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Norbert Funke\*

# Trends in Protectionism: Anti-Dumping and Trade Related Investment Measures

*The importance of non-tariff barriers in restricting free trade has risen during recent years. Due to their selectivity non-tariff barriers may distort trade even more significantly than tariffs. Developing countries and economies in transition are often most negatively affected.*

Many industrialized countries as well as an increasing number of developing countries have made substantial progress towards fostering allocative efficiency through sound domestic and foreign trade policies. Privatization and deregulation during the 1980s and the gradual reduction of tariffs in eight Gatt rounds starting in 1947 have aimed at gradually liberalizing the world economy. These measures, however, may only contribute to the development of a more liberalized environment if new distortions are not increased at the same time. In this respect, concern has been expressed about the fact that the decreasing importance of tariffs has been accompanied by an increasing variety and number of non-tariff barriers (NTBs).<sup>1</sup> The achievements of multilateral negotiations and agreements may be offset by country-specific or industry-specific trade-restricting measures. The protection of some sectors may even have been increased despite the reduction in tariffs. If the rising importance of NTBs is in part aimed at circumventing Gatt obligations, the current process of multilateral negotiations will have to be reviewed critically.

## Evolution of Non-tariff Barriers

The extent of protection by NTBs is difficult to measure because of the lack of transparency. Two alternative procedures have been developed: the incidence approach and the inventory approach.<sup>2</sup> The first approach tries to assess the effects of NTBs, distinguishing between sectoral and global and between domestic and foreign effects. In the ideal case, an appropriate checklist might serve as a reference framework.<sup>3</sup> Although this procedure would theoretically allow for the identification of the main distortions arising from an NTB, it remains nearly

impossible to quantify the effects. Besides the missing transparency of the measure itself, uncertainties about the spill-over effects render this task almost unmanageable.

The inventory approach focuses on the frequency of NTBs. Besides an analysis of the development of the number of NTBs over time, the share of trade covered by those measures is sometimes used as an indicator for the trend in protection.<sup>4</sup> To assess the development of NTBs over time, the OECD has calculated an index of trade-coverage ratios (cf. Table 1). The analysis reveals that NTBs have either persisted or have even increased.<sup>5</sup> During the last decade, levels of NTB-protection remained roughly constant in Austria, Switzerland and Japan. In contrast, an increase of protection as measured by the share of trade covered by NTBs is visible in particular in Canada and the EC. Focusing on core NTBs, such as surcharges, variable levies and quantitative restrictions, the trade coverage ratios of NTBs increased in the EC, the USA, and Finland. In the major industrialized countries the import coverage ratio amounted to 18.2 per cent for all

<sup>1</sup> Recently, the term, "contingent protection" has become popular to describe the new developments in trade restricting practices; cf. Jim Rollo, Alasdair Smith: *The Political Economy of Eastern European Trade with the European Community: Why So Sensitive?*, in: *Economic Policy*, Vol. 8, No. 16 (1993), pp. 139-181.

<sup>2</sup> Rolf J. Langhammer: *Wirtschaftstheoretische und ordnungs-politische Aspekte nicht-tarifärer Handelshemmnisse am Beispiel der EG und ihres Binnenmarktpogramms*, in: Wulfdiether Zippel (ed.): *Ökonomische Grundlagen der europäischen Integration*, Munich 1993, pp. 41-59.

<sup>3</sup> Cf. Organisation for Economic Co-operation and Development (OECD): *Obstacles to Trade and Competition*, Paris 1993.

<sup>4</sup> Cf. e.g. Sam Laird, Alexander Yeats: *Trends in Non-tariff Barriers of Developing Countries: 1966-1986*, in: *Review of World Economics*, Vol. 126, No. 2 (1990), pp. 299-325; Don P. Clark: *Incidence of Non-Tariff Measures on Imports of GSP-Covered Products*, United Nations Conference on Trade and Development (UNCTAD), Geneva 1991; Don P. Clark: *Recent Changes in Non-Tariff Measure Use by Industrial Nations*, in: *The International Trade Journal*, Vol. VI, No. 3 (1992), pp. 311-321.

<sup>5</sup> One exception is New Zealand, where protection with the help of NTBs decreased significantly.

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# INTERNATIONAL TRADE

**Table 1**  
**Trade Coverage Ratios<sup>1</sup> of Selected Non-tariff Measures (NTMs)<sup>2</sup> Applied by Selected OECD Countries**  
**in the Period 1981-90 (Index numbers: 1981 = 100)**

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
All sectors (SITC 0-9), all selected NTMs										
Austria	100.0	100.0	100.0	100.0	100.0	99.7	99.7	99.7	99.7	99.7
Canada	100.0	113.3	114.4	117.1	119.8	194.2	197.3	150.7	135.6	133.6
EC (12)	100.0	104.7	109.9	111.0	114.5	114.2	116.8	114.9	113.9	113.4
Finland	100.0	101.9	101.8	101.8	101.6	101.6	101.7	101.7	101.7	101.7
Japan	100.0	100.0	100.1	100.1	100.1	97.9	97.9	98.1	98.2	98.0
New Zealand	100.0	100.0	100.1	100.1	72.0	70.8	64.7	47.9	32.4	25.1
Norway	100.0	101.0	100.3	96.0	95.7	95.4	95.4	95.3	95.3	88.1
Switzerland	100.0	100.5	100.5	101.3	101.3	101.3	101.3	101.3	101.3	101.3
United States	100.0	100.5	99.6	55.5	57.6	61.1	67.1	66.7	80.6	79.9
Total	100.0	102.1	103.4	83.5	85.5	88.0	91.7	90.0	95.7	95.1
Non-fuel trade, core measures										
Austria	100.0	100.0	100.0	100.0	100.0	99.6	99.6	99.6	99.6	99.6
Canada	100.0	114.6	114.6	114.6	107.6	107.6	110.1	80.2	68.1	68.1
EC (12)	100.0	106.2	114.2	111.7	110.0	108.9	108.4	108.6	108.5	109.0
Finland	100.0	100.0	106.0	106.0	106.0	105.5	105.5	105.5	105.5	105.5
Japan	100.0	100.0	100.1	100.1	100.1	97.2	97.2	96.8	96.7	96.7
New Zealand	100.0	100.0	100.0	100.1	69.2	66.0	39.8	39.8	25.8	19.6
Norway	100.0	101.0	100.3	99.1	98.9	98.6	98.6	98.4	98.4	90.9
Switzerland	100.0	100.1	100.3	100.8	100.8	100.8	100.8	100.8	100.8	100.8
United States	100.0	96.3	88.5	97.7	100.0	100.1	106.5	110.7	110.4	106.0
Total	100.0	101.6	101.7	104.1	103.8	103.3	104.7	105.3	104.6	103.0

<sup>1</sup> Ratios have been computed using 1988 trade weights (except for the United States and the EC, for which 1989 trade weights were used). <sup>2</sup> The group "all selected non-tariff measures" includes certain para-tariff measures, surcharges, variable levies, anti-dumping and countervailing actions, quantitative restrictions (including prohibitions, quotas, non-automatic licensing, state monopolies, "voluntary" export restraints and restraints under MFA and similar textile arrangements), import surveillance, automatic licensing and price control measures. The group of "core" NTMs excludes from the group defined above, para-tariff measures, anti-dumping and countervailing actions, automatic licensing and important surveillance measures.

Source: UNCTAD Data Base on Trade Control Measures, cf. OECD, op.cit., 1992, p. 38.

NTBs in 1990, and to 18.5 per cent for all items, excluding fuels.<sup>6</sup> These results, however, may only be interpreted as first evidence with respect to the incidence of protection by NTBs. In particular two problems remain: on the one hand the number of NTBs are not recorded officially, and on the other hand the indicator does not reveal whether these measures are binding. Despite these limitations the analysis supports the view that NTBs have become increasingly important in terms of trade coverage and frequency. In some cases this is only true in relative terms, but in other cases protection with NTBs increased in absolute terms.

In the following, we will look at the development and incidence of two selected NTBs that have become increasingly important: anti-dumping measures and trade related investment measures.

## Anti-dumping and Countervailing Actions

In principle, anti-dumping measures (ADMs) and countervailing duties (CVDs)<sup>7</sup> are Gatt consistent. According to Article VI of the Gatt "the contracting parties recompose that dumping, by which products of one country are introduced into the commerce of another country at less than the normal value of the products, is to be condemned if it causes or threatens material injury to

an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry". On the size of the duty the same article stipulates "in order to offset or prevent dumping, a contracting party may levy on any dumped product an anti-dumping duty not greater in amount than the margin of dumping in respect of such countries".

Available data indicate a substantial increase of anti-dumping investigations since the mid-1980s by the 26 parties participating in the Anti-Dumping and Subsidies Agreement. Since the mid-1980s 1148 initiations of investigations have been reported. Compared to the 1985-86 period the total number of investigations increased by roughly one third from 178 to 237 in the 1991-92 period. The United States (300), Australia (282) and the European Communities (242) were the most active initiators of ADMs from the mid-1980s until 1992. A number of parties for which no initiations were reported in the mid-1980s were also among the initiators of ADMs

<sup>6</sup> Cf. Organisation for Economic Co-operation and Development (OECD): Progress in Structural Reform, Paris 1992, p. 40.

<sup>7</sup> In contrast to ADMs directed against "below-cost pricing" practices of companies, CVDs are used against the export subsidization policies of countries. In the following, we will often use the shorter expression ADM instead of the more lengthy expression ADMs and CVDs.

in 1992, including Mexico (25), New Zealand (13), India (5), Austria (4), Japan (3) and Brazil (9).<sup>8</sup>

While exporters from the European Community, Japan and the United States were most frequently the subject of the initiation of anti-dumping investigations, a number of developing countries and economies in transition were

**Table 2**  
**Exporters Subject to Two or More Initiations of**  
**Anti-Dumping Investigations, 1985-92**

	Total
European Community or its Member States	209
Japan	105
United States	100
Korea, Rep.	78
China	69
Chinese Taipei	68
Brazil	54
Yugoslavia (former)	31
Canada	25
Poland	24
Czech and Slovak Fed. Rep.	23
Romania	23
Hong Kong	22
Mexico	22
Turkey	22
Thailand	19
German Dem. Rep. (former)	18
Singapore	18
Argentina	17
India	17
USSR (former)	16
Sweden	15
Venezuela	14
Hungary	12
Malaysia	12
Austria	11
Indonesia	9
Israel	8
Norway	6
South Africa	6
Colombia	5
Philippines	5
Saudi Arabia	5
Bulgaria	4
Finland	4
New Zealand	4
Bangladesh	3
Egypt	3
Chile	3
Australia	2
Kazakhstan	2
Russian Federation	2
Trinidad und Tobago	2
Ukraine	2

1 The reporting period covers 1 July 1985 to 30 June 1992.

2 Initiations concerning exporters from the European Community and its member States are reported as notified. Mexico notified investigations for 1988-89 on certain products imported from the European Community, while subsequent notifications refer to the member state of origin of the exporting firms subject to the investigation.

3 Countries subject to one initiation are Albania, Algeria, Armenia, Azerbaijan, Belarus, Costa Rica, Ecuador, El Salvador, Georgia, Iceland, Islamic Rep. of Iran, Kenya, Kuwait, Kyrgyzstan, Libyan Arab Jamahiriya, Macau, Moldova, Pakistan, Papua New Guinea, Peru, Qatar, Switzerland, Tajikistan, Tunisia, Turkmenistan, Uruguay, Uzbekistan, Zimbabwe.

Source: Gatt: International Trade and the Trading System. Report by the Director General, 1992-1993, Geneva, July 1993, op.cit., p. 36.

also involved to a considerable extent. ADMs are thus not limited to influencing trade relations between industrial countries, but are becoming increasingly important in affecting trade flows between large industrial countries and developing countries (cf. Table 2). As the EC and the USA are among the most active parties with regard to the initiation of anti-dumping investigations, their country and product profile will be analyzed in greater depth.

Approximately one fifth of all anti-dumping investigations since 1985 originated in the EC. Although the number of new investigations has recently declined from 43 in 1990 to 13 in 1992 the Community continues to make frequent use of ADMs. The recent decline does not necessarily indicate a new trend towards a less restrictive policy, as the number of measures already fluctuated substantially during the 1980s (cf. Table 3). The country focus was on Asia – in particular on China and Japan, with 20 and 19 measures in force respectively – as well as on Eastern and Central Europe. Most actions were taken in the fields of chemicals, fertilizers, base metals, metal semi-conductors and textiles (cf. Table 4). Thus, besides

**Table 3**  
**Anti-dumping Actions by the EC,**  
**January 1985 to June 1992**

	1985	1986	1987	1988	1989	1990	1991	1992
Complaints	62	46	75	67	38	n.a.	n.a.	n.a.
Initiations	36	24	39	40	27	43	20	13
Findings of no dumping	2	4	4	0	0	0	1	1
Findings of no injury	15	7	4	5	5	13	6	5
Measures in force	191	207	188	152	140	139	142	144

n.a. = not available.

Source: Gatt: Trade Policy Review, European Communities, Vol. 1, Geneva, August 1993, p. 76.

**Table 4**  
**Country and Product Profiles of**  
**Anti-dumping Measures: EC**

Country Profile	March 1992	Product Profile	March 1992
Eastern and Central Europe	44	Chemicals, fertilizers	59
EFTA	8	Base metals,	
Other Europe	7	metal semi-conductors	23
North America	3	Machinery (mechanical,	
Central and South America	12	electrical, electronics)	13
Japan	19	Textiles	24
China	20	Consumer electronics	
Other Asia, Pacific	29	and accessories	12
Other regions	2	Glass and stone	1
		Others	12
<b>Total</b>	<b>144</b>	<b>Total</b>	<b>144</b>

Source: Gatt: Trade Policy Review, European Communities, Vol. 1, Geneva, August 1993, p. 77.

Japan, developing countries and economies in transition are the main targets of the EC anti-dumping policy.

Similar to the EC, the use of anti-dumping procedures varied in the USA during the 1980s but remained on a fairly high level. The number of newly initiated anti-dumping investigations increased from 13 at the beginning of the 1980s to 65 in the 1985/1986 period. After a two-year decline the number of investigations again amounted to 62 in the 1988/1989 and 1990/1991 period (cf. Table 5).

**Table 5**  
**Anti-dumping Actions taken by the United States,**  
**July 1980 – June 1991**

Period (July - June)	Investiga- tions initiated	Definitive duties	Suspension agree- ments <sup>1</sup>	Out- standing orders <sup>2</sup>
July 1980-June 1981	13	4	1	
July 1981-June 1982	25	3	1	
July 1982-June 1983	38	7	1	
July 1983-June 1984	44	22	0	
July 1984-June 1985	61	13	0	
July 1985-June 1986	65	25	0	
July 1986-June 1987	40	30	2	
July 1987-June 1988	33	22	1	
July 1988-June 1989	62	27	0	
July 1989-June 1990	27	17	0	
July 1990-June 1991	62	19	0	204
Total	465	189	6	

<sup>1</sup> Investigations are suspended when exporters agree to eliminate injurious effects of antidumping practices, or when other conditions under the law are met. <sup>2</sup> Outstanding orders at the end of the period.

Source: Gatt: Trade Policy Review, United States, 1992, Vol. 1, p. 95.

**Table 6**  
**Anti-dumping Actions taken by the United States**  
**by Country of Export, July 1980 - June 1991**

	Investigations		Definitive duties		Suspension agreements	
	July 1980- June 1991	July 1989- June 1991	July 1980- June 1991	July 1989- June 1991	July 1980- June 1991	July 1989- June 1991
Japan	59	8	37	8	2	0
China	32	16	19	8	0	0
Germany,						
Fed. Rep.	28	6	9	0	0	0
Taiwan	28	4	13	4	1	0
Korea, Rep. of	26	3	15	5	0	0
Brazil	25	3	11	1	0	0
Canada	25	2	9	2	1	0
Italy	23	1	9	0	0	0
United Kingdom	19	4	4	1	0	0
France	18	2	8	0	0	0
Spain	12	1	3	0	0	0
Romania	11	0	3	0	1	0
Mexico	10	3	4	2	0	0
Venezuela	11	1	2	1	1	0
Belgium	7	1	1	0	0	0
Poland	7	1	0	0	0	0
Germany,						
Dem. Rep.	6	0	2	0	0	0
Others	116	26	40	4	0	0
Total	463	82	189	36	6	0

Source: Gatt: Trade Policy Review, United States, op.cit., 1992, p. 96.

Trading partners that were heavily affected by US investigations again belong to both the group of industrial countries and the group of developing countries. Exporters from Japan, Germany and Canada are the most frequent targets from industrial countries, while China, Taiwan, the Republic of Korea and Brazil are the main targets among developing countries. In Eastern Europe exports from Romania and Poland were most heavily investigated (cf. Table 6). Considerable similarities are also observable with respect to the product profile. Chemicals, textiles, machinery and electronic products were affected most by recent US anti-dumping investigations.<sup>9</sup>

So far, the analysis has revealed that anti-dumping investigations are not concentrated only among industrial countries but are frequently used against exports from developing countries and from central and eastern European producers. When looking at the mere number of cases one has, however, to bear in mind that the number of cases reflects neither the restrictiveness of the measure nor the social welfare effects. In analyzing the general impact of anti-dumping it must be distinguished between short-run and long-run effects. In the short run, consumers in the country importing the dumped product usually benefit from the lower import price. In contrast, prices, profits, production and employment levels as well as the market share of the domestic industry may be adversely affected if factor mobility is relatively low. The long-run effects of dumping in the importing country depend on the medium and long-term development of domestic competitiveness.<sup>10</sup> Damaging effects may occur if economies of scale or learning effects are important or necessary R&D is not undertaken in the domestic economy due to the adverse short-run effects.<sup>11</sup>

A fundamental source of inefficiencies in ADMs stems from the substantial discretionary elements in the initiation procedure and in the evaluation of dumping actions.<sup>12</sup> The determination of representative prices, the

<sup>8</sup> General Agreement on Tariffs and Trade (Gatt): International Trade and the Trading System. Report by the Director General, 1992-1993, Geneva, July 1993, p. 35.

<sup>9</sup> Gatt: Trade Policy Review, United States 1992, Vol. 1, p. 96.

<sup>10</sup> Phedon Nicolaidis: The Competition Effects of Dumping, in: Journal of World Trade, Vol. 24, No. 5 (1990), pp. 115-131, analyzes the effects of dumping on competition in the importing country in more detail.

<sup>11</sup> Ernst and Young Management Consultants: The Economic Impact of Dumping and the Community's Anti-Dumping Policy, prepared for the European Parliament, Working Paper No. 1, European Parliament, Luxembourg 1993.

<sup>12</sup> Cf. Michael Finger: Dumping and Anti-Dumping: The Rhetoric and the Reality of Protection in Industrial Countries, in: The World Bank Research Observer, Vol. 7, No. 2 (1992), pp. 121-143; Paul Waer, Edwin Vernulst: EC-Anti-Dumping Law and Practice After the Uruguay Round: A New Lease of Life, in: Journal of World Trade, Vol. 28, No. 2 (1994), pp. 5-21.

**Table 7**  
**Selected Trade Related Investment Measures<sup>1</sup>**

<b>Input TRIMs</b>	
Local Content Requirements (LCRs)	Usually require foreign firms to purchase a specific proportion of their inputs from local sources rather than foreign sources.
Laws of Similars (LSs)	Require foreign investors to use local substitutes for imported inputs if a "similar" component is manufactured locally.
Manufacturing Requirements (MFs)	Determine e.g. the production of a specific good or prohibit the production of selected goods.
Technology Transfer Requirements (TTRs)	Require the implementation and use of a specified production technology. It is intended to encourage research and development activities.
Trade Balancing Requirements (TBRs)	Require that the import volume of the foreign investor is tied to his export performance.
Foreign Exchange Restrictions (FERs)	Directed at constraining an investor in terms of the amount of intermediate inputs which can be imported. Limit the foreign exchange available to the foreign investor. Often the investor may not use more foreign exchange to buy foreign inputs than he receives from his exports.
Maximum Import Limitations (MILs)	Directly limit the import of specified products.
Local Equity Requirements (LERs)	Regulate the share of equity that foreign firms are allowed to own. Sometimes these regulations are tied to the market orientation of foreign firms.
Local Labour Requirements (LLRs), National Participation in Management (NPM)	Regulate the participation of local employees and managers in the foreign firm.
<b>Output TRIMs</b>	
Export Performance Requirements (EPRs)	Require a specified export performance by e.g. fixing a minimum share of production that has to be exported or by fixing a minimum value of exports.
Product Marketing Requirements (PMRs)	Regulate the relation between the host firm and the foreign mother company. Exclusive sale rights are fixed for the host firm to selected regions or world-wide.
Export Controls (ECs) and Market Reserve Policies (MRPs)	Control or prohibit exports of specific products to improve trade opportunities for local companies producing close substitutes.
Domestic Sales Requirements (DSRs)	Require the investor to sell a specified amount of his production domestically. DSRs thus are complements to EPRs.
Remittance Restrictions (RRs)	Restrict the repatriation of foreign firms' profits and the salaries of foreign employees.
Licensing Requirements (LRs)	Licences may be required in the area of production, exports, etc.

<sup>1</sup> See for a more detailed description e.g. David Greenaway: Trade Related Investment Measures: Political Economy Aspects and Issues for Gatt, in: *The World Economy*, Vol. 13, No. 3, 1990, pp. 367-386; Keith E. Maskus, Denise Eby: Developing New Rules and Disciplines on Trade-Related Investment Measures, in: *The World Economy*, Vol. 13, No. 4, 1990, pp. 541-554; Carsten T. Ebenroth, Dietrich Grashoff: Trade Related Investment Measures (TRIMs) osteuropäischer Reformstaaten in der Erweiterungsphase des Gatt, in: *Recht der Internationalen Wirtschaft*, Vol. 40, No. 3, pp. 181-189.

definition of costs, and the lack of transparency of anti-dumping procedures contribute to the discretionary elements of the anti-dumping mechanism.<sup>13</sup> As a consequence the discretionary elements may be misused for discriminatory protectionist purposes. This may be particularly relevant for developing countries and post-socialist economies. Some of their low-priced products compete with the declining industries in industrialized countries. However, developing countries often lack adequate instruments to defend their interests in anti-dumping proceedings.

To sum up, disputes regarding anti-dumping actions have grown substantially during the last few years. The documented initiation of these measures is mostly confined to OECD countries. More recently, a growing number of initiations by other countries has occurred. The initiations are directed at industrialized as well as developing countries. The implementation of such actions is not always consistent with Gatt obligations. They may

<sup>13</sup> Cf. Ivo Van Bael: EEC Anti-Dumping Law and Procedure Revisited, in: *Journal of World Trade*, Vol. 24, No. 2 (1990), pp. 5-23.

be used as an instrument of industrial policy rather than as measures that exclusively try to offset international distortions. The generally low share of trade affected by definitive anti-dumping duties underestimates the impact of these policy measures because cascading effects may become important. Beside the neglect of consumer interests a number of other direct effects on importers of intermediate goods, effects on other exporters via possible exchange rate effects, the increasing uncertainty associated with discretionary policy actions as well as increasing incentives for rent-seeking activities are among the trade-disrupting effects.

### Trade Related Investment Measures

Trade related investment measures (TRIMs) are regulations and incentives adopted by governments to influence the operations of foreign firms in their territories.<sup>14</sup> They encompass a wide variety of measures. One possible classification of TRIMs is to distinguish between input and output TRIMs.<sup>15</sup> Table 7 lists and briefly describes the most common TRIMs.

Local content requirements are the oldest and most important type of TRIMs, originating in the Latin American automobile industry.<sup>16</sup> They were intended to prevent the degradation of the locations to mere assembly shops. Besides local content requirements stipulations concerning employment of local nationals to managerial positions as well as limitations on equity ownership by foreign firms are among the most frequent TRIMs.<sup>17</sup>

The welfare implications of TRIMs are difficult to assess. The aim of many developing countries is to obtain maximum gains from the operations of foreign firms. Whether TRIMs are suited to achieve this objective remains debated. It is sometimes argued that existing impediments to free trade in industrial countries render TRIMs in DCs necessary.<sup>18</sup> This reasoning, however, may not appear very convincing. It is highly unlikely that TRIMs

are tailored in such a way as to completely offset existing distortions.

Although not all TRIMs affect the value of trade flows and the pattern of trade directly, they may be expected to decrease welfare in the domestic and foreign economy. Binding local content requirements, for example, may induce a number of substitution effects in the production of goods. By requiring that a specific proportion of inputs has to be purchased from local sources rather than foreign sources, efficient production may be artificially hindered if local inputs are of a lower quality or are more expensive than foreign inputs. Local content requirements may thus lead to a lower quality of goods or to higher prices. As a consequence consumers may lose. Furthermore, the profitability of foreign direct investment may be negatively affected. An induced decrease in foreign direct investment flows may have a negative impact on employment.

Notwithstanding the difficulties in assessing the incidence of TRIMs, some evidence has been uncovered so far:<sup>19</sup>

- The incidence of TRIMs is concentrated in developing countries. Brazil, Mexico, India, and Nigeria rely on TRIMs most heavily within the group of the developing countries, while Canada, Australia and Spain stand out in the group of developed market economies.
- The sectors mostly affected are mining and manufactures. In the latter sector TRIMs are most heavily concentrated in the manufacture of autos, high tech and petrochemicals.

The importance and the potential distorting effects of TRIMs have been recognized for some time. The inclusion of TRIMs into the Gatt framework was already discussed in 1981. Massive opposition from a few developing countries led to a postponement of the issue until the beginning of the Uruguay Round in 1986. The participating parties did not manage to formulate a draft treaty until the Brussels conference in December 1990, which was originally intended to end the Uruguay Round. But the final agreement on TRIMs remained below expectations.<sup>20</sup> It applies only to goods. In an appendix those measures are mentioned which have to comply with Article III ("national treatment") as well as Article XI (quantitative restrictions) of the Gatt. The enumeration in the appendix is, however, far from comprehensive. The contracting parties are required to announce all those measures that are not

<sup>14</sup> Cf. Hardeep Puri, Delfino Bondad: TRIMs, Development Aspects and the General Agreement, in: United Nations Conference on Trade and Development (ed.): Uruguay Round. Further Aspects on Selected Issues, New York 1990, pp. 55-77.

<sup>15</sup> An alternative classification is based on the distinction between commodity based and factor based TRIMs; cf. Stephen E. Guisinger: Do Performance Requirements and Investment Incentives Really Work, in: The World Economy, Vol. 9, No. 1 (1986), pp. 79-95.

<sup>16</sup> Minimum local content requirements still exist e.g. in Mexico in the car industry, amounting to 36 per cent of the final value added in the production of small cars and to 40 per cent in the production of trucks and buses (Gatt: Trade Policy Review: Mexico, Vol. I, Geneva, July 1993). In Brazil local content requirements refer in particular to government procurement. Gatt: Trade Policy Review, Brazil, Vol. I, Geneva, March 1993. Cf. also Carsten T. Ebenroth, Dietrich Grashoff: Trade Related Investment Measures (TRIMs) osteuropäischer Reformstaaten in der Erweiterungsphase des GATT, in: Recht der Internationalen Wirtschaft, Vol. 40, No. 3, pp. 181-189.

<sup>17</sup> V.N. Balasubramanyam: Putting TRIMs to Good Use, in: World Development, Vol. 19, No. 9 (1991), pp. 1215-1224.

<sup>18</sup> Ibid.

<sup>19</sup> Cf. Daniel Greenaway, op.cit.; Theodore Moran: The Impact of TRIMs on Trade and Development, in: Transnational Corporations, Vol. I, No. 1 (1992), pp. 55-65.

<sup>20</sup> Rolf J. Langhammer: Nach dem Ende der Uruguay-Runde: Das GATT am Ende?, Kiel Discussion Papers, No. 228, March 1994.

compatible with the two articles. These measures have to be phased out within two years (industrial countries), five years (developing countries) and eleven years (least developed countries). Developing countries may, however, still continue to use TRIMs to promote economic development (Article XVIII, Gatt). Beside the missing comprehensiveness of the agreement, discretionary elements thus continue to exist. TRIMs will have to remain high on the agenda of trade policy agreements.<sup>21</sup>

### Summary

The world economy has changed substantially in recent years. Unilateral trade liberalizations in many developing countries, the completion of the internal market programme of the EC, as well as the ongoing system transformations in central and eastern Europe have created new chances for a more integrated world economy and new growth opportunities. Whether these potential gains can be realized depends not only on sound domestic policies but also on the future external policies of the main economic actors in the world.

Tariffs no longer represent the most serious impediment to international trade. As the importance of tariffs in restricting free trade has been declining, non-tariff barriers are becoming increasingly important. Similar

to classic tariffs selective trade restricting instruments reduce competition and give wrong incentive signals. Due to their selectivity, trade may be distorted significantly even if the share of trade covered by those measures is relatively small. Anti-dumping measures and trade related investment measures represent two NTBs that have become increasingly important.

The analysis has shown that anti-dumping investigations have frequently been initiated against exports from developing countries as well as against producers from central and eastern Europe. A number of discretionary elements remain in the initiation procedure and in the evaluation of dumping actions. They may be misused for discriminatory protectionist purposes.

TRIMs may be seen as one typical example of the vicious circle of regulations, circumventions and new regulations. Quantitative restrictions such as voluntary export restraints encouraged international companies to circumvent them by directly investing in the foreign country. As a consequence governments either include domestic production by foreign companies in quantitative restrictions or try to regulate foreign direct investment by means of various TRIMs. The agreement on TRIMs within the Uruguay Round must be seen as only a first step in the right direction. Escape clauses for developing countries as well as the consideration of only a few selected types of TRIMs represent the major weaknesses of the agreement. A more comprehensive agreement is needed.

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<sup>21</sup> Peter Nunnenkamp: The World Trading System at the Crossroads. Multilateral Trade Negotiations in the Era of Regionalism, Kiel Discussion Papers, No. 204, March 1993.

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## STRUCTURAL ADJUSTMENT

Heike Proff\*

# Structural Adjustment Programmes and Industrialization in Sub-Saharan Africa

*In sub-Saharan Africa, like elsewhere in the Third World, great hopes are attached to industrialization as a means of achieving economic and social development. Are the IMF and the World Bank, via their Structural Adjustment Programmes in the region, helping to create a leaner, more competitive industrial sector or are they in fact weakening the industrialization process?*

**T**he IMF's and World Bank's Structural Adjustment Programmes (SAPs) in less developed countries are designed to deal with persistent balance-of-payments problems. The IMF, which has played the lead role in

developing the SAPs,<sup>1</sup> does not pursue any particular industrial policy for the countries concerned. In general, though, the measures taken by national governments as a condition for obtaining balance-of-payments support lending serve to improve the overall economic environment for efficient, mostly exporting companies.

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