total exports (excluding fuels) fell from over 70 per cent in 1960-1962 to under 50 per cent in 1975-1977. This was due both to the slow growth of agricultural exports in real terms, particularly to developed market economies, and to the high rate of growth of other exports, especially manufactured goods.

Exports of agricultural commodities from developing countries to developed market economies rose from \$10.3 billion in 1960-1962 to approximately \$33 billion in 1975-1977. (Manufactured exports rose from \$4 billion to \$29 billion during the same period.) Imports from developed market economies into developing countries increased from \$3.8 billion to \$19 billion. The following table summarizes the magnitude of trade in agricultural products between the two groups of countries:

<u>Period</u>	<u>Developing country exports to developed market economies</u>	<u>Developed market economy exports to developing countries</u>
	(Annual average in billions of dollars)	
1960-1962	10.3	3.8
1970-1972	15.2	6.9
1975-1977	32.7	19.1

The share of the total agricultural exports of developing countries taken by developed market economies declined significantly in the 1970s, especially for food, which fell from 74 per cent in 1970 to 66 per cent in 1976. <sup>1/</sup> Conversely, the share of trade among developing countries increased - from 16 per cent to 21 per cent for food and from 20 per cent to 26 per cent for other agricultural products.

In the present context, it is exports of competing products to developed countries that are of particular interest; these are products or close natural substitutes which are also produced in significant quantities in the developed countries. The main groups of competing products are normally taken to be grains,

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<sup>1/</sup> See Handbook of International Trade and Development Statistics, 1979 (United Nations publication, Sales No. E/F.79.II.D.2).

meat, oils and fats, sugar, cotton, tobacco, wool, citrus fruit and wine (see table II.1). The other agricultural commodities exported by developing countries consist mainly of tropical products which are not normally produced in any significant quantities in developed countries. For these non-competing products growth of demand and competition from synthetic substitutes are the principal determinants of export possibilities into developed market economies. But in the competing products the question of market access also becomes crucial.

Consumption of competing products in the developed market economies has been rising only slowly; the long-term trend growth rate has been less than 2 per cent per annum. The actual volume of exports of the major groups of competing products from developing countries into developed market economies stagnated between 1961-1962 and 1975-1977 at about \$11 billion (in 1975 prices). At the same time the relative importance of different groups of products underwent changes (see table II.2).

Sugar is by far the most important competing product exported from developing countries into developed market economies; the volume of exports has declined somewhat since the early 1960s. Among other important groups, oils and fats and tobacco have more than doubled in volume, cotton has remained largely unchanged and wine has fallen off to insignificant amounts. In grains, developing countries as a whole are large net importers and will almost certainly remain so for some time to come. Nevertheless, some developing countries are net exporters; their exports to developed market economies reached a peak in the early 1970s and have since fallen off sharply.

For the main competing product groups, the share of developing countries in the consumption of the developed market economies fell from 7.2 per cent in 1960-1962 to 5.1 per cent in 1975-1977 (see table II.3). The exceptions among the main product groups were cotton and tobacco, which increased their shares in consumption substantially to 34 per cent and 24 per cent, respectively; <sup>2/</sup> oils and fats were probably also in this category. The share of sugar, although declining rapidly, remained substantial at over 25 per cent.

The over-all decline in the share of developing countries in the consumption of competing products reflects both increased and diversified production in individual developed market economies as well as additional trade among developed market economies, some attributable to trade diversion within EEC. These influences may be seen in the rising self-sufficiency ratios for important competing products in developed market economies. The ratio in Western Europe, the main market for competing products, increased in every one of the main product groups, with the exception of citrus fruit (see table II.5). Most recently, indeed, EEC has become a net exporter of wheat. The self-sufficiency ratio has also increased in North America and Oceania. Only Japan has seen a decline across the board; but it remains a net exporter of all main competing product groups, with the exception of wheat.

Besides experiencing a declining share of consumption, the share of developing countries in total imports of competing products into developed market economies has also decreased. This declined from 38 per cent in 1960-1962 to 30 per cent in 1975-1977 (see table II.6).

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<sup>2/</sup> Actual raw cotton consumption in developed countries decreased, with unchanged imports from developing countries.

Finally, it may be noted that while there is a high concentration of individual competing exports in a relatively small number of developing countries, a large number of small countries are highly dependent on exports of one or two competing products. <sup>3/</sup> To these countries, the problem of market access is critical for their economies.

These various trends are consistent with the fact that agricultural production of many competing products has been increasing in developed countries behind direct and indirect forms of protection, reducing the access of developing countries to developed market economies. In the following sections the role of agricultural change in developed market economies will be examined, as well as that of agricultural policy, especially in so far as they affect exports from developing countries.

#### STRUCTURAL CHANGE IN AGRICULTURE IN DEVELOPED MARKET ECONOMIES

In the post-war period, the agricultural sector of the developed market economies has gone through many and far-reaching changes. The composition of agricultural output has changed in favour of animal products, fruit, vegetables, and agricultural raw materials, mainly at the expense of grains; this has largely reflected changes in consumer demand arising from increasing incomes. While the area under cultivation has been reduced and there has been a sharp reduction in the labour force, productivity per hectare and per worker has increased. The volume of agricultural output has, in fact, risen by about 2.2 per cent annually since 1960. The increase in total agricultural output and in output of the major competing products has exceeded the growth in domestic consumption and has moved the developed market economies as a group closer to self-sufficiency. All these changes have occurred behind barriers to trade which have in one way or another sheltered domestic agriculture from the discipline of an open world market (see tables II.7-II.11).

The size of the reduction of the labour force in agriculture has been remarkable. Since 1960 alone the labour force has shrunk by almost 50 per cent. With their rapid growth, industry and services have generally absorbed this shift without difficulty. The proportion of the total labour force employed in agriculture is now very small in some developed countries; for example, in the United States and the United Kingdom, the shares were reduced to 3.2 and 2.5 per cent by the early 1970s. But in other countries, agriculture still accounts for a substantial part of the labour force.

The main, long-term element of change has been the reduction in the number of hired workers. During the 1960s, there was also a sharp drop in the number of unpaid family workers. By the end of the 1960s, the hard core of agricultural workers were the farmers themselves. Thus, further reductions in the work force have become contingent on reductions in the area under cultivation or on increases in farm size.

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<sup>3/</sup> Some dozen countries, each with a share of more than 10 per cent of the total exports of any one product, account for two thirds of the total exports of all competing products. In some commodities (wheat, maize, rice, oils and fats, and sugar) the concentration is particularly marked (see table II.4).

Offsetting the effects of a declining labour force on output have been a substantial increase in investment and continuing technological innovation. In some developed market economies, investment more than doubled in real terms in the 1960s alone. And in most countries, a major part of the investment went into machinery: in the mid 1960s, at least 10 countries spent more than half of their agricultural investment on machinery. The trend has continued into the 1970s, especially in the countries of southern Europe. Moreover, increased spending on equipment has been accompanied by substantial technological changes. In certain sectors, such as animal husbandry, mechanization and even automation have recently made large strides. Land yields have also generally improved, the gain in grain output per hectare being a case in point (see table II.12). Improvements in efficiency have also been aided by increases in the average size of farms; this has been associated with a decrease in farm numbers, mainly affecting small or average-sized farms. In European market economies, the number of farms under 10 hectares, as well as the total area covered by such farms, declined (see table II.13).

These changes have resulted in considerable productivity gains. In fact, since 1960 labour productivity in agriculture has been rising annually at a faster rate than in the economy as a whole; and the traditional difference in the levels of productivity between agriculture and other sectors has thus narrowed considerably.

Agriculture in the developed market economies has thus proved flexible and adaptable. The structural changes that have occurred are considerable. But the changes have often taken place behind high protective barriers and have not been in line with trends in comparative advantages. A greater adherence to comparative advantage would have altered the distribution of agricultural production both among developed market economies and between developed and developing countries. On balance, the structural adjustments in developed market economies appear to have delayed rather than promoted a better international division of labour. They have certainly not offered easier access to developing countries enjoying a comparative advantage.

#### AGRICULTURAL POLICIES IN DEVELOPED MARKET ECONOMIES

The pattern of agriculture that has taken shape in developed market economies has, in part, been deliberately brought about by government action; but it has also been the indirect - and sometimes unexpected - consequence of efforts to regulate domestic agriculture for various reasons. These have included the pursuit of such aims as the ensuring of an adequate and steady supply of certain agricultural products, social equity, preservation of the rural environment, regional development and maintenance of the quality of life.

Behind the complex set of considerations that has guided agricultural policies lie two essentially simple factors. The first concerns the almost universally accepted notion that a degree of intervention in agriculture is needed to stabilize an activity that is inherently prone to major supply-induced fluctuations. Domestic efforts to achieve greater stability or to mitigate the adverse effects of instability have invariably and unavoidably included some degree of regulation of external trade. The second factor concerns the historical evolution of agriculture. For a variety of geographical, technological and social reasons, differences in productivity, efficiency and income between the larger,

commercial farms and the small family farms, especially in less-favoured climatic areas, have been very large and have often tended to widen with time. Small farmers and farm labourers have long been among the economically most depressed groups in many developed market economies. At the same time, because of their sheer numbers and their alliance with other rural and regional interests, the issue of their lagging incomes has assumed major political and social importance. Much of agricultural policy has concerned itself with the problems of this group of farmers. But policy measures have almost invariably, though not unavoidably, had the effect of providing support to, or protection of, the more advantaged groups of farmers.

In view of the preoccupation with domestic, social issues, the maintenance of free trade has not been an important feature of agricultural policies in developed market economies. It is true that some countries, particularly those with a strong comparative advantage, have allowed market forces at least partly to determine the level of production and prices in certain products. But in most countries, agricultural policies have been directed towards stabilization and support of farm incomes, requiring elaborate government intervention in the market.

The most usual approach has been through some form of price support. In general, two main systems of price support have been used: the setting of a minimum market price which is supported by special arrangements if supply exceeds demand at the set price; or deficiency payments to farmers based on the difference between a target price and the prevailing market price.

In EEC, the main policy instrument is the Common Agricultural Policy (CAP), which is a price support scheme applying to almost three quarters of agricultural production, mainly those products in which the Community wishes to be self-sufficient. The mechanisms used vary. Normally, a Community target price is set in advance of planting, intended to provide a "reasonable" income to producers and a "reasonable" price to consumers; there is also a lower intervention price at which official agencies are prepared to buy any produce offered.

In the United States, there are guaranteed prices for producers of grains and cotton; these prices are related to production costs, deficiency payments being made whenever market prices fail to reach the guaranteed levels. Price support is used for other commodities (for example, wool, peanuts, sugar and tobacco), with the minimum price being supported either through public purchases of excess production or through government loans to producers' associations to finance stocks. In addition, prices of grains, cotton and soya beans are also supported through loans to finance stocks, in which the crops are used as collateral, their value being fixed at the support price.

In Japan, prices of agricultural commodities are regulated through official intervention in various markets - including those for wheat, beef and raw silk - while deficiency payments similar to those used in the United States are made to producers of some oil-seed and other commodities. For rice, although a partially free marketing system has been in effect since the end of the 1960s, the bulk of production is purchased and resold by the Government at fixed prices.

Price support policies have always been accompanied by some form of border control or domestic supply management or both. Under a system of domestic price support, in which prices are linked to domestic costs and are above world market prices, tariff or non-tariff regulation of imports or subsidized disposal of surplus



commodities is essential to the functioning of the system. Under a system of deficiency payments, in which domestic prices to the consumer are allowed to be determined by international prices (costs), and higher prices are guaranteed to domestic producers, some system of sharing-out the market is also required; quota arrangements of some sort are most common, applying either to the domestic or the foreign suppliers, or both, and sometimes supplemented by long-term purchasing arrangements.

The most elaborate system of protection and subsidization is that maintained by EEC. Japan also heavily protects its domestic agricultural producers. Owing to their competitive position, the United States, Canada, Australia and New Zealand have - with a few important exceptions to be discussed below - relatively few import restrictions and few export subsidies.

The EEC insulates its domestic agriculture by means of a system of variable levies, quotas, licensing requirements, prohibitions through health and sanitary regulations, and tariffs. The most important policy instrument in this regard is the variable levy for CAP products. This provides a constant margin of protection for set periods, usually a crop-year, against cheaper imports; the levy in fact varies inversely with the world price movement of the commodity in question.

The degree of protection that has resulted from the combination of tariffs - set at around 10 per cent to 25 per cent for most agricultural products - and variable levies is extremely high. For wheat and maize, it has amounted to slightly over 100 per cent of world prices, and for rice from 30 per cent to 66 per cent.

Under the Lomé Convention, there is duty-free (but not levy-free) access for most agricultural products which are not subject to CAP and which originate in the signatory developing countries. Also some tariff concessions have been given on agricultural products originating in countries bordering on the Mediterranean; these are often of a seasonal nature to reduce direct competition with domestic producers. Further tariff preferences within agreed quota limits are offered under GSP. But it is far from clear whether these measures have actually increased the volume of imports in competitive products from developing countries. Over-all, as a recent study shows, the average effective rate of protection afforded by tariffs and variable levies was 49 per cent and 134 per cent, respectively. The total effective rate of protection amounted to 158 per cent. <sup>4/</sup>

The price-cum-border control measures of EEC have resulted in an imbalance between supply and demand in some important commodities. Wheat, beef, wine and sugar have all been the subject of surpluses. In order to reduce these surpluses, the Community has tried several methods, including efforts to induce farmers to switch from surplus products through non-marketing premiums or payments for conversion to other products. The conversion from milk to meat was one such attempt. However, it only helped to create surpluses in meat; this led eventually

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<sup>4/</sup> Gary P. Sampson and Alexander J. Yeats, "An evaluation of the Common Agricultural Policy as a barrier facing agricultural exports to the European Economic Community", American Journal of Agricultural Economics, vol. 59, No. 1 (February 1977), p. 104. Since some items subject to tariffs were not subject to levies, the total effective rate of protection is not equal to the sum of 49 per cent and 134 per cent.

to a ban on imports, hurting a number of developing countries. Other approaches to surpluses have been to subsidize consumption and exports and to increase food aid. Exports have been subsidized with receipts from import levies. In this case, outside suppliers have been doubly damaged: they have faced both high barriers to entry and have had to compete with equally heavily subsidized Community exports in third markets. The instance of sugar provides a further variant of such arrangements. Since the signing of the Lomé Convention, the Commonwealth countries of Africa, the Caribbean and the Pacific (ACP) and India have been guaranteed sales of a specified quantity of sugar (1.3 million tons) in the Community at prices comparable to those received by domestic producers. But, while quotas have been imposed on domestic producers, it has so far proved difficult to reconcile the interests of the domestic sugar beet growers and the preferred external suppliers. As a consequence, their combined excess supply over Community needs has been sold, at highly subsidized prices, in third markets.

Other developed market economies in Europe, as well as Japan, also apply protective tariffs and quotas to a large number of competing agricultural products. In some cases, the protection afforded by these means is substantial. A recent study on Japan, for instance, estimates that in 1970 the nominal tariff-equivalent (the percentage by which domestic prices exceeded import prices) of these measures was about 200 per cent for rice and 150 per cent for wheat. <sup>5/</sup> High levels of protection had helped to induce overproduction of rice in the late 1960s. Since then, a national limit for government rice purchases and a rice diversion programme under which incentive payments have been made to producers who stop paddy production, have succeeded in curtailing output. But Japan has also exported rice on concessional terms to a number of developing countries. Surpluses of various products have also occurred in other countries.

In North America and Oceania trade restrictions play a considerably less important role. In the United States they apply mainly to two major competing products, namely, meat and sugar. Meat import quotas are negotiated on a voluntary basis with meat-exporting countries. Domestic sugar producers are protected from import competition through a tariff and special import levies which effectively bring the import price to the level of the price support granted to domestic producers. However, it should be noted that the United States none the less imports a substantial proportion of its internal needs. On the expiration of the Sugar Act at the time of the world sugar shortage in 1974, the combined quota of a group of developing countries, together with Australia, represented 40 per cent of domestic needs.

Despite the extensive domestic and trade measures taken to support prices and farm incomes, the problem of lagging incomes among the less efficient - and usually smaller - farmers and in depressed agricultural areas has not been satisfactorily resolved. While lagging incomes have been a major reason for the regulation and protection of agriculture, the more efficient and prosperous farmers have benefited at least as much, and often more, from these measures. Governments have therefore increasingly supplemented price support efforts with special measures designed to reach specific groups of farmers. They have provided direct financial assistance in such forms as input subsidies, direct grants and fiscal relief. They have also

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<sup>5/</sup> William R. Cline, Noboru Kawanabe, T. O. M. Kronsjö and Thomas Williams, Trade Negotiations in the Tokyo Round: A Quantitative Assessment (Washington, D.C., The Brookings Institution, 1978), p. 167.

offered such services as extension services, help with quality control, information, marketing and storage, and training. They have increased resources for agricultural research. They have promoted the reduction in size of the agricultural labour force, particularly through the transfer of submarginal and marginal workers; and they have sought reductions in the number of small or uneconomic farms and the consolidation of fragmented parcels of land. As a way of offering wider opportunities to younger farmers and of reducing pockets of farm poverty, several countries have introduced old-age and early retirement pensions for farmers. Taken individually, many of these measures have been successful in achieving their prime objective. But their over-all impact has not been to improve the relative position of those whom they were intended to help most. They have, however, contributed to raising agricultural output.

The international effects of the complex set of agricultural policies pursued by developed market economies may be summarized as follows. Trade among countries is less than what it could be in the absence of the protection which these policies entail. These policies therefore imply a potential loss of global economic welfare. In terms of volume, protectionist measures probably impede trade among developed countries to a greater extent than that between developed and developing countries. <sup>6/</sup> Many individual developing countries are, however, adversely affected by agricultural protection in the developed countries. It is to be borne in mind that a small absolute increase in export earnings can be of great significance for a developing country of small economic size.

#### EFFORTS TO IMPROVE ACCESS TO MARKETS FOR DEVELOPING COUNTRIES

International negotiations to liberalize trade in agricultural products have made little progress in the post-war period despite the general trend towards freer trade. A complicating factor has been differences in views as to the appropriate organizational framework for the conduct of trade in agricultural products. These differences have mainly reflected divergences of interest among developed countries, not only between the major exporting countries and the net importing countries but

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<sup>6/</sup> A recent study shows that if the tariff-equivalent of agricultural non-tariff barriers in the developed countries were reduced by 60 per cent, the increase of imports into EEC from the developing countries in 1974 would have been \$385 million, into Japan \$27 million and into the United States \$14 million. The main benefit from a 60 per cent reduction of the tariff-equivalent of non-tariff barriers by the United States, Japan and EEC would have accrued to other developed market economies, in particular Canada, Australia and New Zealand, whose net exports would have increased in 1974 by \$327 million, \$311 million and \$252 million, respectively. The United States' agricultural exports would have been \$559 million greater if Japan and EEC had lowered their non-tariff barriers; since agricultural imports would also have risen by \$105 million, its net exports would have increased by \$454 million. See Thomas Birnberg, Economic Effects of Changes in Trade Relations Between Developed and Less Developed Countries (Washington, D.C., Overseas Development Council, 1978), pp. 21-25. These estimates should be regarded as illustrations only. A greater degree of liberalization would lead to a more substantial increase in trade.

also among the importing countries. Among the latter, differences of interest arise between those countries heavily dependent on imported supplies of food, which are primarily concerned with protecting their consumers' interests, and those countries stressing domestic production and pursuing strong price support policies.

The establishment of the agricultural free trade zone within the original European Common Market was, in principle, the most important measure of liberalization of trade in agricultural products taken in the post-war period. However, on balance, it has adversely affected world trade in agricultural products. The members of the Community with deficits in agricultural products have come to rely increasingly on imports from other members at the expense of competitively priced exports from third countries. For competing products at least, the potential market for developing country exporters has thereby been curtailed. While the preferential arrangements for ACP countries and some other developing countries have offset this to some extent, it has to be remembered that these concessions have in effect at best matched what was previously available in terms of free or preferential access through various bilateral arrangements dating back to the colonial period.

As regards changes in trade policies favourably affecting the developing countries, a step in reducing tariff barriers was taken with the introduction of the various schemes under GSP. Selected agricultural commodities have been awarded preferential tariffs or, in some cases, allowed duty-free entry into developed countries. Calculations covering major developed market economies indicate that in 1976, 27 per cent of the \$15.2 billion of MFN dutiable imports from developing countries were covered by the scheme. <sup>7/</sup> Actual trade under the scheme (as against GSP "covered" trade) is, however, much smaller; the actual rate of utilization under the EEC scheme, for example, was only 32 per cent of "covered" imports in 1976. The Tokyo Round of trade negotiations, according to preliminary calculations by the GATT secretariat, <sup>8/</sup> resulted in some improvement in the coverage of agricultural commodities under GSP schemes, probably an increase of the order of \$0.4 billion on the pre-MTN figure of \$4.1 billion.

However, the main obstacles to trade in agricultural products are non-tariff barriers. For some major commodities of export interest to developing countries, the results of the Tokyo Round have been disappointing, as no breakthrough could be achieved in widening the access to the markets of the developed market economies. Substantive negotiations relating to competing products were concluded only for bovine meat. Even in this case it was agreed only to set up a council to watch over the world supply/demand situation and to hold regular consultations; in addition, developed countries agreed to accord, whenever possible, differential treatment to developing countries. Negotiations on wheat broke down. On other commodities, no agreements were reached to allow developing countries increased access to developed country markets, the matter being left to individual developed countries to make concessionary offers. In negotiations under the broad heading of "tropical products" (which included fishery products, honey, certain unprocessed and processed fruits and vegetables, vegetable oils, sugar and sugar products and tobacco), though some significant tariff concessions and contributions were granted, less progress was made in a number of other areas of importance to developing countries. <sup>9/</sup>

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<sup>7/</sup> GATT, The Tokyo Round of Multilateral Trade Negotiations (Geneva, April 1979).

<sup>8/</sup> Ibid.

<sup>9/</sup> Ibid., p. 157.

## POSSIBLE ELEMENTS OF FUTURE STRUCTURAL ADJUSTMENT POLICIES

General liberalization of trade in agricultural products would permit some developed countries to increase substantially their exports to other developed countries; and this would have a major effect on the distribution of production among countries. In comparison, the opening up of markets to imports from developing countries would be quite modest in effect. As mentioned earlier, there are only a few agricultural commodities for which developing countries are major competitors in these markets. Given their present low levels, a substantial increase in imports from these countries would have only a minor effect on agricultural production in developed market economies as a whole, and that effect would, moreover, be confined to a limited range of commodities.

The economic costs of protection are being increasingly recognized in developed market economies; the political leadership could make these costs more transparent to all concerned. With regard to CAP, there are strong pressures within the Community itself for drastic change. Given a readiness to accept change in principle, the most productive course would seem to be to plan the curtailment of output in an orderly way so as not to harm unduly the many legitimate interests that current agricultural support policies are intended to promote and protect. A possible starting point would be a gradual and selective reduction in the difference between world market prices and domestic prices of farm products. For example, frontier regulations of the Community could be adapted to the purpose of selective encouragement of imports, particularly from developing countries.

Measures to facilitate adjustment within the developed market economies would be an essential complement to the reduction of prices to minimize the adverse effects of such price reductions on the incomes of the smaller, and poorer, farmers and to lessen opposition to such price reductions. It would generally not be practicable, however, to link such measures solely to production of commodities in which developing countries have a competing interest. The flexibility in productive structures needed to accommodate greater imports from developing countries would be mainly the outcome of actions to facilitate the process of adjustment more generally.

The first to be affected by reductions in relative prices would be the less efficient farmers. They, indeed, are at the very centre of the problem of adjustment. Thus, tackling their particular problems cannot be separated from the general problem. But, as already mentioned, there is as yet no resolution of the dilemma of how to protect the livelihood and relative income position of that group without increasing output. Elements of a solution suggest themselves on the principle of a greater separation of the level of rural income from the level of farm output and prices.

One such element would be to take more land out of cultivation while refraining from subsidizing more intensive forms of production. Farmers would be paid to take land out of cultivation either temporarily, on a rotating basis, or permanently. Such land retirement measures are not unknown and have been used in the United States, Europe <sup>10/</sup> and Japan. What is needed is a more consistent and

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<sup>10/</sup> See, for instance, Food and Agriculture Organization of the United Nations, "Agricultural adjustment in the European Economic Community" (C 73/LIM/1), pp. 31 and 32.

ambitious set of policies in this regard. To effect lasting change on a much greater scale than hitherto, areas could be designated for reafforestation, for wild life, nature and ecological reserves, and for recreation. In addition, designated areas could be given various forms of protected status in which only limited agricultural activities would be allowed, but with adequate financial support.

This approach would have to be supported by the provision of ways to supplement small farmer income from activities on the periphery of farming, or outside agriculture altogether. Possibilities exist to increase part-time and off-season employment opportunities, especially for female labour and young people in rural areas generally. Such possibilities would be increased through a stepped-up effort to improve rural services and amenities in a selective way.

Planned adjustment involving the curtailment of farm output appears to be inconsistent with one of the motives behind the protection of agriculture, namely, the assurance of a steady supply of essential food-stuffs and raw materials. This is not the appropriate place for a discussion of the many interlocking considerations that are involved in the wider issue raised, namely, world food security. Only one point relevant to adjustment needs to be made in this context: none of the proposals concerning food security currently under discussion is incompatible with improving market access for developing countries with a comparative advantage in production. No argument can be made on world food security grounds against the need to curtail output of grains by the least efficient producers in developed market economies, or in support of subsidies for exports competing for markets with suppliers from developing countries.

As regards security of supply for individual importing countries, a distinction should be drawn between assured supply and self-sufficiency. Developed countries long ago exchanged any notion of self-sufficiency in food and raw materials for the advantages offered by a more efficient international division of labour. But there is no unique solution to the question of the level of domestic supply which would offer an assured minimum availability of food-stuffs and other products. Different countries have taken different views, depending on their specific circumstances.

In sum, a positive approach to adjustment implies greater weight to solutions that are also beneficial to exporting developing countries. Arrangements along lines that respect the following considerations would seem to offer benefits to all. As a long-term aim, prices for major commodities in developed economies could be brought more closely into line with international prices. Where domestic producers have a guaranteed share of the domestic market, this share could be gradually reduced. Farmer earnings would no longer be determined predominantly by the volume of output and the support price, but by income support and off-farm earnings. For some commodities, long-term guaranteed arrangements could be made with external producers, especially in developing countries with a comparative advantage, to supply a specified share of developed country markets. Adequate arrangements could be made for the stocking of the most important commodities, as well as for the orderly disposal of unexpected surpluses.

Table II-1. Share of major competing agricultural products in total agricultural exports of developing countries  
(Percentage)

Item	1960-1962	1970-1972	1975-1977
Grains			
Wheat	-	1	1
Maize	2	3	3
Rice	4	3	4
Meat	3	7	4
Oils and fats	4	5	7
Sugar	13	13	18
Cotton	11	12	8
Tobacco	3	3	3
Wool	3	1	1
Citrus fruit	1	2	2
Wine and vermouth	2	1	1
Total competing agricultural products	47	51	52
Other agricultural products	53	49	48

Sources: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on United Nations, Monthly Bulletin of Statistics and Handbook of International Trade and Development Statistics; and FAO, Trade Yearbook (Rome).

Table II-2. Imports of competing products from developing countries into developed market economies a/  
(Billions of 1975 dollars, annual average)

Commodity	1960-1962	1970-1972	1975-1977
Food-grains	0.67	1.35	0.80
Meat	0.83	1.09	1.05
Oils and fats	0.82	1.21	1.87
Sugar	5.14	5.26	4.59
Cotton	1.49	1.60	1.45
Tobacco	0.44	0.79	1.10
Wool	0.42	0.22	0.19
Citrus fruit	0.32	0.27	0.20
Wine	0.87	0.06	0.07
Total	11.00	11.80	11.30

Source: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on FAO, Trade Yearbook (Rome).

a/ Excluding Australia, New Zealand and South Africa.



Table II-3. Imports of selected commodities from developing countries as percentage of apparent consumption in developed market economies a/

Commodity	1960-1962	1970-1972	1975-1977
Total selected commodities <u>b/</u>	7	6	5
Wheat	1	1	-
Maize	2	5	2
Rice	2	2	2
Meat	1	1	1
Oils and fats	21	...	...
Sugar	41	30	26
Cotton	25	34	34
Tobacco	12	21	24
Wool	12	8	9
Citrus fruit	10	4	3
Wine	8	1	1

Sources: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on United Nations, Commodity Trade Statistics; and FAO, Production Yearbook and Trade Yearbook (Rome).

Note: To arrive at the over-all share of apparent consumption, all quantities (production, exports and imports) were converted into values by using 1975 world prices computed from FAO, Trade Yearbook (Rome).

a/ Excluding Australia, New Zealand and South Africa.

b/ Excluding oils and fats.

Table II-4. Major exporters of selected commodities, 1977

Commodity and major exporter	Exports (Thousands of metric tons)	Share in total developing country exports (Percentage)
<u>Wheat</u>		
	5 638	88
Venezuela	69	1
Mexico	24	-
Total selected country exports	5 796	91
Total developing country exports	6 391	100
<u>Maize</u>		
Argentina	5 474	63
Thailand	1 517	17
Brazil	1 420	16
Total selected country exports	8 626	99
Total developing country exports	8 763	100
<u>Rice</u>		
Thailand	2 942	45
Pakistan	945	16
Burma	669	11
Brazil	409	7
Egypt	223	4
Argentina	193	3
Total selected country exports	5 381	89
Total developing country exports	6 085	100
<u>Meat</u>		
Argentina	539	45
Brazil	185	16
Uruguay	121	10
Mexico	35	3
Costa Rica	32	3
Total selected country exports	913	76
Total developing country exports	1 196	100
<u>Oils and fats</u>		
Malaysia	1 434	29
Philippines	796	16
Brazil	675	14
Argentina	632	13
Indonesia	422	8
Senegal	210	4
Barbados	148	3
Total selected country exports	4 593	92
Total developing country exports	5 006	100

Table II-4 (continued)

Commodity and major exporter	Exports (Thousands of metric tons)	Share in total developing country exports (Percentage)
<u>Sugar</u>		
Cuba	6 338	32
Brazil	2 509	13
Philippines	2 448	13
Thailand	1 685	9
Dominican Republic	1 103	6
Argentina	940	5
Mauritius	524	3
Peru	436	2
Total selected country exports	15 984	82
Total developing country exports	19 466	100
<u>Cotton</u>		
Sudan	218	12
Egypt	144	8
Mexico	131	7
Syrian Arab Republic	130	7
Turkey	125	7
Nicaragua	114	7
Total selected country exports	862	49
Total developing country exports	1 771	100
<u>Tobacco</u>		
Brazil	108	17
India	75	12
Turkey	62	10
Southern Rhodesia	60	9
Total selected country exports	305	47
Total developing country exports	653	100
<u>Wool</u>		
Argentina	108	59
Uruguay	29	16
Chile	8	4
Brazil	7	4
Syrian Arab Republic	7	4
Afghanistan	6	3
Total selected country exports	164	88
Total developing country exports	186	100

Table II-4 (continued)

Commodity and major exporter	Exports (Thousands of metric tons)	Share in total developing country exports (Percentage)
<u>Citrus fruit</u>		
Israel	975	31
Morocco	571	18
Gaza Strip	207	7
Cyprus	213	7
Lebanon	180	6
Egypt	171	5
Jordan	161	5
Total selected country exports	2 477	78
Total developing country exports	3 199	100
<u>Wine and vermouth</u>		
Algeria	250	57
Argentina	52	12
Morocco	45	10
Cyprus	42	10
Tunisia	20	5
Total selected country exports	409	94
Total developing country exports	436	100

Sources: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on United Nations, Monthly Bulletin of Statistics; FAO, Trade Yearbook (Rome), and national sources.

Table II-5. Self-sufficiency ratios a/ by economic class and region

Commodity and period	Developed market economies					Developing countries
	Total	North America	Western Europe	Oceania	Japan	
<u>Wheat</u>						
1960-1962	95	121	73	200	81	82
1970-1972	132	235	88	...	81	81
1975-1977	139	202	97	312	77	78
<u>Maize</u>						
1960-1962	96	108	45	100	106	106
1970-1972	99	114	55	107	109	108
1975-1977	107	132	46	109	100	101
<u>Rice</u>						
1960-1962	101	147	73	169	100	100
1970-1972	111	175	90	199	98	98
1975-1977	108	168	78	189	99	99
<u>Meat</u>						
1960-1962	99	99	94	145	103	104
1970-1972	98	98	94	159	103	103
1975-1977	100	99	97	160	100	100
<u>Oils and fats</u>						
1960-1962	92	...	65	136	130	126
1970-1972	91	...	65	173	117	113
1975-1977	86	...	67	242	126	123
<u>Sugar</u>						
1960-1962	67	47	84	162	146	145
1970-1972	73	50	83	222	128	127
1975-1977	80	55	90	269	126	125
<u>Cotton</u>						
1960-1962	70	161	9	11	143	141
1970-1972	69	138	13	101	150	147
1975-1977	75	149	14	132	127	124

Table II-5 (continued)

Commodity and period	Developed market economies					Developing countries
	Total	North America	Western Europe	Oceania	Japan	
<u>Tobacco</u>						
1960-1962	86	118	37	50	122	123
1970-1972	77	122	35	58	127	127
1975-1977	76	114	39	55	129	129
<u>Wool</u>						
1960-1962	88	55	26	207	127	125
1970-1972	104	69	27	215	112	109
1975-1977	110	77	33	199	107	105
<u>Citrus fruit</u>						
1960-1962	111	99	157	99	111	112
1970-1972	98	102	78	103	114	113
1975-1977	100	104	83	99	110	110
<u>Wine and vermouth</u>						
1960-1962	98	96	92	104	143	139
1970-1972	100	89	99	101	123	121
1975-1977	92	83	102	99	108	108

Sources: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on FAO, Production Yearbook and Trade Yearbook (Rome).

$$a/ \text{ Self-sufficiency ratio} = \frac{\text{national production}}{\text{total domestic supply}} \times 100$$

Total domestic supply = national production + (imports - exports).

Table II-6. Imports of selected commodities from developing countries as share of total imports of developed market economies a/

(Percentage)

Commodity	1960-1962	1970-1972	1975-1977
Total selected commodities	38	34	30
Wheat	3	2	2
Maize	19	30	12
Rice	35	37	27
Meat	17	14	12
Oils and fats	41	41	53
Sugar	76	67	60
Cotton	44	64	65
Tobacco	31	46	52
Wool	16	9	11
Citrus fruit	57	22	14
Wine	61	4	4

Sources: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on FAO, Trade Yearbook (Rome); and United Nations, Commodity Trade Statistics.

Note: Calculations are based on data expressed in 1975 prices.

a/ Excluding Australia, New Zealand and South Africa.

Table II-7. Trends in agricultural production in developed market economies  
(Annual average rate of growth)

	All agriculture		Food only	
	1961-1970	1971-1978	1961-1970	1971-1978
World	2.6	2.5	2.8	2.6
Developed market economies <u>a/</u>	2.1	2.2	2.4	2.3
North America	1.7	2.9	2.3	3.0
Europe <u>b/</u>	2.2	1.7	2.3	1.7
Oceania	3.1	2.8	3.4	4.0
Japan	2.6	-0.1 <u>c/</u>	2.8	-0.1 <u>c/</u>

Source: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on FAO, The State of Food and Agriculture, 1979 (Rome, 1979).

a/ Including Israel, South Africa and Yugoslavia.

b/ Including Yugoslavia.

c/ 1971-1977.



Table II-8. Average share of gross agricultural product  
in gross domestic product

(Percentage)

Region and country	1960-1965	1965-1970	1970-1975
North America			
Canada	8	7	5
United States	4	3	3
Western Europe			
EEC			
Belgium	6	4	4
Denmark	11	9	7
France	8	7	6
Germany, Federal Republic of	4	3	3
Ireland	...	...	...
Italy	11	10	8
Luxembourg	...	...	...
Netherlands	5	5	5
United Kingdom	3	3	3
Other Western Europe			
Austria	8	7	5
Finland	22	18	14
Greece	26	22	19
Iceland	...	...	...
Norway	9	7	6
Portugal	29	23	17
Spain	15	12	10
Sweden	8	6	6
Switzerland	...	...	...
Oceania			
Australia	6	5	5
New Zealand	...	...	...
Other developed countries			
Japan a/	11	8	5

Source: Office for Development Research and Policy Analysis of the United Nations Secretariat.

Note: Calculations are based on data expressed in 1975 prices.

a/ Current prices.

Table II-9. Average annual rate of change in cultivated area  
(Percentage)

Region and country	1957-1970	1970-1976	1957-1976
North America			
Canada	0.7	-0.4	0.4
United States	-0.1	-0.2	-0.1
Western Europe			
EEC			
Belgium	-1.0	-0.7	-0.9
Denmark	-0.4	-0.2	-0.3
France	-1.1	-0.3	-0.8
Germany, Federal Republic of	-1.0	-0.3	-0.8
Ireland	-	2.0	0.6
Italy	-0.9	-0.1	-0.7
Luxembourg	-0.3	-0.5	-0.4
Netherlands	-0.6	-0.5	-0.6
United Kingdom	-0.6	-0.5	-0.6
Other Western Europe			
Austria	-0.4	-0.9	-0.5
Finland	-0.4 <u>a/</u>	-1.1	-0.7 <u>b/</u>
Greece	0.3	-	0.2
Iceland	0.8	-	0.6
Norway	-0.6	-1.0	-0.7
Portugal	-1.2	-0.5	-0.9
Spain	-0.2	-0.9	-0.4
Sweden	-2.3	-0.3	-1.7
Switzerland	-	-1.3	-0.4
Oceania			
Australia	-0.5 <u>a/</u>	0.4	0.3 <u>b/</u>
New Zealand	5.6 <u>a/</u>	-0.2	3.0 <u>b/</u>
Other developed countries			
Japan	-3.7	-0.9	-2.8

Source: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on OECD, Review of Agricultural Policies, 1975, Review of Agricultural Policies, 1977 and Agricultural Statistics, 1955-1968 (Paris); and FAO, Production Yearbook (Rome).

a/ 1962-1970.

b/ 1962-1976.

Table II-10. Average annual rate of change in labour  
force in agriculture  
(Percentage)

Region and country	1960-1965	1965-1970	1970-1975
North America			
Canada	-2.3	-2.4	-2.8
United States	-3.5	-4.6	-4.1
Western Europe			
EEC			
Belgium	-4.1	-5.4	-3.9
Denmark	-3.2	-4.2	-3.9
France	-3.3	-4.7	-3.2
Germany, Federal Republic of	-4.8	-7.1	-5.2
Ireland	-3.1	-3.2	-1.1
Italy	-4.2	-5.6	-4.5
Luxembourg	-5.6	-7.7	-4.5
Netherlands	-1.0	-1.5	-2.9
United Kingdom	-2.3	-3.6	-3.0
Other Western Europe			
Austria	-4.7	-5.7	-4.0
Finland	-3.8	-5.5	-3.9
Greece	-1.6	-2.1	-2.0
Iceland	-1.2	-2.7	-1.4
Norway	-3.9	-4.9	-3.7
Portugal	-1.5	-4.1	-2.2
Spain	-3.9	-5.1	-3.0
Sweden	-3.8	-4.7	-4.4
Switzerland	...	...	...
Oceania			
Australia	-0.9	-0.9	-1.3
New Zealand	...	...	...
Other developed countries			
Japan	-2.5	-4.1	-4.2

Source: Office for Development Research and Policy Analysis of the United Nations Secretariat.

Table II-11. Average share of labour force in  
agriculture in total labour force  
(Percentage)

Region and country	1960-1965	1965-1970	1970-1975
North America			
Canada	12	9	7
United States	6	4	3
Western Europe			
EEC			
Belgium	7	6	4
Denmark	16	13	10
France	20	16	12
Germany, Federal Republic of	12	9	6
Ireland	31	29	25
Italy	28	22	17
Luxembourg	13	10	7
Netherlands	10	9	7
United Kingdom	4	3	3
Other Western Europe			
Austria	21	17	13
Finland	33	25	19
Greece	54	48	44
Iceland	23	20	16
Norway	18	14	11
Portugal	42	36	31
Spain	38	30	23
Sweden	13	10	7
Switzerland	...	...	...
Oceania			
Australia	11	9	7
New Zealand	...	...	...
Other developed countries			
Japan	30	23	17

Source: Office for Development Research and Policy Analysis of the United Nations Secretariat.

Table II-12. Yield in total cereals  
(Kilogrammes per hectare)

Region and country	1961	1970	1977
North America			
Canada	985	2 106	2 256
United States	2 524	3 157	3 667
Western Europe			
EEC			
Belgium-Luxembourg	-	3 693	3 996
Denmark	3 383	3 584	4 051
France	2 276	3 380	4 069
Germany, Federal Republic of	2 531	3 337	4 089
Ireland	3 141	3 634	4 636
Italy	2 180	2 755	3 251
Netherlands	3 381	3 768	4 765
United Kingdom	3 178	3 569	4 554
Other Western Europe			
Austria	2 521	3 192	4 095
Finland	1 883	2 397	2 437
Greece	1 267	2 092	2 070
Norway	2 792	3 207	3 568
Portugal	783	1 010	853
Spain	1 082	1 379	1 970
Sweden	2 813	3 240	3 421
Switzerland	2 873	3 561	3 999
Oceania			
Australia	1 091	1 219	967
New Zealand	3 135	2 993	4 549
Other developed countries			
Japan	4 173	5 123	5 914

Sources: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on FAO, Production Yearbook, 1972 and Production Yearbook, 1977 (Rome).

Table II-13. Distribution of cultivated area and farm numbers

Country	Agricultural area and number of farms under 10 hectares as percentage of total			
	1970		1976	
	Area	Farms	Area	Farms
Belgium	24	59	16	51
Denmark	9	33	8	31
Finland	38 <u>a/</u>	70 <u>a/</u>	33 <u>b/</u>	65 <u>b/</u>
France	9	41	6	35
Germany, Federal Republic of	22	59	17	54
Ireland	12	42	9	36
Luxembourg	8	36	6	31
Netherlands	19	50	15	46
Norway	54 <u>a/</u>	84 <u>a/</u>	45 <u>b/</u>	78 <u>b/</u>
Sweden	14	47	11	42
Switzerland	33 <u>a/</u>	58 <u>a/</u>	22 <u>b/</u>	53 <u>b/</u>
United Kingdom	3	31	2	27

Source: Office for Development Research and Policy Analysis of the United Nations Secretariat, based on OECD, Review of Agricultural Policies, 1977 (Paris).

a/ 1969.

b/ 1975.



SUPPLEMENT TO WORLD ECONOMIC SURVEY, 1978

Corrigendum

Page 44, fifth paragraph, line 11

Delete but it remains a net exporter of all main competing product groups, with the exception of wheat.

Pages 60 and 61, table II-5

Replace the column under Japan by the following:

<u>Wheat</u>		<u>Cotton</u>	
1960-1962	39	1960-1962	-
1970-1972	7	1970-1972	-
1975-1977	4	1975-1977	-
<u>Maize</u>		<u>Tobacco</u>	
1960-1962	6	1960-1962	96
1970-1972	1	1970-1972	78
1975-1977	-	1975-1977	66
<u>Rice</u>		<u>Wool</u>	
1960-1962	99	1960-1962	1
1970-1972	104	1970-1972	-
1975-1977	100	1975-1977	-
<u>Meat</u>		<u>Citrus fruits</u>	
1960-1962	95	1960-1962	99
1970-1972	84	1970-1972	97
1975-1977	82	1975-1977	95
<u>Oils and fats</u>		<u>Wine and vermouth</u>	
1960-1962	33	1960-1962	98
1970-1972	41	1970-1972	86
1975-1977	10	1975-1977	55
<u>Sugar</u>			
1960-1962	12		
1970-1972	22		
1975-1977	18		

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