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PROTECTIONISM AND STRUCTURAL ADJUSTMENT

Problems of protectionism and structural adjustment

Report by the UNCTAD secretariat

PART I: RESTRICTIONS TO TRADE

PART II: STRUCTURAL ADJUSTMENT ISSUES IN THE WORLD ECONOMY

PART III: SUMMARY AND SOME POLICY ISSUES

For a statistical and information annex containing supporting information for this report, see TD/B/1240/Add.1.

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Part I

RESTRICTIONS TO TRADE

Chapter I

DEVELOPMENTS IN TRADE ACTIONS AND TRADE LEGISLATION IN 1989

1. Despite sustained economic growth and the impetus stemming from the ongoing Uruguay Round of Multilateral Trade Negotiations, protectionism in developed market-economy countries has not abated to any significant extent. Non-tariff measures due to expire in recent years have generally been renewed. An important fact in this respect is the extension by the United States of "voluntary" restraint agreements governing steel trade, which were due to expire in September 1989, for two and a half years. The search for bilateral solutions to trade problems continued to be a matter of concern. The announcement of certain actions under Section 301 of the U.S. Omnibus Trade and Competitiveness Act of 1988, on 25 May 1989, caused great concern to trading partners.

2. Nevertheless, new trade distorting measures reported in 1989 have been very few in number and a modest import liberalization has taken place in some developed market-economy countries. In the area of tropical products, liberalization was implemented as an early result of the Uruguay Round of Multilateral Trade Negotiations. However, the resulting reduction in average tariffs, tariff escalation and non-tariff measures seems to be modest.

3. Developing countries persisted in trade liberalization efforts in the context of their development process, while the socialist countries continued to introduce market-oriented policy reforms and to decentralize foreign trade management.

A. Major trade interventions in recent years

4. The continued recourse to trade restrictions is unmistakable. Table I.1 of the Statistical Annex gives an overview of border trade measures which were introduced or renewed since the launching of the Uruguay Round negotiations. In agriculture, the following important measures were taken: in 1987 Australia and New Zealand negotiated VERs with the United States on bovine meat in order to avoid import quotas under the United States Meat Import Act of 1979. Australia introduced a tariff quota on certain cheeses, and Austria imposed a quota on broken rice, invoking GATT Article XIX. The EEC extended the VERs with Thailand and Indonesia concerning trade in manioc until end 1990, and concluded agreements with China, limiting the export of manioc and sweet potatoes, and with the German Democratic Republic on sheep and goat meat.[1] During 1988 the EEC made dessert apples from the southern hemisphere subject to surveillance, quotas, and temporary suspension of imports. Canada extended the supply management programmes for

[1] Similar agreements exist with other suppliers under the Common Market Organization for sheep and goat meat.

manufactured milk, in 1988, and for broiler hatching eggs and chicks, in 1989.[2]

5. There has also been an increase in the use of VERs in the steel sector. The EEC concluded a VER with Venezuela in 1987, while the United States added China and Trinidad and Tobago to the list of restrained producers under the Steel Import Programme. The United States also extended import relief measures on specialty steel.

6. Previously unrestrained exporters of textiles are now subject to restraint agreements. In 1987 the United States concluded textile agreements with El Salvador, the Union of Myanmar, the USSR, Panama and the United Arab Emirates. Canada concluded a bilateral restraint agreement with the German Democratic Republic on hosiery. In footwear South Africa increased duties on certain footwear during 1988, while France and Italy concluded VERs with the Republic of Korea, and items from Taiwan Province of China became subject to bilateral quotas. Canada also has a VER with Taiwan Province of China on footwear.

7. Other recently introduced VERs affecting other industrial products are for instance an Orderly Marketing Arrangement the United States concluded with China concerning ammonium paratungstate and tungstic oxide, and with Japan and Taiwan Province of China concerning machine tools. A number of products, including fork-lift trucks, from Japan are subject to VERs in the EEC.

8. EEC member States also introduced some restrictive measures. Import quotas were introduced on urea from certain socialist countries in the United Kingdom and in Ireland. Spain introduced a bilateral import quota for slide fasteners originating in Taiwan Province of China. Safeguard measures under GATT Article XIX have been taken in Spain (certain steel products) and in Portugal (refrigerators and freezers).

9. The United States resorted to tariff increases as a sanction against allegedly unfair trade practices by trading partners. In January 1989 the United States raised tariffs by 100 per cent ad valorem on $US 100 million worth of agricultural imports from the EEC. It imposed similar measures against Brazil, because of the country's alleged failure to provide patent protection for United States pharmaceuticals and related products, and against Japan initially on some $US 300 million worth of imports of certain electronic goods.

10. Higher import charges have resulted from the imposition of a "merchandise processing fee" in the United States in December 1986. Moreover, the "Superfund Reauthorization and Amendments Act of 1986" introduced a tax on petroleum, with a lower rate applied on petroleum produced in the United States.[3]

B. Salient trade actions taken in 1989

1. Trade actions in developed market-economy countries

11. Announcements by the United States Trade Representative (USTR) under Section 301 of the Omnibus Trade and Competitiveness Act of 1988, on 25 May 1989, were perceived by trading partners as a threat to multilateralism. Three countries (Brazil,[4] India[5] and Japan)[6] were cited under the provisions which require the USTR to identify "priority trade practices", alleged to be unfair, and of "priority countries" as defined in the Statute, and to negotiate with them the removal

[2] The quantitative restrictions have been justified under GATT Article XI:2(c)(i).

[3] The Congress has just voted to apply a uniform rate to imported and domestic petroleum.

[4] The Brazilian trade measures in question are suspension of issuing of import permits and licensing restrictions.

[5] Indian policies with respect to insurance and investment.

[6] Japanese restrictions on satellite and super computer procurement and wood processing standards.

of such practices or some form of compensation.[7] Furthermore, in the context of provisions requiring USTR to identify foreign countries which deny adequate and effective protection to U.S. property rights,[8] a number of countries were put on watch lists, although none of the countries was named as a "priority" target, thus avoiding the need for USTR to "self-initiate" section 301 cases immediately.[9] A total of 25 countries were put on "watch lists", of which eight on a "priority watch list".[10] The remaining 17 countries[11] were put on a non-priority list.

12. Various non-tariff measures were renewed during 1989.[12] The U.S. administration decided in June 1989 to negotiate the extention until 31 March 1992, of "Voluntary" Restraint Agreements limiting steel exports to the United States.[13] Under the Steel Import Programme, which began in 1984, VRAs had been negotiated with 19 countries and the European Communities and were valid through September 30, 1989. The new two and one-half year agreements will allow steel imports to increase by one percentage point per year.[14] The European Communities also concluded new annual agreements on imports of iron and steel products into the Community.[15]

13. A number of countries have not been granted their traditional allocation of the US Sugar Quota.[16] Consequently imports of sugars, syrops and molasses originating in these countries were *de facto* prohibited effective 1 January 1989. Effective May 1989 Canada added some new products[17] to the Import Control List with a view to enforcing supply management programmes.

14. A number of non-tariff measures have been eliminated during 1989. In some cases Governments suspended national legislation under which quantitative import restrictions had been maintained.[18] A number of other non-tariff measures which were liberalized had been challenged under the GATT dispute settlement mechanism. For instance, Japan[19] continued to implement the market-opening measures announced in 1988 and Sweden abolished quantitative restrictions on imports of apples and pears.[20] In some cases, safeguard actions under GATT Article XIX were allowed to lapse.[21] Finally liberalization with respect to certain tropical products resulted from concessions in the context of the Uruguay Round of Multilateral Trade Negotiations.[22]

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7 This statute is known as "Super 301". In the event of unsatisfactory results, the USTR must initiate an unfair trade investigation which may result in retaliatory actions against imports from those countries.

8 These provisions are known as "Special 301".

9 On 1 November 1989 the United States decided to postpone the initiation of unfair trade investigations considering that progress had been made in the negotiations.

10 Brazil, India, Mexico, China, the Republic of Korea, Taiwan Province of China, Thailand and Saudi Arabia. Because of "significant progress" in bilateral negotiations, on 1 November 1989, the Republic of Korea, Taiwan, Province of China and Saudi Arabia were put on a separate "watch list". The other five countries remained on the "priority watch list" and their status will be reconsidered in April 1990.

11 Argentina, Canada, Chile, Colombia, Egypt, Greece, Indonesia, Italy, Japan, Malaysia, Pakistan, Philippines, Portugal, Spain, Turkey, Venezuela and Yugoslavia.

12 A summary of selected border non-tariff measures renewed or implemented after the Punta del Este Decalaration is provided in Table I.1 of the Statistical Annex.

13 A "Steel trade liberalization program" was designed to phase out existing VRAs. The Programme includes a U.S. effort to negotiate an international consensus for "fair and open" steel trade and to remove unfair trade practices.

14 The annual increases will be allocated among countries that follow multilateral or bilateral disciplines regarding unfair trade practices and market access.

15 According to Community sources the arrangements for 1989 are more liberal than those for 1988. The negotiating directives included a three per cent increase in the reference tonnages in the arrangements with non-EFTA countries as well as a reduction of the product coverage, by excluding semi-finished products. (Bulletin of the European Communities, 1-1989, point 2.2.4)

16 Japan, Kenya, Netherlands Antilles, Suriname and Yemen.

17 Broiler hatching eggs and chicks. Canada has justified these measures under GATT article XI:2(c)(i).

18 For instance Australia lifted quantitative restrictions on sugar imports that had been justified under the Sugar Agreement Act and the Protocol of Provisional Application. The Sugar Agreement Act prohibited the importation of sugar and sugar products unless authorization had been received from the Ministry for Primary Industry. The measure was replaced by import duties of 25 per cent for refined sugar and 35 per cent for raw sugar, effective 1 July 1989.

19 Import quotas for processed cheese, non-citrus fruit juices other than apple, grape and pineapple, as well as tomato juice, ketchup and sauce were eliminated in the course of 1989. Tariffs for some of these items were raised.

20 The season during which imports are exempted from import duties was extended to six months for apples and to nine months for pears.

21 Australia terminated safeguard actions, under GATT Article XIX, involving four wheel drive cars and certain textile products.

22 Negotiated contributions by 10 developed market-economy countries and the EEC have for the most part been im-

15. Certain EC member States eliminated quantitative restrictions on imports originating in Japan, with further eliminations to be expected, until the remaining hard-core national measures are dealt with in connexion with the completion of the single market at the end of 1992. The EC has also decided to abolish most of the quantitative restrictions on imports from Hungary and Poland, effective 1 January 1990.

16. Future liberalization was announced by some countries. Austria announced across-the-board tariff reductions to be implemented effective 1 January 1990.[23] Sweden announced the removal of quantitative restrictions on imports of textiles and clothing, including bilateral agreements in the framework of the Multi-Fibre Arrangement, by 31 July 1991.

17. In response to moves by Brazil to expand its copyright protection laws and to liberalize market access, on 6 October 1989 the United States ended an investigation initiated in September 1985 on Brazil's allegedly restrictive trade policies towards computer and electronic hardware and software.

18. With regard to the GSP some preference giving countries introduced modest improvements in their schemes. These improvements related to product coverage, preference margins and/or the designation of beneficiary countries.[24] However, the system continued to be affected by product and/or country exclusions from preferential treatment. New Zealand introduced a system of "product graduation" effective 1 July 1989.[25] As a result of the 1988 annual review, the United States suspended GSP benefits for Myanmar and the Central African Republic on the basis of alleged workers' rights abuses,[26] effective 1 July 1989.

2. *Trade actions in developing countries*

19. In the context of their development objectives, a number of developing countries have unilaterally liberalized imports in recent years.[27] Liberalization efforts have continued in 1989.

20. The Republic of Korea continued to reduce both tariffs and non-tariff measures. Under a three-year tariff reduction plan, according to which the average tariff will be reduced from 18.1 per cent in 1988 to 12.7 per cent in 1989 and 7.9 per cent in 1993, a large number of tariff cuts became effective in January 1989.[28] Certain tariff cuts were implemented with a view to reducing the trade surplus with major trading partners.[29] Non-tariff measures were also further reduced. New pro-

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plemented in 1989, except for those by Australia and New Zealand, which are being implemented in stages between 1 July 1988 and 1 July 1992. They involve mostly reduction of MFN and/or preferential tariffs, and binding of existing rates. Contributions regarding liberalization of non-tariff measures were made only by the EEC and Japan. Australia undertook to remove the few quantitative restrictions on tropical products in 1995. All the 10 market-economy countries and the EEC made concessions for total or partial reduction of MFN duties. In addition, contributions for GSP improvement were made by Australia, Austria, EEC, Finland, Japan, Norway, Sweden and Switzerland. Contributions regarding reduced tariffs for imports from the least developed countries were made by Austria, Japan and Switzerland. Binding of existing rates, mostly zero, was made in contributions by Australia, Canada, Japan and New Zealand. Binding of the concessions was in general offered conditionally.

23 These unilateral tariff reductions are considered as an advance concession in the context of the Uruguay Round and are for the time being limited to two years.

24 For instance, with effect from 1 July 1989, Hungary became eligible for GSP preferences granted under the Austrian scheme. Mozambique has been recognized as Least Developed Country in the framework of the GSP schemes of a number of preference giving countries.

25 Countries or territories lose their rights to preferential rates when the value of imports into New Zealand under a tariff item exceeds, in a calendar year, both 25 per cent of the imports from all sources and NZ$ 100,000.

26 Reviews of GSP eligibility of Haiti, Liberia, Syrian Arab Republic (alleged workers' rights abuses) and Venezuela (alleged expropriation of a U.S. firm's property without compensation), initiated under the 1988 annual review, were extended for one year.

27 See TD/B/1196, paragraphs 21-30.

28 Further tariff reductions were announced in the course of 1989. In addition, effective tariffs are being reduced under a tariff quota system. In March, 1989, tariffs on some 1200 items, principally consumer goods as well as raw materials and intermediate goods, for which there was a shortage of domestic supply, were reduced through the introduction of tariff quotas.

29 The Republic of Korea announced tariff reductions and other market-opening measures for wine and wine products. Subsequently, the United States terminated an investigation of alleged unfair trade practices in this area.

ducts were excluded from the import licensing system.[30] The import surveillance system was abolished effective 1 Jaunuary 1989 and replaced by a safeguard mechanism. The Republic of Korea also extended the scope in which foreign trading companies can participate in import and distribution activities. Other Asian countries have been implementing some trade liberalization. In line with the Import Policy 1988-1991, India increased of the number of products which may be imported under the Open General Licence. India also reduced the number of products which must be "canalized" through special governmental and semi-governmental agencies.

21. During the payments crisis of 1982, Latin American countries had increased import restrictions. Recently this process has been reversed in many of these countries and the trade régime of some countries are now more liberal than before the crisis.[31] This trend has continued in 1989. Brazil further reduced tariffs on a wide range of products in July and September 1989. In addition, the number of products for which the issuance import licences is suspended was reduced considerably and the Financial Operations Tax (IOF) was eliminated. Venezuela initiated a process of substantive changes in its trade régime, shifting protection away from NTMs to tariffs. In 1989 a system of multiple exchange rates was abolished. The tariff reform aims at a simplification of the tariff structure. In 1989, specific tariffs on manufactured products were transformed into ad valorem tariffs. Maximum tariff rates were reduced to 80 per cent for finished products and 50 per cent for semi-finished products. According to the planned tariff reform the number of rates will be reduced to only two, with a maximum of 20 per cent ad valorem, by March 1993. Tariff exemptions for manufactured products have been reduced considerably. The incidence of NTMs, particularly prohibitions, prior licensing requirements and State monopolies, has been substantially reduced.[32] Peru, which had tightened its import régime in recent years, eliminated prior licensing requirement for some 370 items in the agricultural and agro-industrial sector, effective June 1989. Chile allowed safeguard actions under GATT article XIX to lapse in relation to imports of sugar, edible and vegetable oils (January 1989) and wheat (September 1989).

22. A number of developing countries in Africa also continued to liberalize their import régimes. Effective 1 September 1989, Morocco liberalized imports of a large number of products.[33] Malawi also liberalized its import r ! egime. Ghana abolished the import licensing system, effective 1 January 1989. The rationing of foreign exchange now depends on an auction system, introduced some years ago, under which the exchange rate is allowed to respond to changes in demand and supply of foreign exchange.

3. Anti-dumping and countervailing duty actions.

23. There were less anti-dumping and countervailing duty actions initiated in the period July 1988 through June 1989 than in the previous 12 month period (See Table I.2 of the Statistical Annex). The number of new cases initiated in Canada and the United States decreased significantly, but remained practically unchanged in the EEC. The number of cases involving developing countries decreased less than proportionally; consequently the share of actions affecting these countries increased.

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[30] The Import Liberalization Ratio (ILR, the number of products entitled to automatic import approval as a percentage of all products, defined at the 10 digit HS level) attained 96 per cent in July 1989, and will reach at least 97 per cent in 1991, in accordance with a liberalization schedule announced in April, 1989. New liberalization measures particularly benefit the agricultural sector (237 agricultural products will be liberalized). In May 1989 some 500 out of 1800 agricultural items were still restricted, but the ILR (72 percent) will be increased to 85 per cent according to the announced schedule. The ILR for manufactured products was already around 99.5 per cent in 1989.

[31] See document TD/B/1196.

[32] Some 40 per cent of all products used to be subject to prohibitions, prior licensing or State monopoly. Around 75 per cent of the products previously subject to these NTMs were liberalized in 1989. The coverage of such NTMs is scheduled to be reduced to only five per cent of manufactured products by September 1990.

[33] Products were transferred from "List A" (products subject to import licensing) to "List B" (Liberalized products).

C. Developments in trade legislation and other major policies

1. Developments in market-economy countries

24. Canada has created a new independent tribunal, the Canadian International Trade Tribunal (CITT), which began operations on 31 December 1988. This Tribunal took over all the inquiry and appeal functions of the Tariff Board, the Canadian Import Tribunal and the Textile and Clothing Board, with the intention of strengthening and streamlining Canada's facilities for trade remedies and inquiries. The main legislation governing the work of the CITT is the Canadian International Trade Tribunal Act and its Regulations, the CITT Rules of Procedure, the Special Import Measures Act, the Customs Act, the Excise Tax Act and the Canada-USA Free Trade Agreement Act. The Tribunal is the main judicial institution in Canada's trade remedies system. It has both judicial and advisory functions. The Tribunal acts as an administrative court for two of the programmes under its judicial functions: appeals from Revenue Canada[34] rulings and for injury findings in anti-dumping and countervailing duty cases. In a number of its programmes falling into its advisory functions, the CITT acts almost as a standing commission of inquiry with powers to conduct research, find facts, hold public hearings and report on a broad range of trade related matters. These programmes relate to various import safeguard inquiries and general inquiries into trade and tariff matters.

25. On 30 December 1988 the newly elected Canadian Parliament approved legislation to implement the United States - Canada Free Trade Agreement, allowing the pact to enter into force on 1 January 1989. The United States Congress had approved legislation to implement the Agreement in late September 1988.

26. A bill to expand the scope of the Caribbean Basin Initiative was approved by the United States House of Representatives on 5 October 1989. The legislation would repeal the expiration date of the 1983 Caribbean Basin Recovery Act to extend it indefinitely as well as to provide for additional preferential access for exports from CBI eligible countries to the United States market. The bill does not include provisions for preferential treatment on textiles and apparel which were contemplated in the version approved by the Ways and Means Committee in June 1989.

27. A major reform of Japan's tax legislation aproved by the Diet in late 1988 took effect in April 1989. Among its main provisions, the new Tax Reform Law significantly reduced personal income tax rates, eliminated existing indirect taxes (including, *inter-alia*, excise taxes levied on a wide range of so-called luxury products and taxes on sugar consumption) and adopted a uniform 3 per cent value-added tax on all goods and services, except for certain transactions in the educational, medical and welfare fields.

2. Developments in the foreign trade régimes of socialist countries

28. In the period 1988-1989 the process of further decentralization of the foreign trade management of the socialist countries of Eastern Europe continued. As from 1 April 1989 all Soviet "enterprises, entities and industrial co-operatives" are entitled to carry out foreign trade operations. At the same time, some measures of State control were introduced: *inter alia*, all participants in external economic relations have to be officially registered (in accordance with this procedure, by mid-1989 over 9,000 participants in foreign economic relations had been registered); also, a system of licensing of exports and imports was adopted.

29. A further liberalization of the joint ventures regulations has been introduced in December 1988. Restrictions on the share of foreign participation (49 per cent in the past) have been abolished; ventures no longer need to be headed by Soviet citizens; a 2-year tax exemption is granted

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[34] Revenue Canada, Customs and Excise is the Federal authority which, *inter-alia* administers and enforces at the frontier most rules and regulations which impact on trade in goods.

to newcomers; and intergovernmental agreements on the mutual protection of investments and prevention of double taxation are envisaged (by October 1989 the total number of joint ventures in the USSR was about 900). A major innovation in the Soviet foreign trade system concerns the new customs tariff, expected to be introduced in 1991.

30. In Bulgaria the process of decentralization was stimulated by the decision adopted in December 1988 on the deep restructuring of industry with the "firm" becoming the new unit of management. All Bulgarian enterprises were given the right to engage directly in foreign trade activities.

31. In Czechoslovakia the law on the socialist enterprise adopted in 1988 embodies increased rights for the enterprises in the field of foreign trade. Since mid-1988 the number of companies engaged in foreign trade activities has been multiplied to more than 400. A new Joint Ventures Act opened up possibilities for foreign investments into the economy of Czechoslovakia. Based on this Act, more than 30 joint ventures have been set up during the first nine months of 1989.

32. From 1988 on, all Hungarian enterprises, whatever their activity (including those with foreign participation), may export and import any product to and from the partners in the convertible currencies area (with the exception of goods included in a so-called negative list). New measures were taken to attract foreign direct investments. The recently adopted Company Act and the Law on Transformation of Companies treat all economic entities (including private ventures) on equal terms as regards their access to financing, labour and material inputs. A special scheme was introduced for the protection of foreign investments. A profit tax reduction can also be granted to foreign investors, ranging from 20 to 100 per cent.

33. Effective 1 January 1989, new economic legislation was introduced in Poland. From 1989 on, all economic entities can freely undertake export and import operations with all kind of goods (excluding a limited number of products considered as being of strategic importance). More favourable conditions for foreign investments have also been created, *inter alia*, with regard to the level of taxation and the remittance of profits.

Chapter II

ASSESSMENT OF OFFICIAL TRADE INTERVENTION

34. The Secretariat has continued to update and further improve the information contained in the UNCTAD Data Base on Trade Control Measures.[35] Dissemination of the information is at present carried out through a network of focal points and through various technical assistance activities.[36]

35. As in previous reports the extent of the application of NTMs has been assessed on the basis

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[35] The current status and use of the Data Base is described in a background document which is provided to Governments and other parties requesting extracts from the information contained in it. Copies can be obtained from the UNCTAD secretariat.

[36] At its thirty-fourth session, held in Spring 1988, the Trade and Development Board decided that the UNCTAD secretariat provide, on request, information on trade control measures contained in its computerized data base (decision 354 (XXXIV)). The Intergovernmental Group of Experts on Definitions and Methodology Employed in the UNCTAD Data Base on Trade Measures, which met soon afterwards, reached agreement on recommendations for implementing this decision of the Trade and Development Board (the report of the Group of Experts is contained in document TD/B/1176). In his note verbale of 5 June 1989 the Secretary General of UNCTAD has explained how general access to the information contained in Data Base can be requested, and has invited each member State to designate a focal point for this purpose. The information has also been used in UNCTAD's technical assistance activities, *inter alia* those in support of the Uruguay Round of Multilateral Trade Negotiations. In addition, the Data Base information is being disseminated through a software system that UNCTAD and the World Bank have developed jointly with a view to strengthening the negotiating infrastructure in developing countries and to facilitating the participation of these countries in international trade negotiations. The development of Software for Market Analysis and Restrictions on Trade (SMART), its dissemination as well as the training of government officials using the system are undertaken with UNDP financial assistance.

of trade coverage and frequency ratios,[37] using "broad" and "narrow" definitions.[38] For the present report the secretariat has changed the base year from 1984 to 1986. This provides a more up-to-date profile of NTMs.[39]

36. In 1986 there were some 770,000 trade flows into the 17 developed market-economy countries, which constitute the basis for the computation of the indicators presented in this chapter. Some 123 thousand, or nearly 16 per cent, of these transactions were subject to one or more selected NTMs in 1989 (see table 1.3 in the statistical annex). These NTMs affected some $205 billion worth of trade (1986 import values), or $138 billion if only NTMs included in the narrow definition are considered.

37. Preliminary estimates indicate that the 1986 trade coverage of NTMs applied in 1989 was slightly lower than that of a year before. This reflects principally trade liberalization in the course of 1988.[40] Calculations made by the secretariat seem to indicate that the trade coverage of the stock of outstanding anti-dumping and countervailing duty actions has increased from 1988 to 1989, which is reflected in the increase in the TCR of the "broad" group of NTMs. As the trade coverage of anti-dumping and countervailing duty actions is difficult to calculate from national trade statistics this result, however, has to be interpreted with care.[41] There was also higher resort to increased tariffs as a sanction against allegedly unfair actions by trading partners.[42]

38. Over the period 1981-1989, the trade coverage of quantitative import restrictions has increased by some 5 percent. There has been a particular large increase in the steel sector and some 40 per cent of the value of imports into developed market-economy countries are now governed by VERs (see Table 1.4 of the Statistical Annex). On the contrary, the trade coverage of NTMs in footwear decreased from 40 per cent in 1981 to 5 per cent in 1989.

39. Table 1.5 of the Statistical Annex shows that NTMs affect developing countries to a greater extent than intra-DMEC trade,[43] The trade coverage ratios of NTMs applied against socialist countries are also higher than those applied against all trading partners.

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[37] See TD/B/1196. For a critical appraisal of these indicators see also TD/B/AC.42/5.

[38] The "broad" group of NTMs include certain para-tariff measures, variable levies, countervailing and anti-dumping actions, quantitative restrictions, surveillance of quantities and/or prices of imports, automatic licensing and measures to control the price level; the "narrow" group of NTMs excludes, from the "broad" group above, para-tariff measures, anti-dumping and countervailing actions, import surveillance measures and automatic licensing.

[39] For developed market-economy countries as a group the use of 1986 rather than 1984 trade statistics has, by itself, no significant impact on the value of trade coverage ratios. One might assume a downwards effect, as the growth of imports of restraint items would be expected to lag behind overall import growth and thus obtain smaller weights in 1986 import statistics. In a number of cases, such as US imports of sugar and steel products, Japanese imports of agricultural products subject to quotas and tariff quotas, EEC imports of products covered by the Common Agricultural Policy and Canadian imports of agricultural products subject to quantitative restrictions, there has indeed been a decline, even in absolute terms, in the value of imports. Although the existence of NTMs is not the only factor affecting trade, and other factors (such as demand factors and prices) may have contributed to lower import growth in restraint areas, this seems to indicate that a number of NTMs have affected trade flows to a considerable extent. However, in a few cases such as U.S. imports of Japanses automobiles, the value of imports increased strongly despite the existence of NTMs. These cases compensated for the negative effects observed in other restraint areas.

[40] Canada maintained quantitative restrictions on footwear imports from 1981 (non-leather footwear) and 1982 (leather footwear) until November 1988. Effective 1 December 1985, Canada removed quantitative import restrictions from all categories of footwear except for women's and girls' footwear. Remaining import controls were progressively relaxed and totally phased out by November 1988. It has been impossible to calculate the trade coverage of the liberalization of footwear categories before November 1988 as the liberalized items could not be separated out in the trade statistics. The entire liberalization process is therefore reflected only in 1989.

[41] The trade coverage of anti-dumping and countervailing duty actions may be considerably overstimated as a number of cases involve only part of the products belonging to a national tariff line. This may be particularly the case of an anti-dumping action involving U.S. imports of limousines originating in Canada.

[42] In January, 1989, the United States increased import duties on imports of certain EC exports, in retaliation of the Animal Hormone Directive of the European Communities. Increased duties were proclaimed in 1987 but had been suspended.

[43] The extent to which NTMs apply to DMEC imports from different origins varies widely. This is the combined effect of (i) the selective application of trade measures against particular countries or groups of countries and (ii) differences in the composition of imports by countries of origin.

Chapter III

SELECTED ISSUES

A. The trade coverage of major trade policies.

40. The secretariat has traditionally presented two indicators of protectionism in the form of non-tariff measures; the frequency index and the trade coverage ratio. One of the criticisms frequently voiced against the use of these indicators is that they lump together highly restrictive measures with measures which can have little or no effect on trade.[44]

41. The secretariat has taken this problem into consideration in previous documents by presenting trade coverage ratios for different sets of NTMs; broad definition NTMs, narrow definition NTMs and quantitative restrictions. The presentation in this section is a further step towards refining the methodology. In many cases the country tables indicate the value of the imports of particular products covered by specific NTMs. Moreover, the aggregation of measures is related to sectoral or general (trade) policies.

42. The trade coverage of major trade policies and trade laws in developed market-economy countries, which govern imports through the application of product-specific trade measures at the border, is indicated in more detail in a seperate study.[45] This study analysed the incidence of generally well known trade policies in the trade intervention indicators, particularly the trade coverage ratio and aims to contribute to a better understanding of the problems involved in the assesment of the extent of managed trade.[46]

43. The study indicates that in most DMECs products covered by trade policies and/or legislation with a strong sector specific character account for a very large part of imports subject to NTMs, particularly those contained in the "narrow" definition. This illustrates the concentration of managed trade in a small number of product clusters, which are often affected by a number of overlapping NTMs.

44. The study also analyses trends in the incidence of NTMs in the imports into specific DMECs by comparing the corresponding Tables for 1981 and 1988. The increase in the trade coverage of NTMs (narrow definition) between 1981 and 1988 in the United States is to be attributed principally to the introduction of the Steel Import Programme in 1984. The increase in trade coverage of NTMs applied in the EC (narrow definition) was to a large extent due to VERs with Japan, which became effective in 1983.[47] The trade coverage of bilateral textile arrangements of the EC declined, because the arrangements with some countries were terminated.[48] There has also been a gradual liberalization of NTMs applied by individual EC member States. However, the trade coverage of NTMs has fallen in some countries during the same period. New Zealand has terminated a large number of quantitative restrictions, largely on products covered by the global

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[44] In this connection the Intergovernmental Group of Experts on Definitions and Methodology Employed in the UNCTAD Data Base on Trade Measures, at its second session, *inter alia*, "urged the secretariat to continue its efforts to refine its methodology and to examine the comparability of data with the view to improving its assessment of non-tariff measures." The Group also recommended that when aggregating measures, the Secretariat should make clear which measures were included or not for the analysis.

[45] See, *Selected Issues on Restrictions to Trade*, UNCTAD IPT 24. Trade policies are as far as possible broken down into sectoral and or cross-sectoral policies. The trade coverage is estimated using the UNCTAD Data Base on Trade Control Measures and 1986 import statistics.

[46] In the study imports are first broken down into agricultural, mineral and industrial products. Within these broad economic categories imports which are governed by sector specific trade policies or legislation are defined as subgroups. Remaining products, which are generally free from sector specific NTMs, are presented in residual groups.

[47] Affecting products such as light commercial vehicles, motor cycles, fork-lift trucks and video tape recorders.

[48] The agreements with Colombia, Egypt, Guatemala, Haiti and Mexico were replaced by Administrative Co-operation Arrangements effective, 1 January 1988.

tendering programme. Norway has eliminated licences and quotas on a number of products originating in East Asia (mainly Japan, Republic of Korea, and Taiwan Province of China). Australia has abolished some tariff quotas on textiles. The trade coverage of NTMs in Japan declined slighly as a result of the termination of import quotas for some agricultural products, as for leather and footwear, effective 1 April 1986.[49] The trade coverage of NTMs in Canada declined due to the gradual termination of quotas in the footwear sector, which became fully implemented in November 1988.

B. The impact of VERs and anti-dumping actions on developing countries

45. There seems to be increasing evidence that NTMs have a strong effect on trade flows. Trade in affected products has been generally growing less rapidly than in other sectors and trade has been shifted away from NTM imposing countries to other markets. This section analyses two important selective trade measures, namely VERs and anti-dumping and counteravailing duty actions.

1. Anti-dumping and countervailing duty actions

46. The secretariat has updated a previous study[50] on trends in anti-dumping and countervailing duty actions in developed market-economy countries. The new study,[51] covers new cases initiated in the period 1981-1988[52] The study shows that the number of new investigations peaked in 1982 (409 new cases), principally due to a very large number of investigations involving steel imports into the United States. For the same reason, a large number of new investigations (270) was again observed in 1985. In recent years there has been a gradual decline in the number of new investigations, except for the EEC.

47. The share of new investigations involving developing countries has gradually increased, from around 20 per cent in 1980-1982 to more than 40 per cent in period 1986-1988. Over the whole period such actions affected 38 developing countries. The developing countries and territories most frequently involved are the Republic of Korea (107 investigations), Brazil (99), Taiwan Province of China (74) Mexico (43) and Yugoslavia (36). Anti-dumping and countervailing duty investigations involve particularly steel and chemical products. There has been a growing number of cases involving electronics.

48. The impact of anti-dumping and countervailing duty actions initiated in the European Communities and the United States[53] on the exports of developing countries is assessed on the basis of the developments in trade flows originating in affected countries and in the share of those trade flows in total imports, during the five-year period starting two calendar years before and ending two years after the initiation of the investigation.[54] In both the United States and the EEC imports originating in countries involved in anti-dumping and countervailing duty cases have in most cases declined in the two years following the initiation of the investigation.[55] Although the share of cases showing decreasing trade after the initiation of an investigation has been higher when such investigations resulted in the imposition of duties, in a relatively high number of cases which did not result in the imposition of duties, trade has nevertheless declined. In the United

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49 Import quotas were replaced by tariff quotas.

50 See TD B 979

51 *Selected Issues on Restrictions to Trade*, (UNCTAD ITP 24).

52 See Tables II.1 through II.6.

53 Australia and Canada also have used anti-dumping and countervailing duty actions with respect to developing countries. However time series on import flows were not available for analysis.

54 The analysis is based on information on national tariff line level imports, drawn from published national statistics. For the United States import values in current dollars are taken into account, whereas for the EEC(10) both volume and values, expressed in current ECUs, are considered.

55 See Tables II.8 and II.9

States the number of negative cases showing lower import values in the two years after the intitiation of an investigation outnumbered the number of negative cases where imports continued to grow.

2. "Voluntary" export restraints and developing countries

49. Voluntary export restraints (VERs) are only one of many instruments used by importing countries to protect domestic sectors.[56] The alternative protective measures vary in their restrictiveness from the protective extreme of an embargo on imports to the liberal extreme of non-binding monitoring provisions or automatic import licensing for statistical purposes. The three major importing markets differ in their choice of instruments for import restriction. The EC uses quantitative and minimum pricing measures in about equal porportions; slightly more than one-half of the imports limited by quantitative restraints involve import quotas administered by the EC or by member States. Japanese imports are controlled primarily by import quotas with no VERs whereas the United States uses VERs on more than one-half of the imports subject to restraint. Regarding the rapidly growing category of trade restraints (VERs other than textiles and apparel covered by the MFA), the United States is the major importing country using this measure to limit imports.

50. With regard to export restraint agreements in force by product sector (excluding textiles and apparel) the EC and USA alone account for 87 per cent of the agreements. The EC agreements range widely across product sectors. The developing countries most seriously affected by VERs imposed by the EC include Brazil and the Republic of Korea on steel products, the Republic of Korea on footwear, and Thailand on manioc. In contrast, the US agreements are heavily concentrated in steel products and textiles and apparel not covered by VERs under the multifibre arrangement. The other major VERs of the United States include beef imports from Australia and New Zealand, automobiles from Japan, semiconductors from Japan, and machine tools from Europe, Japan and the Asian NICs. The developing countries are most seriously affected by the VERs on steel products; the primary target countries among the developing countries include Argentina, Brazil, the Republic of Korea, Mexico, Venezuela and Yugoslavia.

51. The use of VERs has grown strongly during the 1980s. Some policymakers regard such arrangements as practical tools, since they can be implemented without the use of legislative action, and in some cases without direct government involvement (industry-to-industry agreements). VERs tend to spread in two directions. First, the country demanding such protection may expand the arrangements to include previously unrestrained exporters. Second, as exports are diverted to other markets, other countries impose restrictions on the same products.

52. The import coverage of VERs by the EC jumped from 2.2 per cent in 1981 to 3.8 per cent for 1982, when VERs on manioc trade were concluded. Afterwards it increased slightly to 4.0 per cent in 1988. The trade coverage ratio for VERs with developing countries increased from 0.4 per cent in 1981 to 2.2 per cent in 1982 and 2.4 per cent in 1988. The import coverage of VERs by the United States has grown steadily from 8.9 per cent in 1981 to 10.4 per cent in 1988.[57] The TCR of VERs affecting developing countries first declined from 4.7 per cent to virtually nothing in 1983, principally because VERs on footwear with the Republic of Korea and Taiwan Province of China lapsed. However, as a consequence of the VERs on steel trade initiated in 1984 the TCR reached 1.7 per cent in that year. It subsequently increased to 2.6 per cent in 1988.

53. A "voluntary" export restraint agreement leads to increasing prices for the products concerned in the importing country, and reduced export volumes for the restrained exporters. The extent to which developing country exporters suffer short-term losses depend on the relative size of the movements in volumes and prices. In any case, consumers in developed countries lose as they are forced to pay higher prices for the finished products.

54. VER agreements are usually introduced as temporary measures, and a number of VERs have

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[56] See Tracy Murray, *Voluntary Export Restraints and the Developing Countries*, UNCTAD/ITP/27.

[57] Excluding VERs in textiles and clothing, whether covered by the MFA or not.

subsequently been eliminated. However, initially temporary measures in the textile sector in the 1950s were later replaced by longer term arrangements, which were renewed and extended, under the Multifibre Arrangement, which has been in existence for more than fifteen years. The major contributor to the recent growth in VERs of the United States is the policy to assure the domestic steel industry that imports will not account for more that 18.5 per cent of the domestic market. This policy, which began in 1984, and has been extended up to 1992 (see paragraph 12), resulted in the negotiation of a multitude of VERs with countries in Europe (including Eastern Europe), Asia, Latin America, Australia, Canada and South Africa. The future of this policy is uncertain. Failure to phase out effectively the steel VER programme might result in the steel VERs becoming as ingrained in the trading environment as is the MFA.

55. VERs applied to traded products of "mature" industries imply that new productive capacity in emerging supplier countries is not allowed to phase out the high-cost producers in importing countries. The resulting excess capacity is detrimental to all parties involved. VERs have also been appearing in more dynamic sectors such as consumer electronics. The application of VER in growing industries may make the entry of emerging suppliers difficult, and developing country exporters may find it impossible to penetrate the markets at a later date.

56. The techniques employed to exclude emerging competitive suppliers increasingly fall into the "grey" area measures of the multilateral trading system. The non-transparent and bilateral nature of VERs has gradually eroded the discipline in the international trading system. Measures such as "voluntary" export restraints escape multilaterally agreed principles. Moreover, VERs are not monitored, and their economic effects are not analysed on a regular basis.

C. Tropical products.

57. This section analyses recent changes in tariff treatment for tropical products in the major developed market-economy countries, following contributions to the Multilateral Trade Negotiations.[58] It particularly analyses changes in average tariffs and in tariff escalation, resulting from tariff concessions, involving partial or total reduction of MFN rates and improvement of preferential schemes.[59] Tables I.7 through I.9 provide some indication with regard to the trade coverage of tariff concessions and the depth of tariff cuts,[60] for all products and for each of the seven product groups identified as a basis for negotiations.[61] Table I.10 shows the effects on tariff escalation.

58. The EEC contribution covered all seven groups, but excluded important items such as cocoa, manioc, tobacco, pineapples and rice.[62] The simple and trade weighted average MFN tariff rate for all dutiable tropical products covered by offers will be cut from 11.4 to 6.8 per cent and from 8.0 to 6.0 per cent respectively. For all MFN dutiable products those averages will be reduced from

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[58] For more details, see *Selected Issues on Restrictions to Trade* (UNCTAD/TIP/24).

[59] Contributions regarding binding of existing rates and liberalization of non-tariff measures are not considered in this analysis.

[60] Participants in the MTN have indicated the product coverage of their contributions using the Harmonized System nomenclature. In order to assess the effects of these contributions on average tariff rates and tariff escalation, individual items had to be concorded with national tariff schedules used in 1986, for which computerized data on trade flows and tariffs was available from the GATT Trade and Tariff Study Data Base. Information on trade flows, post-Tokyo MFN rates, GSP rates and Least Developed Country (LDC) rates was extracted from these tapes. Subsequently, new MFN, GSP and LDC rates corresponding to each tariff line covered by contributions were encoded by UNCTAD staff, on the basis of the concordance made between the HS and each tariff schedule. Simple and trade weighted old and new tariff averages were then calculated for imports from the world, from GSP beneficiaries and LDCs. The average rates for GSP beneficiaries were obtained on the basis of GSP rates (independent from their utilization and without considering possible exclusions and ceilings) for all products covered by the GSP scheme of the importing country and MFN rates for products not covered by the GSP schemes. Trade weighted averages were calculated using tariff line level imports from GSP beneficiary countries as weights. Similar procedures were followed for LDC rates. For tariff lines not covered by LDC rates, GSP or MFN rates were used. This methodology has some problems which are explained in the study which is circulated as a Non-Sessional Paper. Particularly the estimated share of imports covered by contributions as a share of total imports has to be considered with care.

[61] Tropical beverages; spices, flowers and plaiting products; certain oilseeds, vegetable oils and oilcakes; tobacco, rice and tropical roots; tropical fruits and nuts; natural rubber and tropical wood; and jute and hard fibres.

[62] Contributions involving improvement of GSP rates on two products and reduction of MFN duties on 150 items, of which 37 were totally eliminated, have been implemented on 1 January and 1 July 1989 respectively.

12.4 to 10.4 and from 9.8 to 8.9 per cent respectively. Tariff cuts affecting imports from GSP beneficiaries are less pronounced. With regard to escalation in MFN rates by processing stages, a reduction is observed for some product groups, such as tea, cocoa, essential oils, vegetable plaiting materials, tropical fruits, wood, rubber and jute.

59. Japan made contributions in all groups, except for the group of tobacco, rice and roots.[63] The simple and trade weighted average MFN tariff rate for all dutiable tropical products covered by offers will be cut from 9.8 to 5.8 per cent and from 19.9 to 17.2 per cent respectively. With respect to products which are dutiable on a MFN basis, MFN and GSP tariff cuts will result in a reduction of the simple and trade weighted average tariffs for GSP beneficiaries from 7.6 to 7.0 and from 8.7 to 7.6 per cent respectively. The average rates for all dutiable products will be reduced from 12.5 to 11.1 and from 15.9 to 14.7 per cent respectively. With regard to escalation in MFN rates by processing stages, a reduction is observed for some product groups, such as coffee, spices and oilseeds.

60. In the case of the United States some groups or sub-groups of tropical products, for which non-zero MFN rates exist, were excluded from the contribution such as the group of tropical wood and rubber and the sub-groups covering cut flowers, rice, and tobacco.[64] For products specified in the offered contribution, nominal tariffs are to be reduced by around one-fourth.[65]

61. Tariffs on products covered by the United States contribution would be reduced in the average from 5.1 to 3.9 per cent (simple averages) and from 3.2 to 2.4 per cent (weighted averages) although the average reduction for all dutiable tropical products would be small due to the small number of items covered. With few exceptions, products for which MFN tariffs were reduced in the United States were already duty-free under the GSP so that there is no improvement in the average treatment of imports of tropical products from developing countries except for imports in the group of fruits and nuts.

62. Although tariffs on tropical products in the United States are in general low, the averages for dutiable items imported from developing countries in the groups of tobacco, rice, and roots and in that of fruits and nuts remain relatively high. Escalation in MFN tariffs would be somewhat reduced for tropical nuts as a result of concessions by the United States.

63. The analysis made with regard to the three main importing markets suggests that the results for developing countries thus far achieved in the negotiations on tropical products fall short of expectations. Concessions cover a relatively small part of dutiable imports from developing countries as many important products of export interest to developing countries are excluded from the contributions. Although for several individual products tariffs were fully liberalized in the EEC and Japan, tariffs remain significant in the average and tariff escalation continues.

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[63] Contributions have been made with respect to 161 items of its HS based Tariff Schedule as follows: for 137 items tariffs were cut on a MFN basis (of which 46 rates were cut to zero), while for 14 items tariffs were reduced under the GSP (of which thee rates were cut to zero). For one product a zero-duty rate was granted to least developed countries. Binding of existing unbound duty-free rates was offered for 13 items. Most of these tariff reductions were implemented on 1 April 1989. For some products reductions were effective on 1 April 1988 and one reduction will be implemented on 1 April 1990.

[64] The contribution made by the United States involves reduction of MFN tariff rates applied on 49 items under the Harmonized Tariff Schedule.

[65] Binding of the reduced rates for agricultural tropical products depends on a successful outcome of negotiations in agriculture. For non agricultural tropical products included in the offer, (jute and hard fibre products), binding would depend on some reciprocity from participants benefitting from the US concessions. The United States contribution was implemented on 18 October 1989.

Part II

STRUCTURAL ADJUSTMENT ISSUES IN THE WORLD ECONOMY

Chapter I

RECENT TRENDS IN INTERNATIONAL TRADE AND OUTPUT

A. Global trends in international trade and output

64. The value of world exports (expressed in United States dollars) has increased quite markedly since 1985, reflecting both strong volume growth and, particularly, price increases stemming mainly from the depreciation of the dollar (see annex table II.1). The share of developing countries in world trade experienced a significant decline, from 24 to 20 per cent, mainly on account of the fall in oil and some other primary commodity prices (for the evolution of export prices by region, see annex table II.2). Among developing countries, the only strong exception to the general trend was South and South-East Asia, which continued to increase their share in world exports (from 8.8 per cent in 1985 to 10.2 per cent in 1988).

65. In volume terms, world exports grew very rapidly in 1988 (8.5 per cent), accentuating a trend that had begun in 1986 (see annex table II.3). The major factor explaining the rapid expansion of world trade since 1985, and particularly in 1988, was a quickening in the pace of output and investment growth in some developed market-economy countries, especially Japan and those of Europe, and in the developing exporters of manufactures of South and South-East Asia (see annex tables II.4 and II.5). By contrast, economic activity remained depressed in other developing countries, several of which have traditionally been significant markets for exports from developed market-economy countries.

66. Throughout the 1980s, the strongest export growth has been recorded by manufactures (see annex table II.6). And in this sector, developing countries as a whole, particularly those of South and South-East Asia, continued to outperform other regional groups in the world economy (see annex table II.7). The countries of this latter region (especially ASEAN countries and some South Asian countries such as Bangladesh, India and Pakistan) also increased their exports of food and non-oil raw materials, whose prices rose in 1987-1988 in response to buoyant economic conditions in the developed countries and severe droughts in North and South America. Latin American exporters of non-oil primary commodities also benefited from the price increases. By contrast, supply-side problems and lower prices for tropical beverages have hampered Africa's exports. Oil exporters have also been adversely affected by weak prices; however, lower oil prices have provided considerable balance-of-payments relief to oil-importing developing countries.

67. If there is no increase in protectionist actions in the developed market-economy countries, world trade in 1989 and 1990 is expected to continue on a favourable trend, with perhaps a slight deceleration of growth rates.[66] The major impetus to trade is expected to come from a continuation of strong investment rates in Western Europe, Japan and the developing countries of South and South-East Asia. The latter economies could benefit particularly from strong import growth in

Japan. Other regions will probably continue to experience considerably slower export and output growth (see annex tables II.3 and II.4).

B. Evolution of the import capacity of developing countries

68. The recent evolution of imports, both in nominal and real terms, also shows considerable differences among developing regions (see annex tables II.8 and II.9). The economies of South and South-East Asia have increased their imports strongly in nominal dollar terms since 1985, and their share in world imports rose from 8.8 per cent in 1985 to 10.3 per cent in 1988. The combined imports of eight fast-growing exporters of manufactures in this region (Hong Kong, Indonesia, Republic of Korea, Malaysia, Philippines, Singapore, Taiwan Province of China and Thailand) are now roughly of about the same order of magnitude as the imports of the Federal Republic of Germany. On the other hand, the imports of other developing regions have stagnated or declined sharply. Therefore, the importance of Africa, Latin America and West Asia as import markets for the developed countries peaked in 1980 (see annex table II.10).

69. Even though in the aggregate the export dependence of developed countries on developing country markets has declined substantially, at the level of individual sectors, or even firms, it is quite high. In the case of certain high-technology and complex goods, mostly in the machinery and equipment sectors, the share of developing countries in the exports of developed market-economy countries varies between 40 and 60 per cent, and the exports of each of these goods is worth several billion dollars (see annex table II.11). In many cases, rising levels of export dependence are also an indication of the development of new forms of intra-industry specialization in production and trade in North-South relations.[67]

70. Faster growth in developing countries and debt reduction could have a significant impact on the extent to which developing countries could resume their role as significant import markets. A sustained acceleration of the growth rate of developing countries as a whole of one per cent over the growth rates actually recorded in 1987-1988 and above a baseline scenario for 1989-1990 (as indicated by the growth forecasts of annex table II.4) would result in an additional annual increase in imports from developed market economies worth $4 billion. This represents almost 15 per cent of the average annual increase in the latter countries' exports to developing countries forecast for the period 1986-1990 and estimated at $28 billion (see annex table II.12). Similarly, a sustained 10 per cent reduction in the debt-service payments of selected developing regions over the same period would increase their imports by about one quarter over the baseline scenario.[68] This estimate does not take into account the favourable impact of debt reduction on growth in indebted countries. Therefore, the increase in imports arising from debt reduction is probably underestimated.

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66 As of the time of writing, only fragmentary trade and output data were available for 1989. Therefore, the figures and analyses for 1989 contained in this report are based on forecasts made by the secretariat.

67 See J. A. de Castro, "Determinants of Protection and Evolving Forms of North-South Trade", *UNCTAD Discussion Paper No.26*, June 1989, pp. 20-26.

68 For technical reasons, it was possible to carry out this exercise only for North Africa, a sub-region of Latin America (Argentina, Brazil and Mexico) and the countries of ASEAN.

Chapter II

TRADE AND STRUCTURAL ADJUSTMENT IN SPECIFIC INDUSTRIES

71. The 1980s were characterized by rapid expansion in the exports of manufactures of developing countries, slow growth of world industrial production and continuing structural adjustment in specific industries, most of which took place among developed countries. This section, however, concentrates on the structural adjustment which involved developing countries in four industries: iron and steel, automobiles and components, consumer electronics, and textiles and clothing. These branches are of major export interest to developing countries and account for more than half of their export increase in manufactures during the 1980s. These industries were also subject to major adjustment pressures. Data on trade and production trends for these industries are shown in annex table II.13.[69]

72. In the iron and steel industry, strong competitive pressures cumulated, with quasi-stagnation of long-term consumption growth. Between 1980 and 1988, world steel production grew only by 1 per cent per annum. A decrease of developed country production was compensated by rapid growth in developing countries and China. In the latter countries, most of their additional production catered for domestic demand.

73. Some developing countries have become internationally competitive in this industry, owing to lower wage, raw material and energy costs, the application of up-to-date technologies, and less stringent environmental regulations than in developed countries. Developing countries achieved strong export growth and raised their share in world exports from 7 per cent in 1980 to 11 per cent in 1988. The increase was highly concentrated: the Republic of Korea and Brazil accounted for half of the group's exports. More recently, exports from a few other countries and territories have increased rapidly, including Indonesia, Malaysia, Mexico, Taiwan Province of China, Venezuela, Yugoslavia and Turkey. Developing countries' steel exports shifted toward higher degrees of processing, as finished products now account for 60 per cent of their total exports. In spite of strong export growth, import penetration in developed countries by developing country exports as a whole remains marginal (see annex table II.14), largely on account of proliferating non-tariff measures.

74. In the face of large-scale overcapacity, the trade and structural adjustment policies of developed countries were initially directed at trade amongst themselves and with socialist countries. But protectionist measures have been gradually extended to developing countries. The United States, in particular, has relied heavily on trade control measures and now has VERs with virtually all foreign suppliers, including six developing countries (see para.12). In July 1989, VERs were extended until 1992. Until recently, the EEC had used both production quotas and VERs as means to rationalize steel production and to achieve a better balance between supply and demand. Although production quotas have recently been replaced by surveillance, VERs on imports of certain finished products have been extended; they affect three major developing country suppliers, namely Brazil, Republic of Korea and Venezuela (see also para 12). The Japanese approach to restructuring has been one of government guidance and support for corporate rationalization and diversification.

75. Automobiles and components constituted one of the most dynamic export groups of developing countries, as their share in world exports doubled from 2 per cent in 1980 to 4.3 per cent in 1987. Producers in a few developing countries have become internationally competitive in this industry, as a result of the attainment of a sufficient scale of production and of the general maturation of the industry. The greater export orientation in the policies of the countries where production had already attained significant levels induced transnational corporations operating in the sector to increase their exports. There has also been greater recourse by transnational corporations to joint ventures and sub-contracting in developing countries. Passenger cars have been the product with the most rapid growth, followed by general car parts and motors.

[69] For a more detailed account of structural shifts and sectoral policies, including sources of combination, see *Structural Adjustment Issues in the World Economy*, UNCTAD/ITP/25.

Automotive products rank now amongst the top exports of Brazil, the Republic of Korea, Mexico and Yugoslavia. While exports of motors remain restricted to car exporters, other components are exported by a wider range of developing countries and territories, including Argentina, Chile, India, Indonesia, Malaysia, Morocco, Taiwan Province of China, Thailand, Tunisia and Turkey.

76. For the industry as a whole, import penetration by developing countries in developed countries has remained marginal (see annex table II.14). As regards cars, about half of exports of developing countries are marketed directly by two companies (from the Republic of Korea and from Yugoslavia). These exports go mainly to the United States market, although exports to Canada have also been important. As these exports consist mainly of smaller cars, they do not cause major adjustment pressures for United States producers, which concentrate on larger models. And exports of cars and motors which take place between affiliates of transnational corporations in South-East Asia and Latin America and their parent companies are part of the strategies followed by transnational corporations, mainly in the United States, to respond to competitive pressures. While VERs and other quantitative restrictions in this industry, applied by the United States and certain EEC member States, have generally been directed at Japan, the sensitivity to imports from developing countries has increased, as attested by the temporary application of anti-dumping measures against cars from the Republic of Korea by Canada. At the same time, Governments of developed countries have supported rationalization and adjustment in this industry through financial measures and, particularly in Europe, the facilitation of mergers and inter-enterprise co-operation.

77. World production and trade of consumer electronic products has been extremely dynamic during the 1980s. Between 1980 and 1987, world trade in these products grew twice as fast as world trade in manufactures. Japan and a few developing countries have sharply increased their shares of world markets, while the United States and Western Europe have seen their shares decline. This industry is characterized by rapid technological change, the continuous introduction of new products, high R & D expenditures, intensified enterprise co-operation in new products, and market saturation in mature products.

78. Several developing countries have emerged as important exporters in recent years: South-East Asian economies (particularly the Republic of Korea, Taiwan Province of China, Singapore, Malaysia and Hong Kong) supply about a quarter of world exports; and Latin American countries (mainly Mexico and Brazil) account for another 3 per cent. Mature products and components dominate these exports. Most developing country exporters are also major importers of electronic products for assembly or processing.

79. Developing countries' penetration of the North American and Western European markets has risen significantly in the 1980s. An important portion of this trade consists of intra-firm transactions of transnational corporations and sub-contracting operations: they form part rather of adjustment strategies than of adjustment pressures. The competitive gains made by developing countries have been based on rapid technological diffusion for mature products and low wages. The latter have motivated transnational corporations to relocate production of mature products and components to developing countries or to sub-contract in developing countries labour-intensive products and processes. The Governments of some developing countries have also supported these activities through appropriate changes in foreign investment regulations and the promotion of export processing zones.

80. Government policies in the EEC and the United States have included increasing resort to VERs and other protectionist measures on imports of some products, particularly the more sophisticated new products (such as compact disc-players and video-cassette recorders). The main countries and territories affected have been Japan, the Republic of Korea, Hong Kong and Taiwan Province of China. Anti-dumping measures have become more frequent on imports of TV sets and a range of electronic goods mainly from Japan, other developed countries, the Republic of Korea, Hong Kong and Singapore.

81. Sluggish demand and production, rapid growth of foreign trade and intensified protection by most developed countries have constituted the framework for structural change in the textiles and clothing industry during the 1980s. Shifts in production shares from developed to developing and socialist countries have been accentuated by the stagnation of the textile industry and a contraction of the clothing industry in developed countries.

82. Differential export performance has been a major factor stimulating shifts in production. Exports have grown particularly fast in developing countries and China. As a result, over 1980-1988 the share of developing countries in world exports rose from 22 per cent to 30 per cent in textiles and from 37 per cent to 48 per cent for clothing. Hong Kong, the Republic of Korea and Taiwan Province of China maintained their leading positions amongst top ranking exporters, but lost considerable import and market shares in products subject to binding import restrictions in the United States and the EEC. On the other hand, several other developing countries expanded their clothing exports particularly rapidly during the 1980s, including Bangladesh, Costa Rica, the Dominican Republic, Indonesia, Jamaica, Malaysia, Mauritius, Morocco, Pakistan, Singapore, Sri Lanka, Thailand, Tunisia, Turkey and Yugoslavia.[70]

83. Rising import penetration in developed countries has, however, not been the only factor leading to adjustment pressures. There also have been important changes in production processes, including the conversion of textiles from a labour-intensive to a capital-intensive industry and the introduction of new materials. Enhanced consumer orientation and extreme flexibility of production lines have become key issues for the clothing industry, as rapid changes in consumer tastes have led to shortening of product lives.

84. Certain adjustment policies of developed country firms have contributed to the strength of developing countries' clothing exports. Production of mass products has been gradually relocated to them. Cost-saving sub-contracting of sewing operations now account for about 10 per cent of clothing imports by the United States and the Federal Republic of Germany from developing countries and underlie the export success of several Caribbean, Central American and Mediterranean countries.[71] Sourcing in developing countries by retail chains in developed countries has been a further component of export growth. Another factor has been the relocation of production by firms from Hong Kong, Taiwan Province of China and the Republic of Korea to developing countries underutilizing their export quotas (or exempt from them): export-oriented assembly underlies the rapidly rising clothing exports from countries such as Bangladesh, Mauritius, Sri Lanka and Thailand.

85. During the 1980s, the policies of developed countries towards imports of textiles and clothing have been the most restrictive among all industrial sectors. Bilateral quotas and VERs within the Multi-Fibre Arrangement (MFA) have spread rapidly to new countries and products, as soon as such exports have emerged; and they have been triggered off by much lower market shares than in the 1970s. Additional VERs and comparable undertakings outside MFA have also spread rapidly. Outward processing and sub-contracting have generally been restricted by quota arrangements, although there has been more flexibility in these kinds of operations. In addition, tariffs on clothing and textiles are still high in most developed countries; and exclusions, ceilings, tariff quotas and the like place limits on GSP benefits. There also has been recourse to anti-dumping action in spite of MFA.

86. Protectionist policies affect notably established textile and clothing exporters among the developing countries, but also set ceilings to export and production growth in newly emerging textile exporting countries. If relatively fast export growth has been achieved, this has been due partly to export growth prior to the imposition of quotas and to shifts in production sites or product specification by established producers before new restrictions are imposed. Regional preferential arrangements (such as exports to the EEC under the Lomé Convention or to the United States under the Caribbean Basin Initiative), increased quota utilisation within the MFA and more favourable treatment for least developed countries have also contributed. But above all, it has been the overwhelming comparative advantage of developing country producers that has accounted for the growth of these exports. Such growth would have undoubtedly been higher in the absence of MFA and other restrictive measures. Thus phasing out restrictions under the MFA and integrating trade in textiles and clothing into GATT is of particular importance to developing countries.

87. Complementary government adjustment measures and programmes in developed countries

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[70] R. Erzan, J. Goto and P. Holmes, "Further Evidence on the Restrictiveness and Other Trade Effects of the MFA on Exports of Developing Countries in the 1990s", Swedish International Development Agency, Stockholm, June 1989.

[71] GATT, "Sub-Committee on Adjustment - Summaries of Information from Participating Countries", COM.TEX 57, 1988; and D. Morris and A. Sowter, "Outward Processing of Apparel: West Germany to Eastern Europe and Yugoslavia", *Textile Outlook International*, July 1989.

have included regional aid, low-interest loans, investment subsidies, employment subsidies, and the encouragement of enterprise co-operation and mergers. These programmes have been unable to prevent declines in employment. Nor have they been sufficient to bring about the needed adjustment, particularly in the clothing sector. Their limited effectiveness is best demonstrated by the fact that, in spite of the extremely long duration of protection, recent trends point towards increasingly stringent restrictions.

Chapter III

RECENT DEVELOPMENTS IN STRUCTURAL POLICIES

A. Developed market-economy countries

1. Developments in agricultural policies

88. According to OECD secretariat estimates, the cost of agricultural support imposed on taxpayers and consumers in major OECD agricultural trading nations amounted to about $286 billion in 1987.[72] This figure was higher than in 1986 ($267 billion) and significantly above the average annual cost of some $170 billion recorded during 1983-1985. With regard to specific commodities, the assistance as measured by the producer subsidy equivalent[73] in the OECD area increased from $159 billion in 1986 to about $169 billion in 1987, both amounts being distinctly higher than in 1984 ($94 billion) and 1985 ($106 billion). Although both the combined consumer and tax-payer transfers and the amount of the producer subsidy equivalent declined in 1988 relative to 1987, the level of agricultural support continued to be high in historical terms. The total cost for taxpayers and consumers came to approximately $270 billion, more than in any year prior to 1987, and the producer subsidy equivalent amounted to some $157 billion, higher than in any year prior to 1986. The decline in 1988 was largely the result of increases in world market prices, rather than reflecting changes in support policies. In addition, Governments maintained a variety of measures, ranging from conventional tariffs to a complex array of non-tariff measures, to restrict imports of agricultural products.

89. As a whole, there is as yet little indication of a major shift in the agricultural policies of the developed countries towards greater market orientation. An important result has been not only to reduce, or shut off, the traditional markets for developing countries but also to displace, often through subsidized exports, developing countries on world markets. Subsidized exports from the developed countries have affected developing country exports, especially to third countries, of meat, sugar, wheat and vegetable oils.

90. In the Mid-term Review of the Uruguay Round of multilateral trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT), participants re-affirmed in April 1989 the long-term objective of establishing a fair and market-oriented agricultural trading system. A reform process should be initiated through the negotiation of commitments on support and protection and through the establishment of strengthened and more operationally effective GATT rules and disciplines. The long-term objective is meant to provide for substantial progressive reductions in agricultural support and protection over an agreed period of time. In relation to

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72 These countries are: United States, Canada, Australia, New Zealand, Japan, Austria and the EEC. See for a detailed analysis OECD, *Agricultural Policies, Markets and Trade: Monitoring and Outlook 1989*, (Paris, 1989).

73 The producer subsidy equivalent is the payment that would be required to compensate agricultural producers for the loss of income resulting from the removal of a given policy measure, other things being equal.

short-term measures, participants made a commitment to ensure that current levels of domestic and export support and protection in the agricultural sector will not be exceeded and stated their intention to reduce support and protection levels for 1990. Ministers agreed that special and differential treatment of developing countries would be an integral element of the negotiations. In the area of tropical products, the Mid-term Review agreement has permitted the implementation of a number of market-opening measures by developed market-economy countries. These measures are implemented on a provisional basis for the duration of the Round and can be modified or withdrawn in the light of further developments in the negotiations (see paras. 57 through 63).

91. Aside from the Mid-Term Review agreement in the Uruguay Round, there were a number of developments in the policies of some of the major developed market-economy countries in 1989. In the European Community, agreement was reached in February 1989 on a limited programme of direct income support, delinked from farm output for the poorest producers. The United States accepted a GATT panel report in June 1989 which recommended that it either terminate its sugar quotas or bring them into conformity with the General Agreement. Compliance with this report would have a significant impact on the United States sugar industry. In Japan, a proposal was made in 1989 to study the country's import market for food with a view to seeking an improved balance between imported and domestically-produced food products. Should such a study be carried out, it will be the first official investigation of distribution channels and price-setting systems for imported food in Japan. In 1989, the Japanese Government continued to pursue its unilateral market-opening measures announced towards the end of 1988.

92. The agricultural sector of the developed countries remains a priority area for policy reforms aimed at reducing the distortions in domestic production and world markets. The adjustment of the agricultural sector would be facilitated by the development of other economically viable activities, both manufacturing and services, in rural areas.

2. *Policy aspects of structural adjustment in industry*

93. The economic policies of the developed countries should help resources to move promptly into new, promising activities or to withdraw from declining lines of production. Hence, market signals reflecting trends in competitive positions should play a major role in shaping economic policies. Further scope exists in the developed economies to implement policies which are adjustment-oriented so as to assist markets in fulfilling their resource-allocative function. Policies can, in particular, do more to facilitate the movement of resources from mature production sectors where comparative advantage is shifting in favour of developing countries towards new opportunities in industry and services based, to a greater extent, on innovation, skill, flexibility in production, and entrepeneurial ability. This section examines selected aspects of economic policies with implications for structural adjustment in industry.[74]

(a) Labour market policies and labour mobility

94. The demand for labour in expanding industries does to a large extent not coincide with the qualifications of those released by contracting industries, and those who enter the labour market for the first time do not always have skills which meet new patterns of demand for labour. Labour markets have to respond to new and urgent labour needs created in particular by the speed and scale of technological change. The expected benefits from investment in new technologies are unlikely to be achieved without concomitant investment in the training of the workforce in specific skills as well as in broad-based general education. The resources which went into labour adjustment programmes to assist adults with retraining have, however, been relatively modest in developed market-economy countries. In 1988, public expenditure on labour market training accounted in most developed countries to less than 0.3 per cent of GDP and was as low as 0.1 per cent in some of them.[75] The highest proportion, spent by some four countries, amounted in 1988 to about

[74] For more detailed information, in particular with regard to individual countries, see *Structural Adjustment Issues in the World Economy*, UNCTAD ITP 25.

[75] See OECD, *Employment Outlook, 1989* (Paris, 1989), table A.1. Expenditure on unemployment compensation was

0.5 per cent of GDP.[76] Moreover, the public resources made available for special youth measures, including training, to promote the transition from school to work, have in most countries been even less than their expenditure on labour market training for adults.[77]

95. While labour market programmes are essential to address the problem of matching people to jobs and, hence, facilitating adjustment by industries to structural change, training and retraining may have little effect if there are few jobs for which workers can be retrained in a particular region, unless new industries, replacing declining sectors, are attracted or workers are willing to move. A number of developed countries have programmes to improve regional mobility, with financial assistance provided to workers who are prepared to leave areas of severe unemployment.[78] Regional mobility of the workforce appears to be low in the economies of Western Europe, whereas it has been traditionally relatively high in the United States. In Japan, where large firms offer their core labour force strong employment protection, a great degree of regional mobility within the company is demanded of the employees to an extent that is unknown elsewhere.[79]

96. Both occupational and regional labour mobility have proven to be particularly poor in a number of import-competing mature industries because of the high proportion of older workers and workers with relatively few skills and low educational levels. The provision of early retirement benefits is often the only solution to mitigate the adjustment cost of older workers displaced after long job tenures in the same industry. Available data again indicate that public expenditure on early retirement for labour market reasons has generally been low, accounting for significantly less than 1 per cent of GDP in most developed countries in 1988, while few of these countries spent 1 per cent of GDP or more in the same year.[80] Assistance with labour market training and early retirement might, thus, be given a more prominent place among active measures to facilitate structural adjustment. Public funding of labour market training has in some countries been stepped up in recent years, but it remains to be seen whether budgetary allocations will generally become more substantive to meet existing needs.[81] Additional resources for these purposes could be freed by phasing out the subsidization of ailing industrial sectors under adjustment pressure as well as other sectoral assistance where it has proven to be ineffective.

(b) Technology policies

97. Support for innovation efforts which meet industry needs is a key area of policy concern in the field of technology in the developed countries. The promotion of technology-intensive industries and projects in areas such as information technologies, micro-electronics, biotechnology, new materials and space and aircraft has been a prominent feature of government policies in the developed countries for the past one and a half decades. Government funding of the R & D expenditure can be high. Some developed countries finance between one-fifth and one-third of the cost of R & D activities of their industries (including research activities supported from defense budgets).[82] In highly research intensive sectors, government support is even more significant. The promotion of research programmes in technology-intensive areas is expected to be conducive to a

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in all countries markedly higher than the resoruces allocated to active programmes of labour market training. In some countries, unemployment compensation accounted for 2.5 per cent of GDP and more.

[76] Denmark, Ireland, New Zealand and Sweden.

[77] The expenditure on special youth measures has been slightly higher than the expenditure on labour market training for adults in Australia, France, Italy, Spain and the United Kingdom.

[78] Portugal has recently introduced such assistance.

[79] See also "Labour market flexibility: a controversial issue", *The OECD Observer*, No.141 (September 1986).

[80] For example, Denmark (1.3 per cent) and France (0.94 per cent in 1987).

[81] In 1987, relatively sharp increases of around 50 per cent and more in total expenditure on labour market training have been recorded in a number of countries, including Australia, Greece, New Zealand and Spain. In the United States, the Trade Adjustment Assistance Act (TAA) which targets workers displaced by imports, and the Job Training Partnership Act (JTPA) are the principal vehicles for assisting dislocated workers. Both programmes currently concentrate on retraining. The programmes for trade adjustment assistance (TAA) allocated $50 million in 1987 for retraining and job search of workers displaced by increased imports, double the amount made available in 1986. See also OECD, *Employment Outlook, 1988* (Paris, 1988), chapter 3, annex. As a part of more general policies under the Job Training Partnership Act, the Employment and Training Administration in the United States has recently launched a new programme, backed by a fund of $980 million, for the promotion of training and reemployment of jobless workers. See OECD, *Industrial policy developments in OECD countries*. Annual Review 1988 (Paris 1989), chapter III.

shift in the industrial structure towards high-productivity industries and a changeover to new products.

98. The role which new technologies might play in strengthening the competitiveness of mature industries (i.e. textiles, clothing, glass industry, printing and publishing, paper industry, watchmaking, etc.) has also been receiving increasing attention in the developed countries and Governments have been promoting the development of new, mainly microelectronic-based technologies for traditional production sectors. Programmes are carried out with public support to develop new products, improve existing ones and, above all, to generate process innovations which reduce production cost, especially the cost of labour. The substitution of capital for labour has become a major characteristic of technological progress in mature industries and many developing countries have become concerned that they might lose the comparative advantage which they have in hitherto labour-intensive lines of production.

99. The progress made in the utilization of new production technologies varies among sectors. In the clothing industry, the sewing operation and the handling of the fabric pieces are not as yet accessible to a high degree of automation, and there is, at present, little prospect for a decisive breakthrough in clothing technology, but the Governments of several developed countries continue to support major projects aimed at developing a fully computer-integrated manufacturing system. Technological progress in spinning and weaving operations, on the other hand, has significantly improved the competitive situation of the textile industry in the developed countries, making the industry a highly capital-intensive activity. Textile technology tends to diffuse rapidly throughout the world and has spread quickly to producers in developing countries, who have also achieved a high level of modernization of their production equipment. They have generally retained their competitive edge in standardized mass products, but the high capital intensity of production (and the associated cost of power consumption) has, nonetheless, narrowed their labour cost advantage in the textile sector.

100. Policies of developed countries intended to promote technological innovation in traditional industries should be oriented, to a greater extent, towards enhancing intra-industry specialization in production and trade with developing countries, rather than trying to regain competitiveness in production lines where the factor endowment of developing countries gives them a comparative advantage. Hence, policies should pay particular attention to promoting innovations which move the structure of production "up-market" into areas of more sophisticated products.

(c) Regional policies

101. Attempts to encourage growth within regions adversely affected by structural change focus increasingly on attracting more skill- and technology-intensive industries, besides the development of new service activities. Not all the efforts in developed countries to restructure regional economies through promoting growth poles based on investment and new technologies have come up to expectations. The problems associated with developing more skill- and technology-intensive industries in areas under adjustment pressure are rooted in general deficiencies of these regions which mainly relate to an insufficient local structure of industrial inputs and services and the relative lack of qualified manpower.

102. Regional assistance has become a major component of structural policy of the EEC, with grants and loans at favourable rates being provided from a number of sources.[83] The southern enlargement of the EEC to comprise Greece, Spain and Portugal is bound to increase the size of the regional problem of the Community, aggravating the centre-periphery divide. To mitigate disparities, significant regional assistance for the financing of productive investment and infrastructure will become available from the EEC, enhancing the financial support and other incentives provided at national levels. The regional incentive policies could, on the other hand, have adverse implications for the export prospects of the developing countries. Many less developed regions in the Community have a relative abundance of unskilled labour similar to the situation in the majority

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[82] For statistical data see OECD *Main science and technology indicators, 1982-88(2)*, (Paris, 1988), tables 17 and 18.

[83] Including the European Regional Development Fund; the European Investment Bank; the European Agricultural Guidance and Guarantee Fund; the European Coal and Steel Community; and the so-called New Community Instrument.

of the developing economies. Regional subsidies by the EEC, in combination with assistance at national levels, could consequently induce an enlarging flow of investment in mature industries to the Southern periphery of Europe. Hence, regional assistance could further distort competition in production sectors where the developing economies have a comparative advantage.

103. In addition, such assistance would negatively affect foreign direct investment in the developing countries to the extent that new foreign investment is directed to less developed areas in the EEC to take advantage of regional subsidies, while it would otherwise have been made in a developing economy. In particular, labour-intensive segments of the production process which in the past have increasingly been relocated to developing countries might now also be shifted to the Southern periphery of the EEC, from where processed parts can be re-exported to all member countries of the Community unimpeded by protectionist barriers.

B. Developing countries

104. Trade and industrialization policies have been at the centre of the debates on development strategy and policy during the entire post-war era. Developing countries have gathered a rich experience in this area, as a wide variety of approaches have been followed. These experiences have ranged from strong inward orientation to heavy emphasis on exports, on the one hand, and from strong government guidance to the free play of market forces, on the other.[84]

105. While it is not easy to generalize as to optimal approaches, differences in longer-term performance (see annex table II.15) would suggest that there are some lessons to be learnt from experience. In the first place, selective trade and industrial policies which have stressed more or less equal incentives to exports and to produce for domestic markets have been associated with higher investment and growth rates than across-the-board liberalizations. This is equally true for the experiences which are of long standing as for those of the 1980s. With the exception of Hong Kong, the other rapidly growing economies in South-East Asia (the Republic of Korea, Singapore and Taiwan Province of China) relied heavily both on export-oriented industrialization and on selective trade and/or industrialization policies. More recent experiences also point toward similar conclusions: the fastest growing countries in the 1980s have been those which, while liberalizing their import policies, have continued to be selective in the use of import controls and, at the same time, have paid greater attention to stimulating exports.[85] It should be recognized, though, that many of the more drastic trade liberalizations of the 1980s have taken place rather recently and, therefore, it is still too soon to pass judgment on them.[86]

106. Secondly, selectivity can refer either to trade policies, industrial policies, or both.[87] For example, Singapore has married liberal trade policies (very low and uniform tariffs and no significant quantitative restrictions) with active industrial policies. The Republic of Korea has used selective policies in both areas, although tariffs and import restrictions have become moderate during the 1980s, by the standards of other developing countries. While there seems to be no clear-cut answer as to where the selectivity should be applied, there is considerable evidence that the use of a variety of policy instruments outside what is normally considered trade policy (e.g, credit policies, investment in economic and social infrastructure, fiscal policies, technology policy, and policies

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[84] For details, see *Structural Adjustment Issues in the World Economy*, UNCTAD ITP/25.

[85] These countries include Brazil, Costa Rica, Indonesia, Malaysia, Morocco, Thailand and Turkey. In the case of Brazil, the general thrust of trade and exchange rate policies dates back to the mid-1960s. For a full discussion of changes in trade policies in the 1980s and their relation to economic performance, see *Trade and Development Report 1989*, Chapter V, "Trade Policy Reform and Export Performance in Developing Countries in the 1980s".

[86] Chile, in the mid-1970s, was the first country to adopt neutral trade policies as across sectors and to rely almost exclusively on market forces for resource allocation. Although there has been considerable export diversification in the 1980s, per capita income has not surpassed its 1970 level, and investment rates have actually fallen in the 1980s. Countries adopting ambitious policies of trade liberalization in the 1980s include Bolivia, Côte d'Ivoire, Ghana, Jamaica, Mexico, Nigeria, and Uruguay.

[87] Industrial policies refer to policies other than those in the trade area which affect the allocation of resources to different sectors. Thus, even when trade policies are neutral, inter-sectoral resource allocation can be affected by inter-sectoral differences in policies in areas such as fiscal incentives, credit availability and interest rates, and wages.

towards foreign investors) has played an essential role in building up supply capabilities in industrial sectors which eventually attained international competitiveness.

107. Thirdly, those countries which have built into their trade and industrial policies considerations of long-term international competitiveness have attained higher rates of growth than those countries which have continued to rely largely on industrialization for the domestic market through import-restraining measures alone. Both the high rates of growth recorded by the fast-growing exporters of manufactures of South-East Asia over the past 25 years and more recent experiences seem to support this hypothesis.

108. Finally, it should be strongly emphasized that there are clear limits as to what domestic policies, by themselves, can achieve. Significant increases in investment rates are indispensable for growth and industrial change. In most countries, these increases cannot be brought about without an easing of foreign exchange constraints, larger flows of foreign resources, and the upgrading of technology. Moreover, for developing countries as a whole, the success of more export-oriented growth strategies depends on a stable, predictable and favourable trading environment.

C. China

109. Although economic reforms have made major strides towards a greater role for market mechanisms in the agricultural, industrial and services sectors, there is no movement all the way to an unfettered market economy in China. The aim of reforms is to raise the efficiency of enterprises at the micro level, whilst at the same time retaining sufficient elements of central planning to guide the economy on a particular course and provide macroeconomic balance. Finding the right mix between plan and market has proved to be difficult and this could result in a moderation of the pace of reforms in the years ahead. In agriculture, the reintroduction of household farming has led to a more commercialized rural economy, replacing the system of collective farming. In industry, the delineation of decision-making between plant management and government agencies still appears to be in a state of flux at the operational level.

D. The socialist countries of Eastern Europe

110. A number of socialist countries of Eastern Europe have continued to assign a wider role to market processes and further decentralized decision-making. All socialist countries of Eastern Europe are stepping up efforts to increase their participation in world trade and economic relations. Foreign trade will have an important role to play in meeting the demand for traditional, labour-intensive consumer goods in the socialist countries, and the developing countries are likely to be the most competitive suppliers. The socialist countries, on the other hand, could find outlets for industrial goods with medium-level technology, particularly capital goods, in developing economies.

111. The reforms by themselves may not, however, result in a strong increase in East-South trade. In a medium-term perspective, a number of policy measures can help strengthen economic relations between socialist and developing countries. The further development of multilateral countertrade arrangements would be an avenue to ease the problem of currency inconvertibility in East-South trade. Although such arrangements are no solution in the long run and entail costs that do not arise with pure monetary transactions, they can have an essentially stimulatory effect, as many exports would not come about without countertrade deals. Furthermore, the establishment of trade information systems about import demand and export supply capabilities at relatively disaggregated product levels in the developing and the socialist countries could be a means to stimulate the expansion of trade between the two groups of countries.

Part III

SUMMARY AND SOME POLICY ISSUES

112. In volume terms, the exports of developing countries grew strongly in 1988 and 1989, accentuating a trend that had begun in 1986. The major contributory factor was a quickening in the pace of output and investment growth in some developed countries and in the developing exporters of manufactures of South and South-East Asia. By contrast, economic activity remained depressed in other developing countries. While the exports of the developing economies of South and South-East Asia have risen at a fast past since 1985, those of other developing regions have done considerably less well. Export earnings have stagnated in Latin America and they have declined sharply in Africa and in the West Asian oil exporters, largely owing to falling export prices.

113. Despite sustained economic growth and the impetus stemming from the ongoing Uruguay Round of multilateral trade negotiations, protectionism in developed market economy countries has not abated to any significant extent. Non-tariff measures due to expire in recent years have generally been renewed. Since the launching of the Uruguay Round, a large number of NTMs have either been introduced or renewed. Though there has been liberalization of some measures in 1989, there does not yet appear to be any cause for optimism.

114. Market access for goods has been denied because of alleged "unfair trade actions" in other areas, such as the protection of intellectual property rights, and this has given rise to frictions and uncertainty in trade relations between certain developed and developing countries. In this connection, it should be recalled that in the Final Act of UNCTAD VII it was agreed that "observance of multilaterally agreed commitments with respect to trade in goods should not be made conditional on receiving concessions in other areas" (para 105. subpara. 17).

115. The process of liberalization of trade in a number of developing countries continued in 1989 within the overall context of their development objectives. Even countries facing severe debt-servicing difficulties have reversed earlier import restrictions in more recent years, and the trade régimes of some of these countries are now more liberal than before the debt crisis erupted.

116. In the socialist countries of Eastern Europe there has been further decentralization of foreign trade management. There has been liberalization of some restrictions, and a new customs tariff - a major innovation - is expected to be introduced in the near future in the USSR.

117. An important tool for restraining imports in the developed market-economy countries is the so-called "voluntary export restraints" (VERs), the incidence of which has dramatically increased in the 1980s. Some policy makers regard such arrangements as practical tools, since they can be imposed without the use of legislative action, and, in some cases, without direct government involvement (as, for example, in industry-to-industry agreements). VERs have a tendency to proliferate, since there are often pressures from other sectors for similar action and the countries to which exports are diverted as a result of VERs imposed by others are under pressure to impose similar restrictions on these exports. Since VERs are of a bilateral nature and they are not transparent, they result in the erosion of the multilateral system. The countries most adversely affected by VERs are the weaker trading partners, in particular the developing countries.

118. Because structural adjustment policies in the developed countries are not adequate to discourage the demand for protectionism, resort to protectionism is widespread and managed trade is gaining ground. In order successfully to fight against protectionist pressures, it is important for Governments to pursue the establishment of national mechanisms to evaluate the impact of protectionist measures on the domestic economy as a whole and on the export prospects of developing countries, as decided in the Final Act of UNCTAD VII. Policies in developed countries

can also do more to facilitate the movement of resources from mature production sectors where comparative advantage is shifting in favour of developing countries towards new opportunities in industry and services based on innovation, skill, flexibility in production and entrepreneurial ability.

119. As regards products of export interest to developing countries, where protectionist pressures are strongest in the developed countries, particular emphasis must be given to improving market access conditions for primary and processed commodities and for industrial products in which developing countries have a current or potential comparative advantage. A package of measures including import liberalization and adjustment in developed countries would be supportive of the ongoing shift in developing countries towards a more open and liberal trade régime. It will also help developing countries to build export supply capabilities on a stable basis.

120. Agriculture has remained one of the most distorted markets. In industry, the picture is mixed. Besides the restructuring of industries which have had to contract, policies aimed at enhancing the flexibility of factor markets in meeting the needs of productive sectors are crucial for a solution of structural adjustment problems. Some policies to improve the responsiveness of labour markets to changed demands for skills have been implemented in developed countries, but much more remains to be done. A wide variety of measures can help improve labour market performance and need to be pursued vigorously.

121. Many Governments in developed countries have, on the other hand, followed forward-looking strategies with regard to new and promising industrial activities and promoted technological research relevant to long-run industrial development. Such subsidization of technology-intensive industries and industrial research projects has been distinctly selective and sectoral in its orientation. It may be noted in this context that selectivity and sectoral focus have also been features of the development policies of a number of developing countries which have supported resource allocations in line with the perceived evolution of their comparative advantages. The rich experiences of developing countries with efforts to accelerate changes in production structure in the directions deemed desirable deserve closer analysis, as their policies continue to be the target of criticism, usually linked to exhortations to rely primarily on the use of macro-economic policies to set the framework for a self-regulation of markets.

122. There is cause for concern, however, in technology policies in developed countries which provide assistance for projects with the aim of regaining competitiveness in production sectors where comparative advantage has shifted in favour of developing countries. Such policies render it more difficult to exploit fully the potential for an expansion of trade between the developed and the developing economies.

123. South-South and South-East trade are far from living up to their potential. South-South trade can best be encouraged by a lifting of the constraints to growth in developing countries, particularly debt burdens and negative transfers of external resources. As already noted, faster growth in developing countries and debt reduction would also result in greater imports from developed countries. Greater flows of South-East trade are necessary. The on-going reforms in the socialist countries of Eastern Europe should, in the long-run, stimulate larger trade with developing countries. But more deliberate policies are needed to foster and support the growth of East-South trade.