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Working Paper

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Texto para discussão, No. 189

Provided in Cooperation with:

Departamento de Economia, Pontifícia Universidade Católica do Rio de Janeiro

Suggested Citation: de Paiva Abreu, Marcelo; Fritsch, Winston (1988) : Market access for manufactured exports from developing countries: Trends and prospects, Texto para discussão, No. 189, Pontifícia Universidade Católica do Rio de Janeiro (PUC-Rio), Departamento de Economia, Rio de Janeiro

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DEPARTAMENTO DE ECONOMIA

PUC/RJ

ABRIL 1988

TEXTO PARA DISCUSSÃO

Nº 189

MARKET ACCESS FOR MANUFACTURED EXPORTS
FROM DEVELOPING COUNTRIES:
TRENDS AND PROSPECTS*

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and
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*The authors wish to thank Michael Finger, Clodoaldo Hugueney Filho, Jerzy Rozanski and René Vossenaar for help in obtaining unpublished data and other information, the research assistance of Cláudio Alves Gonçalves da Silva and the comments from participants in the seminar on Trade Policy and the Developing World, held in Parati, 23-25 November 1987, in which an earlier version of this paper was presented.

ABSTRACT

This paper discusses the main trade impediments facing developing countries' exports of manufactures to developed country markets and the prospects for improved market access. It is divided in three sections. The first discusses the main trends in developing country manufactured exports to industrial countries and some theories that relate their pace and pattern to the structure of protection in the leading OECD markets. Section 2 describes the chief characteristics of this evolving structure of protection. In Section 3 the issues relating to market access for developing country exports of manufactures in the ongoing MTNs are analysed. It is argued (i) that no broad coalition with substantial participation of developing countries among its leading actors is likely to emerge, (ii) that the abandonment of S&D rights has very limited appeal to the vast majority of developing exporters of manufactures and, thus, is a very unlikely outcome, and (iii) that the prospects for improved market access through reciprocal bargaining basically depends on structural adjustment in the North Atlantic economies. The fact that the latter requires investment and, thus, growth, brings home the crucial importance for the success of the Uruguay Round of leading the OECD economies to a higher growth path than that which can be envisaged under present macroeconomic policies in the North.

1. The growth of manufactured exports from developing countries to OECD markets

One of the most striking features of post-war developments in world trade has been the rise of a number of developing countries as exporters of manufactures on a significant scale. The growth of manufactured exports from developing countries accelerated from the sixties to above the high growth rates of world trade in manufactures then prevailing and was not significantly affected by the severe dislocation experienced by the world economy since the first oil shock. In about two decades the share of developing countries in the global supply of manufactured exports rose three-fold, reaching 13.5% in 1984. For some broad commodity groupings such as iron and steel, engineering goods and clothing the increase in LDC participation in world markets was particularly marked. This process also increased the diversification of developing country exports and today the value of their manufactured exports exceed that of all their non-energy exports combined.

Access to OECD markets played a crucial role in this process of growth and diversification of developing countries' exports. During the early years of very rapid export growth before the first oil shock, the share of manufactured exports going to industrial country markets jumped from one to two thirds where — after a period of diversion mainly towards fast growing OPEC markets — it presently stands. There was also a steady change in the composition of the LDC export bundle going

to industrial markets away from traditional items such as textiles and some semi-manufactures, and towards a variety of other goods, many of them more skill or capital intensive.

The analysis of this changing pattern of developing countries' manufactured exports to OECD markets has given rise to a substantial literature, ranging from studies based on the traditional comparative advantage framework (Balassa (1981)), Krueger (1983), Leamer (1984); for a survey see Deardorff (1984)) to eclectic approaches, which go beyond orthodox factor proportion analysis, incorporating crucial institutional aspects in the explanation of these trends. Among those, the combination of high OECD demand growth and shifts in nearly all newly industrialized countries towards a better balance between import substitution and export promotion policies in the 1960s, product cycle dynamics, growing intra-firm trade arising from production and marketing decisions taken on an increasingly global scale and, last but not least, dynamic economies of scale generated by learning processes in marketing and production for export, are taken as having played an important part in the process (see, for instance, OECD (1979), Chenery and Keesing (1981), Fishlow et alii (1981), Helleiner (1981), Keesing (1983)). Although a comprehensive review of this literature lies entirely beyond the scope of this study there are two salient features of the pattern of developing countries' manufactured exports which have an important bearing upon the multilateral trade policy issues to be addressed below.

The first is the country concentration of LDC manufactured exports and the relative stability of the share of leading exporters, the top five — Taiwan, South Korea, Hong-Kong, Brazil and Mexico — accounting for 60%, and the top ten by 80%, of the total. This high country concentration reflects both long established positions of certain countries as suppliers of traditional manufactures, as is the case with India and, especially, the exceedingly good export performance of a small number of developing countries which were able to exploit the strong elements of learning by doing and economies of scale crucial in the new and more dynamic product lines. In a negative sense it also underlies the importance of limiting supply factors in manufactured export growth either related to policy induced biases or to classical handicaps such as the limit posed to the full exploitation of economies of scale by domestic market size, or the availability of specific skills.

The stability of this marked leadership of the East Asian and Latin American NICs has been questioned from evidence on the existence of a "second generation" of successful exporters, which were able to increase their manufactured exports — and particularly those going to developed country markets — at a faster rate than the core NICs (Havrylyshyn and Alikhani (1982)). This seemed to lend support to a corollary of traditional analysis which sees changes in export structure as largely determined by changes in capital (including "human"

capital) endowments, and predicts a continuous flow of new entrants in staple developing country manufactured export lines and the graduation of the early starters towards more technically sophisticated products as industrialization and capital accumulation proceeds in the South — the so-called "stages" approach to comparative advantage (see Balassa (1981), Chapter 6).

However, not only aggregate exports of these new dynamic exporters are small, reaching about 8% of total LDC manufactured exports in 1982, as subsequent research at a more disaggregated level has shown that exports from the leading NICs increased in sophistication and diverted developed country trade in OECD markets as discussed in greater detail below. In fact, the share of the leading five and ten exporters in total developing country manufactured exports to industrial markets has increased by 12.8 and 13.0 percentage points, respectively, over the period 1970-84. It seems, therefore, that even though some admissions to the restricted club of large developing exporters of manufactures to OECD countries may ensue, it is unlikely that the next few years will witness significant changes in the present highly concentrated pattern.

The second interesting aspect of the process of growth of developing country manufactured exports from the standpoint of this paper is the nature of its relation to the

noticeable increase in non-tariff protection against them in the North-Atlantic industrial countries, to be described in the following section. The two way nature of this relationship must be emphasised. On the one hand there is the traditional and widespread view that product concentration and rapid growth of developing country exports prompted the protectionist reaction against the NICs (see, for instance, OECD (1979)). On the other hand, there is the question of the extent to which the rise of protection in the North has or can affect the product and geographical patterns of developing country exports of manufactures.

The rationale of the traditional interpretation of the growth of protection is quite straightforward: it is represented as a defensive reaction against market disruption caused by too rapid import penetration of developing country exports. This popular view must be strongly qualified. The increase in barriers to market access for manufactures in the OECD was not a reaction against the NICs. The early spread of "new protectionist" devices was to a large extent specifically aimed at curbing import penetration from Japan — whose share in total OECD imports of manufactures between 1965 and 1985 rose by the same amount as that of the East Asian NICs, Brazil and Mexico combined — and the present application of VERs and anti-dumping actions affects a substantial share of intra-OECD trade in manufactures.

Indeed, manufactured import penetration ratios — i.e., the share of domestic apparent consumption accounted for by imports from a given source — in the leading five OECD national markets are much higher for imports originating from developed countries than for those from even the more dynamic developing exporters. Absolute penetration ratios for developing countries in 1983, range from 0.9% in France and Japan to a maximum of 2.1% in the United States, by no means an alarmingly high figure when compared with those for intra-OECD and, especially, intra-EEC trade¹. Moreover, the increases in import penetration into those markets in the recent past cannot be accounted for by developing country exports either, except in Japan. In fact, because of developing countries' much smaller export flows the increase in OECD exports accounts for the bulk of the change in import penetration ratios in the North Atlantic industrial countries, especially in Europe².

It can be argued that the limited extent of market penetration by developing countries shown by aggregate figures for manufactured products hides the much greater ratios at sector specific level, reflecting the specialization of developing country exporters in a limited range of products. However, the analysis of different suppliers' shares of North Atlantic industrial countries (NAICs) in sectors such as textiles, clothing and footwear, where penetration by developing countries has increased relatively fast, reveals that the non-NAICs' share in total foreign supplies are either much smaller — as is the case with textiles — or of magnitude comparable to that of the NAICs themselves (World Bank (1987), Table 8.8).

Thus, it seems to be extremely simplifying to interpret the rise of protection in industrial country markets solely as a reaction to long term changes in supply conditions stemming from the reallocation of best practice industrial capacity on a global scale towards a group of developing countries. Of course the unit cost differentials which induce substitution of imports from foreign sources for domestic production are in a fundamental sense an outcome of such long-term trends in a number of sectors. However, sharp trade policy reaction to this relatively slow process of structural adjustment are more often than not the outcome of too rapid increases in relative unit costs occurring as cyclical phenomena due to labor or foreign exchange market disturbances caused by macroeconomic disequilibria. Adjustment costs to these shocks can be very high if they occur in a context of slow growth, for labor displaced in import competing industries will not be rapidly redeployed in the exporting or non-tradable goods sectors. This was the case in the years of adjustment to the stagflation caused by the two oil shocks and, together with the profound misalignment in the dollar effective exchange rate in the early 1980s, can be counted as the leading cause of the general rise in protectionism in Europe and North America which has affected market access conditions for manufactured exports, inter alia, from developing countries.

The extent to which protection has retarded the pace or affected the pattern of growth of developing countries manufactured exports is more controversial and, in spite of major empirical efforts in the past ten years, according to a recent survey "the only available evidence is impressionistic

rather than firm" (Winters (1987), p. 21). Pioneer analyses of the relative growth rates of OECD countries' import flows from large samples of suppliers during the 1970s at finely disaggregated levels tended to support the view that non-tariff barriers directed against developing exporters of manufactures had no substantial effect on the aggregate expansion of their foreign sales in restricted markets. The less restricted newcomers were shown to have sustained very high rates of exports while the leading NICs not only increased their share in all three-digit ISIC categories studied but were also able to maintain a high rate of aggregate export growth by diversifying the product composition of their exports (Hughes and Waelbroeck (1981), Hughes and Krueger (1984)). It was cogently suggested that, barring sharp rises in trade barriers, trade between the large developing exporters of manufactures and industrial countries was likely to proceed through a widening of the product mix along intra-industry lines, as had happened with post-war intra-OECD trade (Donges and Riedel (1977), p. 79).

An updating of the data used in these studies to 1983 has, however, identified a fall in NIC penetration of some traditional export sectors, even though their overall penetration ratios went on rising as a result of continuous diversification (Brodin and Blades (1986)). A recent comparison of growth rates of export flows restricted by non-tariff barriers with those not affected by such impediments during the period 1981-84 also tend to lend support to the view that at the level of affected specific product-country pairs such restrictions do have an impact on trade flows (Finger and Olechowski (1986)).

A more radical view on the impact of protection on both the growth and direction of LDC exports of manufactures was put forward by Hughes and Newbery and endorsed in an influential OECD study (Hughes and Newbery (1984) and OECD (1985)). The thrust of their argument is that the superior performance of smaller successful latecomers in OECD markets during the late 1970s vis à vis the NICs was due to protectionist measures in industrial countries targeted against the latter's staple manufactured exports as the latecomers were not inhibited in this fashion. It is also argued that the relatively better performance of the NICs in non-OECD markets during the same period suggests that protection in industrial countries had the effect of diverting exports of the leading developing exporters away from South-North trade (Hughes and Newbery (1984), p. 17).

The view that higher relative growth rates by a sample of small entrants in world markets for manufactures can be explained solely with reference to protection faced by the NICs seems too narrow. There are solid alternative hypotheses to explain the better aggregate performance of newcomers in the large OECD markets without reference to protection. It is widely recognised, for instance, that the early geographical pattern resulting from export promotion policies is characterized by a preference for concentration in large national markets — notably the United States — which promise better returns on marketing investments and reduce the risk of protectionist reactions, as well as for markets in which domestic producers are not major suppliers (OECD (1979), p. 25).

If this is accepted, the interesting feature of the pattern of aggregate developing country exports of manufactures in the 1970s to be explained is, thus, not the poorer growth performance of the NICs relative to the latecomers in industrial country markets — which is simply a reflection of the exceedingly good performance of the latter, as the NICs went on increasing their market share — but the slowdown in the growth of aggregate developing country manufactured trade with the OECD relative to the rest of the world. Here it seems that to resort, as Hughes and Newbery do, to the rise of protection against the NICs as a primary explanatory factor is to stretch the argument too far. The targeted, country and product specific, nature of the new trade impediments typical of industrial country harassment of efficient and relatively large developing country exporters of manufactures is certainly a second-order influence in the explanation of the marked swings in the geographical trade pattern of manufactured exports from developing countries between broad regions of destination — North and South, and within the OECD itself — over the past fifteen years.

Although the exacerbation of protection in the OECD during the 1970s may have had some influence upon certain product lines one surely cannot explain the changes in direction of manufactured exports of the larger and more dynamic developing exporters without reference to the huge global macroeconomic imbalances affecting relative demand growth and exchange rates among large areas of the world since the first oil shock. There can be little doubt that the sudden reversal in the growing trend in the share of OECD markets in total developing country

exports of manufactures prior to 1973 was caused by the rise in oil prices and recessive adjustment policies in industrial countries which depressed growth in the OECD while demand expanded fast in oil-exporting and some large oil-importing developing countries which were able to finance their current account deficits by borrowing in international capital markets. As a result, even though developing countries' share in industrial countries' imports of manufactures continued to rise steadily, the greater dynamism of demand outside the OECD area brought down the share of LDC exports going to industrial markets, as shown in Table 1. This pattern was reinforced by the second oil shock and the new OECD slowdown in the early 1980s.

Table 1

Geographical Distribution of Developing Countries Manufactured

Exports: 1963-84

(in percentage of total developing countries exports of
manufactures)

	1963	1973	1979	1980	1981	1982	1983	1984
Industrial Areas	48.9	69.3	58.3	61.6	59.5	62.4	66.2	69.1
United States	n.a	34.0	29.0	34.9	32.9	37.2	41.8	46.7
EEC	n.a	20.5	22.2	21.9	19.5	19.2	19.4	15.8
Japan	n.a	8.5	5.9	4.6	4.6	4.4	3.8	4.4
Developing Countries	46.7	27.9	40.9	36.1	37.6	34.8	30.9	27.4
Eastern Trading Area*	3.5	2.8	1.5	2.2	2.8	2.9	2.9	3.4
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Includes the USSR, Eastern Europe, China and the other centrally planned economics of Asia.

Source: GATT. International Trade, several issues.

Since 1982, however, the joint impact of falling oil revenues and adjustment policies in debtor countries on aggregate developing country imports, coupled with the new OECD recovery led by the strong 1983-84 upswing in the United States sharply reversed these trends. The share of industrial country markets in total developing country exports of manufactures rocketed up again from 59.5% to over 69% between 1981 and 1984. The reversal in the American position was even more dramatic as dollar appreciation and the demand growth gap between the United States and their main trade partners caused their share in developing countries' manufactured exports to the OECD to jump from 55.3% to 67.6% between 1981 and 1984 (see Table 1). Indeed, as argued in Section 3 below, the future pattern of developing exports to industrial markets will to a large extent be conditioned by the impact of the reversals of these recent activity level and exchange rate trends within the OECD now taking place, and the trade policy reactions to them.

2. The pattern and costs of protection against exports of manufactures from developing countries in industrial markets

The impressive growth and diversification of manufactured exports to industrial country markets by a small but growing number of developing countries described above has happened against the background of a continuously changing structure of protection in OECD countries. The outstanding characteristic of this change, as far as trade in manufactures

is concerned, was the substitution of a number of non-tariff barriers — implying either the imposition of industry - or country - specific quantitative import limits or more subtle forms of surtaxes administered through complex procedural mechanisms — for the traditional form of protection based on customs tariffs. In analysing the impact of the growth of protection in industrial markets on market access for developing country exports it is thus apt to distinguish those issues relating to the tariff structure of industrial countries from the more complex ones arising from the recent extension of new protectionist devices.

As far as tariff protection, the post-war trend of rates applying to semi-manufactures and manufactures has unmistakeably been one of decline in the OECD. From levels near 50% in the immediate post-war years, average tariff rates on those products are now around 7% in the main industrial markets (GATT (1980)). Comparison of average MFN tariffs, however, disguises the fact that, as developing countries enjoy a variety of preferential schemes — some of which, as the Generalised System of Preferences, are biased in favour of manufactured goods — actual, ex-post, average rates for their products in each tariff line enjoying such preferences are lower than MFN rates.

The fact that United States and EEC actual average tariffs facing labor-intensive manufactured imports for the world as a whole is significantly larger than those facing all manufactured imports — 17.2% for the former against 3.4% for the latter in the United States, and 5.0% against 2.5% in the EEC (Sampson (1986)) — is likely to imply a bias against

developing countries as the direct labor content of their exports of manufactures to the United States and all leading EEC economies is significantly greater on average than that of the latter's imports from the OECD (OECD (1985), p. 189).

It seems, therefore, that still exists some room for improvement in market access conditions for the manufactured exports of developing countries coming from general cuts in OECD tariffs. Simulations using the UNCTAD Trade Policy Simulation Model (Laird and Yeats (1986)) show that developing country manufactured exports to the major 20 OECD member countries would rise by 5.3% in the case of an across the board tariff elimination in all these markets, and by 7.2% in the case of an elimination of tariffs affecting developing country exports only (Sampson (1986), pp. 12-13)³. The most important tariff-related issues as far as South-North trade in manufactures is concerned are, however, the withdrawal of the benefits of the Generalised System of Preferences from the major developing exporters of manufactures — the "graduation" issue — and the inhibiting effect that higher tariff rates on products with a greater degree of fabrication have on the industrial processing of raw materials in developing countries — the question of "tariff escalation" — to be addressed in greater detail below.

Given this relatively favourable long-term trend in tariff protection against manufactures the growth in the use of non-tariff measures over the past few decades have deservedly received greater attention (on this see Baldwin (1970)). Moreover, the changes in the structure of protection in industrial

countries were not only related to this shift in the nature of the instruments of trade policy. The overall incidence of non-tariff barriers has been growing over time⁴ and is targeted against manufactures and semi-manufactures of great export interest to developing countries such as textiles, clothing and iron and steel products (UNCTAD (1987)).

Estimation of the aggregate trade effects of the various non-tariff barriers applied against developing country exports is plagued with a number of empirical difficulties. However, existing quantitative exercises show that trade losses entailed by existing non-tariff measures against developing country manufactured exports are greater than those caused by tariffs, in spite of the pronounced sectoral concentration of the former. UNCTAD simulations for the United States, the EEC and Japan show that while an elimination of MFN tariff rates on manufactures would cause a trade expansion of the order of 5.1% in developing countries' exports of such goods, a simultaneous non-tariff barrier elimination would raise this figure to 11.9% (Sampson (1986), pp. 12-13)⁵.

The product- and country-specific character of non-tariff barriers also makes difficult general discussion of their incidence on developing countries. Thus, in what follows, the main barriers facing developing country exports of manufactures — the Multifibre Agreement on textiles and clothing, other voluntary export restraints affecting the trade of the major NICs, as well as anti-dumping and subsidy countervailing duties — will be dealt with separately in greater detail.

2.1. Tariff-related issues

The Generalised System of Preferences and the issue of "Graduation".

The Generalised System of Preferences (GSP) is a scheme through which preferential and non-discriminatory tariff treatment is unilaterally granted by industrial countries to its developing trade partners formally introduced in the GATT framework through a 10-year, renewable, waiver of the MFN clause in 1971. Implementation of individual schemes by OECD member countries, which together with Hungary, Poland and the USSR, form the set of donor countries, took place gradually. More recently, after their first ten years of existence, these schemes have been renewed for periods ranging from eight and a half to ten years (for a fuller account of the origins of the GSP see Murray (1977)).

The advantages arising from these tariff preferences were expected to be felt on the export earnings of a beneficiary country through the operation of static price advantages caused by the tariff cut on its export products, increasing their competitiveness in the preference-giving country vis à vis domestic production (trade creation) and imports from third countries (trade diversion). Its more sanguine supporters also hoped that the incentive to export would also help to overcome limitations imposed on industrialization by the small size of domestic markets in developing countries.

The fact that the negotiation of these schemes within the donor countries took place in a period of rising protectionism and mounting fears of rapid developing country import penetration reduced, however, their expected impact. Concern about "excessive" beneficiaries' competitiveness in certain product lines led to the limitation of eligibility to a restricted range of goods and the introduction of variable restrictions on imports of eligible products under the scheme according to the amounts imported. (UNCTAD (1986)).

Notwithstanding its institutional limitations, the trade expansion effects of the GSP, as estimated on the basis of ex-ante methodology by Karsenty and Laird (1986) with the use of 1983 trade flows, are not unimportant. The aggregate trade effects of all OECD schemes plus that of Hungary, were calculated as totalling 2.3% of all imports from beneficiary countries — some US\$ 6,5 billion at 1983 prices — or 1.9% if estimated potential gains in clothing exports to the EEC, actually restricted by the MFA, are not considered. Reflecting the low product coverage of the leading schemes, trade gains rise considerably if calculated as a proportion of imports effectively enjoying these preferences (Karsenty and Laird (1986)).

Basically reflecting the concentration of South-North manufactured trade flows in a limited number of developing exporters, over half of the estimated global GSP trade gains accrue to the five largest beneficiaries — Hong Kong, Korea, Taiwan, Brazil and China — and over two-thirds to the top ten (Karsenty and Laird (1983)). To some extent, however, the distribution of GSP

gains among beneficiaries also reflects the commodity composition of their exports, given the very uneven distribution of GSP trade benefits among product classes. This stems from differences in price-elasticities of demand and/or preference margins, as the latter can be large for specific products of LDC export interest in spite of the present low level of average tariff rates in industrial countries.

Even though developing countries have continuously pressed for the extension and improvement of the system, since the early eighties the major donor countries — initially the US and more recently the EEC — started a policy of "graduation", or "differentiation" in the Community's jargon, of beneficiary country products from preferential treatment previously granted under the GSP (for a more detailed discussion of the issue, see Abreu and Fritsch (1986)). The main practical arguments put forward to justify the discretionary withdrawal of benefits are twofold: it is claimed that the losses entailed are small, and that graduation of the larger beneficiaries would produce a more equitable distribution of GSP benefits by increasing the imports of the least developed countries under the scheme.

As to the first point, it should be noted that although GSP benefits may be small as a proportion of total beneficiaries' exports, reflecting the limited product coverage of the GSP, the wide dispersion of gains accruing to different commodity classes shown above suggest that for some product-country pairs, losses are by no means negligible. As to

the second argument, it is unlikely that graduation of an important GSP item from a major developing exporter will benefit the least developed, as the graduated supplier's trade shares would more likely be diverted towards industrial country or other advanced developing country competitors given the nature of the manufactures usually facing graduation. This is confirmed by a recent ex-post study of the behavior of trade shares of 340 products affected by competitive need exclusions in the US which shows that the least developed did not experience changes in their market shares, and in no instance were other LDCs the largest gainers (MacPhee (1986), pp. 10-12).

Tariff escalation

The increase in nominal tariff rates with the degree of processing of a particular primary input —, i.e., the "escalation" of nominal tariffs with the stage of fabrication — is a well known feature of the tariff structure in developed countries (for a comprehensive analysis of the issue see Yeats (1979)). This tariff pattern has two negative implications for the processing of raw materials in developing countries. The first relates to the relatively high tariffs in the processed products per se, as there is ample evidence that demand import elasticities steadily increase with fabrication. The second and more directly related to escalation stresses its effect of amplifying effective rates of protection⁶.

The across the board application of a tariff cutting formula which had greater relative impact on higher tariffs during the Tokyo Round led to some reduction in escalation but by no means eliminated it. For 27 basic processing chains, nominal tariffs continue to escalate in 19 cases in the United States, 24 in the EEC and 25 in Japan in the first stage and in 24, 26 and 25 cases, respectively, in the second stage of processing (UNCTAD (1980)). Rough estimates of post-Tokyo Round effective rates of protection for a sample of processing chains shows, moreover, that there remain very high rates, figures over 30% not being uncommon (Yeats (1987), Table 4.).

The impact of tariff escalation in industrial countries on the global distribution of value added of a given processing chain is to some extent countervailed by the widespread application of export taxes on raw materials by the primary exporting developing countries. The joint operation of export taxes on unprocessed inputs and high tariffs on the processed good raise the price of the final product in developed country markets with a depressing effect on demand and hence, on total value added in all stages of fabrication. It could thus be notionally possible to achieve a reduction of tariff escalation without contractionary effects on processing activities in industrial countries if a simultaneous reduction in developing countries' export taxes were implemented. This would "give [developed country] policy makers an easier choice than is provided by suggestions that they unilaterally reduce their imports duties" (Golub and Finger (1979), p. 560) and, by affording mutual gains, could be an important area for reciprocal

bargaining in the multilateral negotiations. However, account should be taken of the fact that fiscal revenues in a great number of poor primary exporting countries are heavily dependent on trade taxes, and that MFN cuts in fabricated products may erode the present competitive edge of some 'offshore' processing plants which import less processed imports for processing and re-export to developed countries.

One should not expect much progress in this area, however, if this issue is dealt with in isolation from other trade impediments affecting semi-processed materials. The higher stages of the processing of natural fibres, ores and food items such as meat, fish, vegetables, fruits, sugar and oilseeds face an array of non-tariff measures — coverage ratios being higher than 30% in the final stage of fabrication in every processing chain — while tobacco and tropical beverages face very high excise duties in important OECD markets (UNCTAD (1980)).

2.2. Non-tariff barriers

Restrictions on textiles and clothing: the multifibre arrangement

Exports of textiles and clothing have become increasingly important for a growing number of developing countries in the post-war period. Between 1955 and 1982 developing countries' share in world markets rose from 15% to 30% for textiles and from 10% to 48% for clothing. As a consequence of continuous export diversification by the leading NICs, during these years the share of textiles in total manufactured exports

from developing countries fell markedly while clothing rose (GATT (1984), I, passim).

The supply of both textile and clothing in world markets is somewhat concentrated. The two markets differ, however, in terms of the relative importance of developing countries in the share of leading suppliers. The fifteen main textile exporters in 1982 supplied 73% of the world market, of which not less than 80% corresponded to developed countries sales. South Korea was the best placed developing country, though it exported 60% less than West Germany. In the clothing world market, on the other hand, fifteen main suppliers hold a 71% market share, but less than 50% originates in developed countries. Hong Kong, South Korea, Taiwan and China are, respectively, the first, third, fourth and sixth major suppliers, (GATT(1984), I, pp. 42-3).

Textile markets provide the earliest examples of quantitative restrictions applied against manufactured imports by the leading industrial countries: the first voluntary restraint agreement dates back from 1935, when the United States negotiated quotas against Japanese exports. The present multilateral arrangements regulating trade in both textiles and clothing — the so-called Multifibre Arrangement (MFA) — in an outgrowth of American and British reaction to increased textile penetration from East Asia in the early 1960s negotiated under GATT auspices (Curzon and Curzon (1976)). These arrangements have been renewed several times and progressively extended to cover an ever widening range of fibres and products. The life of the present MFA, negotiated in 1986, extends to 1991.

The alleged rationale for the continued quota regulation of international trade in textiles and clothing is to avoid the dislocation of jobs in developed countries. It is, however, well known that only a small proportion of job contraction in textile and clothing industries can be attributed to increased imports from developing countries (Greenaway (1983), p. 180) and Silberston (1984), chapter 7). Textile and clothing quotas, moreover, are an extremely expensive way of protecting jobs. There is massive evidence for major developed countries which underlines the very big gap between the social cost of maintaining jobs and the private gains of workers who keep their jobs (see Wolf et alii (1984), chapter 4, for work on Canada, the U.K. and the U.S., as well as Greenaway and Hindley (1985), chapter 4, for more recent estimates of the cost of clothing protectionism in the U.K.).

In spite of these extremely high costs to consumers and taxpayers it would be a mistake to underestimate the weight of the textile and clothing protectionist lobby, especially in the U.S.⁷.

Costs of protection to developing countries stemming from the present restrictive arrangement are high. The heavy protection entailed by the MFA results in a very important contraction of trade if compared to the hypothetical alternative of a totally free market. UNCTAD computations of the cost of protection in terms of foregone imports show that the gains for textile and clothing exports by developing countries to the EEC,

Japan and the U.S. in the event of a total removal of trade and non-trade barriers would be no less than 50.8% of total possible gains related to all trade. UNCTAD estimates suggest that textile exports would increase by 49.1% and clothing exports by 128.9%. Japanese textile and clothing imports would increase by no more than 17% in the most extreme case, while EEC imports would rise in the 50-90% range and U.S. imports in the 120-140% range (UNCTAD (1986), p. 25 and Annex II). Other aggregate estimates of the costs of protection to exporters roughly agree with these UNCTAD estimates⁸.

The permanence or abolition of the MFA is, therefore, crucial in defining future trends for textile and clothing exports from developing countries. It can be argued that as some large NICs derive sizeable rents from the present quotas (Hamilton (1986)) there may be strong vested interests among developing exporters prepared to lend support to the maintenance of the arrangement. However, it is worth noticing that notwithstanding the revealed ability of some NICs to by-pass the maze of regulations and sustain high export growth rates through diversification into less restricted fibres and products, it will be increasingly difficult to do that as the leaks in the MFA are progressively closed and the arrangement increasingly discriminates in favor of small suppliers.

From a negotiating perspective a crucial issue is, thus, how the benefits from reduced protectionism in the textile and clothing sectors would be distributed. This is an extremely difficult exercise for, as is well known, MFA regulations freeze

the comparative advantage of different suppliers. Voluntary restraints have for so long regulated these markets that it is difficult to detect changes in comparative advantage positions. The comparison of quota utilization rates does not provide a sufficiently discriminating criteria to evaluate such possible developments as so many countries reach a high level of utilization (GATT (1984), I, pp. 93-98). Information on comparative labor costs is difficult to obtain and not always easy to use. Moreover, as mentioned by Silbertson (1984, p.27), low labor costs may mean little as they can be compensated by productivity differences and exchange rate fluctuations which, since 1985, are likely to have made German and Japanese products much less competitive.

Other factors count as powerfully as costs to establish capacity to compete, as the ability to absorb adequately fashion and design changes as well as to introduce new production techniques. Cable (1986, pp. 28-9) has persuasively argued that it is likely that in a freer market, especially in the case of clothing, middle-income countries such as those of Latin America, Malaysia and Singapore will suffer. They are not especially low-cost (as China and India) or very competitive in terms of technology, management or fashion adaptation (as South Korea, Hong Kong and Taiwan). They are not likely either to benefit from geographical advantage in relation to the main markets as the Mediterranean and Eastern European countries in the EEC, and Central America and the Caribbean in the U.S., as locational advantages seem to determine the establishment of outward processing links.

Other Voluntary Restraint Agreements

Quantitative limits affecting South-North trade in manufactures are not restricted to textiles and clothing. Of special concern to major developing exporters of manufactures is the spread of bilaterally negotiated quota agreements between developed and developing country governments with a view to limit exports of the developing trade partner — the so-called Voluntary Restraints (VERs) or Orderly Marketing Agreements (OMAs). This is usually achieved under the threat of unilateral imposition of a quota or other form of trade harassment by the importing country and has affected an increasing range of mostly non-traditional exports.

In a large number of cases VERs were applied first against Japanese exports and later extended to a very limited number of major developing exporters, notably the Latin American and Asian NICs. The classical case is steel where a VER applied by the US first against Japan in the late 1960s as well as on subsidised European supplies and later temporarily replaced for an automatic anti-dumping "trigger price" mechanism, has been reenacted following the fall in demand and structural adjustment problems after the first oil shock and extended by both the US and the EEC to include control of an extensive number of steel imports from countries such as Brazil, Korea and Mexico (Walter (1983)).

The adjustment problems of the seventies in the

OECD also prompted the imposition of such quantitative controls by the United States, Canada and European countries against Japanese consumer electronics, which were also extended to Korea and Taiwan. These countries, together with Brazil, were also hit in their exports of footwear and cutlery (for a list of VERs applied against them, see OECD (1985), pp. 32-3, and Anjaria et alii (1985) pp. 157-59).

Costs to consumers resulting from the higher domestic prices implied by these supply restrictions as well as loss of revenue to exporting countries are extremely high (World Bank (1985), Table 4 and World Bank (1987), Table 8.11). Although these arrangements are usually justified on the grounds of the employment effects of the dislocations caused by rapid import penetration, they have been shown to be very costly and ineffective. Costs of maintaining a worker employed in the United States steel and automobile industries were estimated as being roughly equivalent to six times the average American industrial wage (Tarr and Morkre (1984), Kalantzopoulos (1986)), and 10 times the British wage in the case of protection of videocassette recorders in the United Kingdom (Greenaway and Hindley (1985)). On the other hand, as Baldwin (1986) noted, when non-rubber footwear quotas were applied by the United States against Taiwan and Korea in the late 1970s, imports from these countries fell by 9.4% in volume terms but imports from other sources rose by 8.5%.

In the light of the evidence presented above, to explain the continued application of VERs one has to resort to political arguments. It has been suggested that they only stand because of the political muscle of the protected oligopolies; of the VERs' distributive effect which - as opposed to that of other restrictions such as tariffs or global quotas - also favor the exporter of the restrained product (for an estimate of Korea's rent gains from steel VERs see Tarr (1987)); and also that, as clandestine agreements, they allow governments to negotiate and implement them outside the reach of parliaments and the GATT, thus reducing its political costs (Jones (1984), Frey (1985)). To these one should obviously add the asymmetry in trade power between the NICs and the major capitalist trading nations, reflected in the fact that the overall import coverage ratio for VERs applied to developing countries is 10.9% as compared to 0.4% for the industrial economies, a pattern replicated in every product line facing VERs (Nogués, Olechowski and Winters (1986), pp 195-96).

Anti-dumping and countervailing duty actions

Rather old guns in the arsenal of trade policy measures, anti-dumping (AD) taxes and countervailing duties (CVD) levied against foreign export subsidies — the so-called "less than fair value" (LFV) measures in the jargon of protection — have been applied with increasing frequency since the mid-1970s by a small number of GATT developed signatories. Although

initiations of CVD actions by Chile increased dramatically in recent years, over the July 1983 - June 1985 period the US, the EEC, Canada and Australia alone were responsible for all but two of the 362 GATT-reported AD actions, and for 77% of all CVD cases filed.

Tables 2 and 3 show the clearly rising trends in the initiation of both LFV measures by the four countries which most frequently resort to such actions since the second half of the 1970s. The data also reveals the much greater frequency of CVD actions started in the US, where the number of AD and, especially, CVD cases rocketed up after the passage of the 1974 Trade Act (Odell (1980), Fritsch (1983)), a point to be discussed in greater detail below.

The rapid increase in LFV actions in leading OECD markets has an important bearing upon the question of market access for developing exporters. The two central trade policy issues in this connection are (i) whether the pattern of such actions is generally biased against developing suppliers in terms of both initiations as well as the proportion of affirmative findings, and (ii) the extent to which those measures are being introduced as relief for competitive pressure and not — as it is theoretically justified — as a countervail to distortive unfair trade practices and, therefore, differing in principle from sheer protectionist instruments such as VERs, or temporary relief measures taken under the umbrella of GATT Article XIX provisions.⁹

Table 2

Initiations of Anti-Dumping Actions by Industrial Countries: 1975-85*

(number of initiations)

	1975-79	1980-81	1981-82	1982-83	1983-84	1984-85	1980-85
United States	130	15	50	40	46	61	212
EEC	55	22	39	26	33	31	151
Canada	56	29	64	34	26	34	187
Australia**	120	n.a	n.a	71	70	61	n.a

Source: GATT. Report of the Committee on Anti-Dumping Practices, Several
issues. GATT, Geneva.

* Periods shown refer to interval between July of first year and June of last year shown.

** No notifications of anti-dumping actions by Australia prior to her adhesion to the Anti-Dumping Code in September 1982 is available in the GATT Committee's records. Data for 1975-79 for Australia is taken from Oum (1986).

Table 3

Initiations of Countervailing Actions by Industrial Countries: 1975-85*

(number of initiations)

	1975-79	1980-81	1981-82	1982-83	1983-84	1984-85	1980-85
United States	104	7	92	38	22	61	220
EEC	n.a	-	2	3	1	1	7
Canada	n.a	3	-	2	3	7	9
Australia	n.a	-	-	9	3	5	17

Source: GATT. Report of the Committee on Subsidies and Countervailing Measures. Several issues. GATT, Geneva. The figure for the US in 1975-79 comes from Nam (1986).

* Periods shown refer to interval between July of first year and June of last year shown except for US figures for 1975-79 which refer to period January 1975 to December 1979.

The data on LFV actions by the US, the EEC, Canada and Australia also reveals that the frequency of Initiations is not biased against developing country exporters. However, as far as the pattern of effective application of duties is concerned, this is only true of AD actions and there is a clear bias against developing countries in the application of CVDs by the United States, as shown in Table 4.

Table 4

Affirmative Countervailing Actions* as a Proportion of Initiations:

1.7.1980 - 30.6.1985

(in %)

Country Group**	United States	EEC	Canada	Australia	Total
Industrial Countries	33.0	50.0	37.5	5.9	31.7
Developing Countries	64.3	40.0	-	-	63.1
Eastern Trading Area	-	-	-	-	-
Total	46.4	42.9	33.3	5.9	43.1

Source: GATT. Report of the Committee on Subsidies and Countervailing Several issues. GATT, Geneva.

* Actions terminating with the application of duties or suspended through agreement.

**Groups defined as follows:

Industrial Countries: Australia, Belgium, Canada, Switzerland, Fed. Rep. of Germany, Spain, Finland, France, United Kingdom, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Sweden, South Africa, United States, Yugoslavia.

Developing Countries: Argentina, Brazil, Chile, Colombia, Dominican Republic, Hong Kong, Israel, India, Indonesia, Korea, Malaysia, Mexico, Philippines, Singapore, Thailand, Trinidad & Tobago, Taiwan, Turkey, Uruguay, Venezuela, Pakistan, Panama.

Eastern Trading Area: China, Czechoslovakia, Dem. Rep. of Germany, Hungary, Poland, Romania, USSR.

This high frequency of CVD initiations by the US and the higher concentration of affirmative cases on developing suppliers merits some comments. It is hard to believe, as suggested by Nam, that this much higher frequency of CVD action can be accounted for either by longer United States tradition in the legislation and practice of anti-bounty rules or by an allegedly higher American attachment "to the free market enterprise system with less government intervention" than that existing in other industrial countries (Nam (1980), p. 25). Both hypotheses are irreconcilable with the explosive increase in the initiations and applications of CVDs since the mid-1970s by the United States government. Only 17 cases ended with the application of duties between 1959 and 1974 and in the first half of the 1970s just 11 cases were initiated (Balassa and Sharpston (1976)). A more plausible cause of the high number of United States cases against developing countries in the pattern of CVD application may be the combination of export incentives and targeting of the American market as central pieces of export promotion strategies in large number of developing countries since the late 1960s.

As to the higher incidence of affirmative cases, the reason may lie in the fact that as the unconditional MFN clause does not apply to the Subsidies Code, non-signatories — among which there are many developing countries — are not guaranteed the right to an injury test. Thus, while all CVD actions against industrial countries in the US during 1980-85 generated injury tests, this was true of only 40% of developing country cases (Nam (1986) p. 27-28).

In discussing the country incidence of LFV cases against developing countries, it should be kept in mind that there is a substantial concentration of the actions in a small number of large developing exporters of manufactures. Indeed, 64% of all AD and CVD initiations against developing countries during 1980-85 were concentrated in the leading five exporters of manufactures — Brazil, Mexico, Hong Kong, Korea and Taiwan — and, if China is included in this country group, this share rises to 74%. Brazil, Korea and Taiwan alone accounted for 63.3% of all AD actions, while Brazil, Mexico and Hong Kong were the target in 59% of all CVD initiations against LDCs over this same period.

This high concentration of LFV cases against the more dynamic developing exporters suggests the existence of a strong element of import relief in the motivation of their initiation. This impression seems, in fact, to be confirmed by the analysis of the pattern of industry incidence of AD and CVD actions in the United States and the EEC which tend to be concentrated in textiles and semi-manufactures such as metals (especially iron and steel) and chemicals. These are sectors in which the large developing exporters have demonstrated an increasing competitive edge. Indeed, the analysis of joint AD and CVD coverage ratios in the United States and the EEC applied against the most affected developing exporters, shown in Table 5, reveals that for these countries the sectoral pattern of incidence roughly conforms to the global pattern. The high coverage ratios for iron and steel products among developing exporters indicate a

rapidly changing industry-country pattern of application of LFV action, for this sector was not reported as one of high incidence of complaints against developing countries in studies of LFV incidence in the 1970s (Cf. Finger (1981), p. 269).

Table 5

Industry Incidence of AD and CVD Initiations against the Leading
Developing Exporters of Manufactures in the US and the EEC in

1983

(coverage ratios in %)

Product class	Brazil	Mexico	Korea	Hong Kong	Taiwan
Iron and steel	33.6	37.9	16.9	-	28.4
Non ferrous metals	4.4	-	4.2	-	-
Chemicals	14.7	17.3	1.7	-	34.9
Manufactures	6.6	3.7	4.8	6.4	2.8
Leather	-	-	-	-	-
Textiles	5.2	65.8	-	-	-
Clothing	5.4	7.2	-	-	-
Footwear	8.6	-	-	-	-
Other manufactures	6.7	2.5	7.8	0.6	3.6

Source: UNCTAD Data Base on Trade Measures.

In practice, therefore, the pattern of product and country incidence of LFV actions displays strong similarities with that of other forms of administered protection: it is concentrated in some industries of great export interest to developing countries and affect, to a disproportionate extent, the leading developing exporters of manufactures. Unlike VERs, however, LFV actions can, within limits, be bypassed by the

affected exporter by lowering margins and, in the case of CVDs, by the affected country by exchange rate devaluation or the granting of other, legal, form of subsidy . Thus, it seems that in the presence of severe structural adjustment problems LFV actions may tend to be replaced by more robust quantitative limitations, as indeed was the case with steel. Nevertheless, barring a profound reform of multilateral trade rules, LFV actions are likely to continue to be widely used as a protectionist device for temporary harassment of efficient foreign competitors to provide relief for oligopolistic and high-employment industries on occasions of downward pressure on their profit margins caused by a widening of relative unit costs or flagging domestic demand , as happened in the recent past.

Costs of LFV actions to exporters and consumers vary widely from case to case, reflecting the great variation of duties applied in each specific action, the average rate being around 10% but particular cases reaching extremes beyond 100%.

3. Prospects for the growth of manufactured exports from developing countries

The launching of a new round of multilateral trade negotiations in Punta del Este in September 1986 creates the possibility of reversing the protectionist trends described

above thus improving market access for manufactured exports in OECD markets. As far as developing country participation is concerned this new round was hailed by many observers in the North as having two historically distinctive features which could positively influence the negotiating process. Firstly, it was to bring forward a host of negotiating issues likely to give rise to new coalitions outside the classical North-South divide. Secondly, it was likely to witness greater participation of the more advanced developing countries - to which market access for manufactured exports has become an increasingly important issue - in the MTNs.

A closer analysis of the extent to which developing GATT members are presently affected by each of the barriers reviewed in Section 2 - viz. GSP graduation, tariff escalation, AD and CVD actions and VERs, including the MFA - tends to suggest, however, that the likelihood of the formation of NIC-led coalitions or coalitions with strong participation of an expressive number of developing exporters of manufactures to lower these barriers or, where appropriate, subject their use to improved multilateral rules and surveillance is, perhaps, greatly exaggerated.

GSP graduation, an issue of specific interest to the larger developing exporters of manufactures is not - by the very unilateral nature of the GSP offer - to provide a basis for broad coalition formation. Unilateral "self-graduation" proposals may be issued in isolation by a few large NICs, especially if this symbolic gesture can be translated into some

tangible or intangible gains in the context of bilateral relations with the United States or, in the case of the Asian NICs, Japan. Barring this alternative the likely approach by the leading beneficiaries in the ongoing MTNs would be the rather indirect one of pressing for a further reduction of OECD countries' MFN tariffs, which would have the added advantage of eroding competitive margins of Lomé and other arrangements' beneficiaries without straining G-77 solidarity. However, the explicit preservation of S&D in the Uruguay ministerial declaration and the great country concentration of GSP benefits makes developing country pressures for improving these benefits towards the least developed among them the most likely outcome of the MTNs in this area.

Tariff escalation is and will remain largely an issue involving the larger group of developing primary exporters and thus being negotiated along traditional North-South lines. This is a question of no export interest to many of the top Asian exporters of manufactures which are net importers of raw materials.

The reform of the Anti-Dumping and Subsidies Codes is also an issue in which broad, cohesive, developing country participation is unlikely. On the one hand, AD actions, as shown in Section 2, are not something of specific interest to developing exporters of manufactures as its abuse as an instrument of protection severely affects intra-OECD trade. Some leading developing exporters of manufactures will certainly actively join in the negotiations for AD rule reform as they have indeed done in the past, but are not likely to shape the

outcome of these discussions.

CVD application, on the other hand, tend to be disproportionately concentrated on a small number of leading developing exporters of manufactures. However, there is a tendency for these countries to deal bilaterally with this issue for, as a recent study put it, it "is not a multilateral, but a bilateral issue, with the United States in one side and its trading partners on the other" (Finger and Nogués (1987), p. 709). Moreover, developing country interest on this issue vary as the importance of border subsidies for an individual country trade performance largely depends on the degree of neutrality of its trade and exchange rate policy, which greatly varies even among the leading developing exporters of manufactures.

Safeguards, that is, the improvement of Article XIX so as to provide the basis for the elimination of VERs is usually considered a key issue around which significant developing country coalitions could be built. This would affect the MFA - a special case of a multilateral VER - the abolition of which is basically conditional to the achievement of a successful accord on safeguards in the Round.

There are, however, two main stumbling blocks on the way to the formation of developing country coalitions over the safeguards issue. The first is that VERs, albeit growing in application, affect as yet a very small number of products and developing country exporters. According to the UNCTAD Data Base on Trade Measures these restrictions as applied by the

US, the EEC and Japan are concentrated almost exclusively on Korean miscellaneous manufactures and steel exports and on the exports of steel of the three major Latin American economies. This is not to say that the potential threat to market access for latecomers represented by existing VERs could not make for a broadening of developing countries' support for strengthening GATT's safeguards clause. The problem is that the small number of "injuring" suppliers makes unlikely a wide support for the application of GATT's non-discriminating safeguards. Although selectivity in the application of Article XIX as proposed by the EEC during the Tokyo Round - i.e., the targeting of "disruptive" trade partners by the injured country - has been resisted in principle by a large number of developing countries as a dangerous departure of the principle of non-discrimination, the fact that the number of developing countries facing VERs is very small is certainly a factor which greatly weakens the political will towards the formation of broad developing country coalitions to strengthen GATT safeguards application¹⁰.

The second and by no means less important stumbling block is that, as discussed in Section 2, VERs are not without interest to the injured country since they result in the generation of rents appropriated by exporters. Moreover, since periodical revision of quota allocations is not the rule in the existing agreements for the political costs involved in the negotiations are large, changing competitive advantage among suppliers in favour of latecomers creates a vested interest among traditional, large, suppliers against liberalization as, it seems to be widely recognised, is the case with the MFA today.

This negative assessment of the likelihood of a decisive participation of developing countries in grand coalitions formed around the crucial issues relating to market access for manufactures in the OECD should come as no surprise. The diversity of developing countries' interests stemming mostly from structural heterogeneity among even the leading NICs, the fact that the major non-tariff barriers to trade in manufactures are not a unique feature of South-North trade and that in the GATT the division between developing and developed countries does not stand as clear as in other multilateral fora and last but not least, the diminute realiatory power of developing countries vis à vis their developed trade partners are major factors accounting for that.

It should be noted, however, that current conventional wisdom among mainstream economists and government officials in the North about the prospects for improvement of market access for the leading developing exporters of manufactures has centered less on arguments about coalition formation than on likely benefits to be derived from their "fuller participation" - i.e., their engaging in reciprocal bargaining processes with their OECD partners - in the Round. As Bhagwati, Krueger and Snape (1987) put it: "The Uruguay Round... is unique from the viewpoint of the developing countries. It marks a sufficiently radical departure from the earlier GATT rounds in that, more than ever, it calls for the developing countries to engage actively in the negotiations" (Bhagwati, Krueger and Snape (1987), p. 540).

Academic support for this view seems to be derived from a combination of two main arguments. First, there is the belief in the advantages of more liberal trade and exchange

rate regimes for developing countries, and a genuine fear that the growing tide of neo-protectionism in industrial countries may impair trade performance and lead to "export pessimism" and skepticism as to the effectiveness of "outward-oriented" trade and industrialization strategies and, eventually, to their abandonment in developing countries. These presuppositions, combined with a somewhat simplified account of the historical reasons for the uneven spread of trade liberalization in the post-war years as deriving from limited developing country participation in the GATT and their revealed preference for free-riderism based on the benefits of S&D conceded in the 1960s, provides a strong case for "fuller participation" based on self-interest. Translated into the multilateral trade policy framework this means advising developing countries to be prepared not only to bind their tariffs but - more importantly, given the high rate of tariff redundancy in developing countries - to give up the exemption from strict GATT discipline they are entitled to by reason of balance of payments difficulties or infant industry protection under Article XVIII (B) and Part IV.

From the more mercantilist viewpoint of government officials in the North, this "self-graduation" argument seems to provide valuable negotiating chips for their otherwise bare agenda for the trade in goods negotiations with the South, at least for talks with their more industrially advanced developing trade partners. From the equally mercantilist viewpoint of Southern negotiators this view looks, however, rather candid. Although it is certainly true that the advantages of greater neutrality of incentives in trade and exchange rate policies is

now much more widely recognised among developing country policy-makers than twenty years ago, there are still widespread doubts as to the wisdom of self-graduation and "fuller participation". The crucial question here is by no means GSP graduation, as the GSP is now seen by most leading beneficiaries as a mixed blessing, given the extent to which the withdrawal or reduction of the offer has been used as a bargaining weapon by the main donors. The issue is whether to unilaterally give away the right granted by GATT's S&D clauses to administer protection for development purposes with much greater discretion than their developed partners, and there is no compelling reason why they should so act. The case against infant industry protection, especially in the larger, resource-rich and more diversified developing countries cannot be made on purely theoretical grounds as very little can be said a priori on the patterns and velocity of change in comparative advantage; and the case against relaxing GATT approved discretionary trade and payments controls for short term balance of payments motives in the present uncertain international economic outlook is overwhelming, especially in debtor countries.

It should be noted, therefore, that unless traditional GATT practice of reciprocity at the margin is to be replaced by the so-called "level playing field" approach - which under present conditions is tantamount to asking developing countries for a substantial amount of unilateral liberalization - the basic determinant of "fuller participation" by developing exporters of manufactures in the Round is the possibility of increased market access in the North. The simple political economy of "fuller participation" by the more advanced developing countries in the Uruguay Round is that the structural adjustment required by trade liberalization efforts in the South must be matched by structural adjustment in the manufacturing sector in the North. This will require substantially lowering labour adjustment costs in the latter which, because they tend to be concentrated both in time and space while the benefits from lower prices are diffuse, have been the source of not inconsiderable political opposition to trade liberalization

in most of the leading North Atlantic economies.

An important step in this direction is the reestablishment of active labour adjustment and industrial policies in developed countries. It has been convincingly argued that resistance to trade policy reform in the United States has been increased by the demolition of government sponsored labour adjustment programmes in the early 1980s (Aho (1985)). However, as structural adjustment requires investment, the crux of the matter is OECD growth. Although there no single direction of causation in the post-war virtuous circle of economic growth and trade liberalization, it is undeniable that high growth and investment rates in the central countries were essential factors in the transformation which allowed the relatively frictionless adjustment to rapid Japanese manufactured exports growth and that of the leading NICs before the first oil shock. The worldwide economic dislocation of the 1970s and early 1980s — the collapse of Bretton Woods, severe oil and commodity price shocks, wide interest rate fluctuations — increased the pressure for structural adjustment, but the slowdown in OECD growth and investment made this task immensely more difficult and increased the strains on the multilateral trade system.

This dependence of the achievements of multilateral trade policy on the global economic environment cannot be underestimated. Its recognition is an essential ingredient in any realistic assessment of the near-term prospects for market access for manufactured exports from developing countries owing to the global effects of the inevitable adjustment of the massive

United States trade deficit.

It is today widely acknowledged that the present levels of current account disequilibrium in the United States balance of payments, are unsustainable and represent a real threat to the stability of world financial markets (Marris (1985)). Adjustment to a sustainable path — after the large real dollar depreciation since the Plaza agreement reached what seems to be its maximum politically acceptable extent — requires a fall in United States demand growth rates relative to that of the leading OECD surplus countries. This can be done either unilaterally, through demand contraction in the United States, or by a combination of coordinated policy action between the American and surplus countries' governments, the latter expanding domestic demand in tandem with United States demand growth slowdown.

The impact of each of these two alternatives upon the growth of world trade are however, quite different. Although the superiority of coordinated action has been repeatedly recognised in G-5 formal policy agreements and summit meetings since at least 1985, very little has been effectively done in that direction by any of the main actors in these groups. Not only the United States seem not to be able to break the long standing political deadlock between Congress and the White House which prevents needed action to reduce the presently large fiscal stimulus, as the German, and to a lesser extent, the Japanese governments seem unwilling to reflate domestic demand either by fiscal or monetary means. On present policies — and even not taking into account the negative effect of the recent stock market

crash on future demand growth in industrial countries — the prospects for the growth of manufactured imports in OECD markets are rather poor, as can be seen in Table 6.

Table 6
Rates of growth of real GDP and manufactured import volume in the
OECD and the United States: 1983-88
 (in %)

	1983	1984	1985	1986	1987*	1988*
<u>Real GDP</u>						
OECD	2.9	4.8	3.1	2.5	2.3	2.3
United States	4.0	6.7	3.0	2.5	2.3	2.8
<u>Manufact.import volume</u>						
OECD	7.0	15.3	8.2	8.5	3.8	4.5
United States	14.8	30.1	11.7	9.0	2.3	1.5

* Forecasts

Source: OECD, OECD Economic Outlook. December 1985 and June 1987.

Note: Forecasts for 1987 and 1988 are made under assumptions of no change in actual and stated policies and exchange rates as of April 1987 and OECD f.o.b. oil import prices of US\$ 18 per barrel.

This present poor outlook for world trade in manufactures can be made much worse in the event of unilateral American adjustment, with specially damaging effects on developing countries as the United States is currently absorbing not less

than two-thirds of their sales of manufactures and semi-manufactures. Moreover, there is a high probability that with continued anemic domestic demand growth and historically high levels of unemployment in the EEC, the lagged effects of the recent appreciation of the leading European currencies against the dollar may flare up protectionism in Europe.

Thus, low OECD growth rates and the ensuing deterioration of the conditions for easier structural adjustment is the real threat to the prospects of developing countries continued export growth and diversification and, indeed, to the multilateral trading system in the near future. Failure to lead the industrial countries to a higher aggregate growth path during the period of the inevitable massive external adjustment of the United States economy means allocating the current American trade deficit through beggar-my-neighbour policies. The result, as the lessons of the inter-war years teach us, is equilibrium only at a much reduced level of world trade and, most likely, the desintegration of the multilateral trade system.

4. Footnotes

1. Cf. Sampson (1986), Table A.18. The major developing exporters include Brazil, Hong-Kong, Mexico, South Korea, Taiwan, Singapore and Yugoslavia.
2. Idem.
3. In the first case, however, some developing countries may end as net losers in some markets and sectors as trade diverting effects stemming from the erosion of present preference margins may exceed the trade creation effects from the lower tariffs.
4. The proportion of total world manufactured exports to industrial countries affected by non-tariff measures — excluding technical and sanitary regulations and excise taxes — rose from 18.6% to 20.5% between 1981 and 1986. (UNCTAD (1987)).
5. A similar exercise carried out by the IMF staff, using a sample of 10 large developing exporters of manufactures and — as the UNCTAD study referred to above — assuming infinite supply elasticities, estimated total gains from non-tariff barrier elimination as being of the order of 16.3% of total manufactured exports of the sample countries (Kirmani, Molajoni and Mayer (1984)).
6. Effective rates of protection measure the effect of protection in value added per unit of output in the importing country, and are better indicators of protection in incomes in industries using large amounts of dutiable inputs. On this, see Corden (1971).
7. Cline (1987) contains a very useful discussion of trends of textile and clothing protectionism in the US as well as of recent work on its costs.
8. Kirmani, Molajoni and Mayer (1984) estimated rates of growth of 81.8% and 92.6% for textiles and clothing respectively; OECD (1985) suggested 100% for the aggregate based on a somewhat objectionable econometric exercise. These estimates do not take into account terms of trade losses as implied by the existence of quota premia but also ignore the dynamic benefits to exports (Cable (1986)). Choi, Chung and Marian (1985), estimates seem extremely conservative when compared to the others mentioned above.
9. As reported by Finger (1981) while an IMF study included AD and CVD cases as protectionist devices, a World Bank tabulation excluded them. For a discussion of the welfare implications of dumping and export subsidies see Dale (1980) and Bryan (1980)).
10. The MFA poses a different situation in that the status-quo generates dissatisfaction in latecomers to which textiles represent a large share of their total, or more dynamic, exports. This could broaden the basis for safeguards-reform coalition. However, the recent renewal of the MFA makes the Uruguay Round debate on safeguards much more related with the broader VER issues.

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