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World Trade Problems

The deterioration of trade relations between developed countries, developed and developing countries and among developing countries is one of the main subject at the forthcoming GATT Round. Which are the main reasons for this deterioration? And what solutions could be found in order to overcome this development?

Changes in Trade Relations

by B. W. T. Mutharika, Addis Ababa *

Fundamental changes took place during the 1960s in trade and economic relations between developing and industrialised countries bringing a new order to world trade. These changes were largely attributed to the attainment of nationhood by a large number of less developed countries (LDCs), especially in Africa. The changes in the political patterns necessitated the diversification of trade links or the modification of past ties established during the colonial era. Among the new forms of relationship which were evolved during this period were the association of eighteen African and Malagasy States to the European Economic Community (EEC), and the various trade

agreements between the EEC and some individual countries in North Africa and the Mediterranean areas; the establishment of the United Nations Conference on Trade and Development (UNCTAD); and the Kennedy Round of tariff negotiations.

The deterioration in the trade relations between these two groups of countries caused great concern in international forums. Most LDCs depend upon exports of primary commodities whose prices are subject to violent fluctuations in the world market. It was therefore hoped that international arrangements could be agreed upon which would safeguard the interests of the Third World which was usually at the mercy of economic changes in industrialised coun-

tries. However, the structure of world trade system had no room for problems of developing nations.

No Room for LDCs' Problems

The first UNCTAD session held in 1964 failed to provide effective solutions to the trade and economic problems of the Third World. Attention was therefore focussed on the Kennedy Round which also produced disappointing results for developing nations. At UNCTAD II, the LDCs (commonly known as the Group of 77) presented a common stand through the Charter of Algiers which specified their problems, fears and expectations in international trade. In answer to demands for protection of primary commodities and

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processed goods in industrialised countries, technological advances have been made which threaten these primary commodities. Moreover, industrialised nations have introduced new restrictions in agriculture, such as the Common Agricultural Policy of the EEC, which cuts across the very foundation of manufacture of tropical products on which most of the Third World depends.

Because UNCTAD III did not live up to expectations, the world has now turned to the forthcoming GATT negotiations as another forum of dialogue between developing and developed nations. The enlargement of the EEC will also change the structure of trade and economic ties between Europe and most of the LDCs especially in Africa, Asia, the Pacific and the Caribbean. The negotiations for new forms of links will commence in August this year, out of which fundamental trade principles will be defined. The significance of these negotiations is highlighted by the fact that the GATT negotiations will commence about the same time. Although the latter negotiations will embrace the entire world, the outcome of the Africa-EEC negotiations will be influenced to a great extent by expectations from the GATT forum.

Growing Trend towards Protectionism

Recent developments in international trade indicate a growing trend towards protectionism in industrialised countries. There has been an increase in tariff and other quantitative restrictions in the major industrialised countries (enlarged EEC, USA, Japan, Sweden and Switzerland). This is significant because together this group of countries account for 90 p.c. of all imports of industrial nations from LDCs. In his study of primary commod-

ities, Paul Lewis reveals that "effective protection" on copper in some industrialised countries was between 50 and 80 p.c.; cocoa processing between 70 and 150 p.c.; and vegetable oils between 50 and 200 p.c.¹ This protection militates against the establishment of processing industries in LDCs, thereby widening the gap between them and the industrial nations.

World trade problems have become more acute in recent years especially in the trade relations between developed countries and the Third World. These problems can be grouped in five broad categories:

☐ There are tariff and non-tariff barriers which hinder the entry of primary commodities and other raw materials into the markets of developed nations. The non-tariff barriers (import surcharges, levies, subsidies, quotas and taxation) are increasingly being used to replace tariff duties in industrialised countries.

☐ The regroupings among developed countries (notably the EEC) have built-in tendencies to discriminate against tropical and industrial products from LDCs.

☐ The advancement in science and technology in developed nations has increased the competition which primary commodities face from synthetics and substitutes.

☐ The agricultural policies of industrial nations directly cut across the development programmes of LDCs by preventing the establishment of agricultural processing and manufacturing industries.

☐ The international monetary crises in recent years have increased the degree of uncertainty in trade between developed and developing nations.

¹ See Paul Lewis, GATT prepares for a fresh offensive, in: *Financial Times*, November 13, 1970.

The Kennedy Round improved conditions of trade between industrialised countries but failed to solve the problems facing the Third World. Quantitative restrictions and other non-tariff barriers continue to be applied against products from LDCs in industrialised markets. No major changes have been introduced in internal policies or fiscal measures and "protection" continues to be the major impediment to exports from the LDCs. Moreover, the Kennedy Round had relatively no impact on existing preferential regimes such as the Africa-EEC arrangements. Instead, protection of agriculture and related products, including labour-intensive manufactured goods from the Third World has been maintained or stepped up in most developed countries. In general, no major reductions in tariff and non-tariff restrictions to trade in commodities of interest to LDCs were achieved in the Kennedy Round.

Position of Industrialised Countries

The position of the industrial vis-à-vis the Third World is least understood especially by LDCs. Their main arguments are that

☐ they cannot open up their markets to products from LDCs without damaging their economies;

☐ certain groups of commodities especially agricultural tropical products pose serious threats to their agricultural production;

☐ substantial reductions were already made in the Kennedy Round to enable LDCs to improve their access into developed markets;

☐ existing preferential arrangements prevent them from undertaking certain tariff reductions;

☐ there is still the need to protect their revenues from import duties, and free trade with

LDCs without compensatory arrangements would be harmful to their economies.

The main commodity groups or products identified by the GATT as being most likely to be affected by tariff movements are tropical (agricultural) products, processed foodstuffs, non-ferrous metals and related products, clothing, cotton yarns and fabrics, and leather and leather products. Except for a few of these commodity groups, statistics indicate that there is little trade between industrial nations themselves in these items. In point of fact, most of these products are produced in LDCs. It is therefore difficult to appreciate how tariff reductions would adversely affect domestic production in industrialised countries.

Deteriorating Terms of Trade

According to GATT statistics between 1960 and 1970 the average share of LDCs in total world trade was about 19.5 p.c. compared with 66.0 p.c. for industrialised countries. This implies that in as far as industrial goods are concerned, developed nations largely trade among themselves. The share of industrial nations in world trade rose from 63.8 p.c. in 1960 to 69.3 p.c. in 1970, whereas the share of LDCs declined from 21.4 to 17.6 p.c. over the same period. The annual rate of growth of exports was also faster for industrialised than for developing countries.² The terms of trade of LDCs had deteriorated in 1970. In particular, the deterioration was noticeable in the terms of trade of primary commodities as against manufactures.

The exports of primary commodities by LDCs to industrialised countries rose from \$ 19.2 bn to 30.69 bn between 1963

and 1970, whereas their exports of manufactures declined from \$ 0.13 to \$ 0.05 bn over the same period.

The forthcoming negotiations should be defined within a concrete framework within which the industrial countries make irrevocable commitments to remove all impediments to imports from the Third World. The outstanding anomalies in trade ought to be given greater degree of examination. The tariff reductions should be accompanied by appropriate measures reducing non-tariff restrictions such as discriminatory preferences, price support systems; anti-dumping practices, quota restrictions, levies and surcharges and agricultural policy which has gradually been employed as a trade retaliatory measure in developed countries. A mere examination of these problems is not sufficient. There should be effective solutions and industrialised countries should show a greater degree of goodwill towards the less privileged nations of the international community.

Framework of the New GATT Round

The main hurdle is that these are regarded as safeguards to developed countries' economies and the removal of tariffs is quickly replaced by any or all of these non-tariff protective measures. The Kennedy Round as well as the three sessions of UNCTAD hopelessly grappled with these issues, but came nowhere near finding an ideal solution. The end-result is that world trade has not moved towards liberalisation as originally expected. Even in the case of the Africa-EEC trade pact where the associated states were supposed to obtain unimpeded access for their primary commodities in the Community, the operation of safeguard provisions in the Rome Treaty have become ob-

stacles to the expansion of the exports of tropical agricultural products. It is against these hard realities that the new GATT negotiations will be instituted.

The form which these negotiations might take is not yet clearly defined but a few possibilities are likely to emerge. The first formula might be the *item-by-item negotiation* in which countries with particular interest in a given commodity or product would state their positions. The approach might be preferred by those countries having a high dependence on one or two commodities. The drawback to this approach might be that the end-result could approximate the existing segmented discriminatory tariff practices which the negotiations are likely to want to remove.

A second alternative might be to aim at a *nil tariff* on a pre-determined list of commodities spread over a given period of time. This might be combined with the linear technique of trade liberalisation with given percentage reductions starting with most sensitive areas. But this would require a commitment (quasi-political) from all participating countries to harmonise their policies and regulations in specific issues such as tariff nomenclature, rules of origin, commercial legislations, import subsidies and levies and stand-still agreements. This is the general pattern of negotiations in the past. But experience shows that at this stage of international relations, it would be unrealistic to expect this alternative to bring about substantial gains for LDCs in view of the hard-headed attitude adopted by industrialised countries at previous negotiations.

A duty-free arrangement in industrial products would be another possible alternative that might be considered but this is

² See GATT, International Trade 1970 (Sales No. GATT/1971-3), Geneva, 1971, p. 6.

of advantage mainly to developed countries. The Third World see this as a long-term objective. The access for processed and semi-processed products into the industrialised markets is their major concern at present. However, even with regard to trade among developed countries themselves, a confrontation may take place between the various markets (USA, EEC, Japan and Sweden) as to the extent of the movement of tariffs in certain categories of industrial goods. In the long run, however, a zero tariff on industrial goods would boost up industrial activities in the Third World, especially if non-tariff obstacles as well as other prejudices against imports from this area are abolished or reduced in the industrialised countries.

Non-tariff Barriers

Because of the importance of non-tariff barriers, the negotiations could yield concrete results if greater attention was paid to the elimination of these obstacles as well. Those barriers that result in trade restriction or distortion but are not based on the need to protect domestic economies should be demolished in the first instance. Where an industrialised country must continue to impose quantitative restrictions, the burden of the proof justifying such barriers should be squarely placed on the country concerned.

The question of defining an approach to these negotiations is as important as the outcome. LDCs have, in the past, rightly argued that their interests were not adequately considered in international trade negotiations. The GATT and Kennedy Round of Negotiations were primarily intended to ease the flow of goods and services between industrialised countries. For some time, the real interests of the Third World in international

trade were given secondary place. The problems of LDCs have been clearly defined in the UNCTAD. But because of divergence of interests, conflict of interests between developed and developing countries tend to be over-exaggerated thus distorting results from international negotiations.

Approach of LDCs

LDCs' approaches to the forthcoming negotiations are unlikely to diverge widely from their stand adopted at UNCTAD III in Santiago³. The countries could usefully examine proposals which

☐ call for a general reduction in tariff barriers and propose effective measures for the reduction, relaxation or elimination of non-tariff barriers affecting industrial products or groups of products. These could be viewed in the light of the Generalized System of Preferences (GSP) already being implemented by some developed countries;

☐ request industrialised nations to provide duty-free and quota-free entry of all imports from LDCs on a non-discriminatory basis. It is unlikely that developed countries would agree to a preferential regime for LDCs which they may consider to be against other groups of industrialised nations. However, this is the crucial point relevant to the improvement in the terms of trade between developing and industrialised countries;

☐ demand that the rules of origin be carefully re-examined to ensure that these are not used by any industrialised country or groups of developed countries as a basis for maintaining

or introducing discriminatory practices in trade which are detrimental to LDCs;

☐ insist that all processed and semi-processed agricultural and primary products be included in the GSP — this will imply modifications in agricultural policies of industrialised nations;

☐ reiterate that the developed countries should refrain from resorting to escape clauses or safeguard measures which directly militate against the exports of LDCs except where it is proved beyond doubt that such action is justified to protect the economy concerned. In general, industrialised countries should be persuaded to undertake a firm commitment not to adopt domestic policies that would frustrate actions taken at international level.

Common Stand

In order to present these demands more effectively at the negotiations, LDCs should adopt a common stand similar to that taken at Santiago. Each developing nation should carefully access the impact of tariff and of quantitative restrictions on its economy and come up with proposals to be embodied in the common stand. Ideally, all LDCs should endeavour to participate in the forthcoming negotiations and to ensure that individually or collectively their positions in world trade are not jeopardised by the outcome of such negotiations. However, should this prove impracticable a co-ordinating committee made up of permanent representatives at UNCTAD should be given the full mandate to represent all LDCs after consulting with the countries concerned. It is not sufficient merely to get the multinational community to recognise problems of LDCs. There should be concrete proposals providing lasting solutions to such problems.

³ See Resolutions TD/III/RES/76, 77 and 82 in UNCTAD Document TD(III)MISC.3 of June 29, 1972. The Report of the United Nations Conference on Trade and Development in its Third Session in Santiago clearly defines the position of developing nations in international trade (TD/178 of July 27, 1972).