

Langhammer, Rolf J.

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## Sectoral profiles of import licencing in selected developing countries and their impact on North-South and South-South trade flows

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**Sectoral Profiles of Import Licencing  
in Selected Developing Countries and their Impact  
on North-South and South-South Trade Flows<sup>1</sup>**

By Rolf J. Langhammer<sup>2</sup>

**Introduction**

During the last two decades three of the four "boxes" of investigations on each tariff and non-tariff barriers imposed by each developed and developing economies have been gradually filled with comparative empirical analyses. Thus, we have been able to trace patterns of tariff and non-tariff barriers in developed economies mostly facing developing countries' exports as well as to describe the structure of tariff protection in industrializing developing economies which either pursued import substitution or export diversification policies [Little, Scitovski and Scott, 1970; Balassa and Associates, 1971; Donges, 1976; Krueger, 1978, Yeats, 1979]. The last box, however, referring to investigations on non-tariff barriers imposed by developing countries upon imports from either developed or developing economies, remained fairly empty. The reasons for this neglect are well-known: the heterogeneity of non-tariff barriers which impedes their systematic registration let alone the assessment of tariff equivalents, the heterogeneity of developing economies which hampers comparative analyses, the frequency of changes in non-tariff barriers and perhaps also a lacking necessity from the view of developed economies to engage in such analyses given the nonetheless rapid increase of developed countries' exports to developing economies during the last two decades.<sup>3</sup>

However, there are at least three aspects which nowadays justify a higher attention to non-tariff barriers than in the past. Firstly, developing countries suffering from strong balance of payments difficulties because of the world recession and the two oil price shocks during the

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<sup>1</sup> This paper reports on research undertaken in a project on determinants of South-South trade which receives financial support from the VW foundation.

<sup>2</sup> Institut für Weltwirtschaft, Kiel.

<sup>3</sup> These exports in real terms increased by more (during 1960/79 annually 6.8 percent) than did the developing countries' exports to developed economies (6.0 percent).

**Table 1: Sectoral Frequency Distributions<sup>a)</sup> of Import Licencing in Selected Developing Countries 1976 - 1979, by ISIC Categories**

ISIC-Code	Industries	Algeria (1978)	Brazil (1978)	Came-roon (1976)	India (1978)	Ivory Coast (1976)	Kenya (1978)	Malay-sia (1978)	Moroc-co (1978)	South Korea (1978)	Taiwan (1979)	Tunisia (1977)
311/12	Food products	8.8	15.1	11.1	7.6	9.4	24.4	15.8	5.8	10.8	25.8	3.5
313	Beverages	0.5	2.4	—	0.2	3.1	1.2	1.3	1.4	2.3	—	0.3
314	Tobacco	—	0.3	1.4	—	1.6	1.2	—	—	0	—	0.6
321	Textiles	5.0	14.6	9.7	5.6	20.3	9.3	—	10.3	8.9	—	7.3
322	Wearing apparel	0.7	4.1	8.3	0.6	10.9	1.2	—	1.2	3.6	3.2	0.6
323	Leather and products	0.5	1.1	1.4	1.7	—	1.2	1.3	1.9	1.4	3.2	0.3
324	Footwear	—	0.5	2.8	—	1.6	—	—	0.2	0.3	—	—
331	Wood products	3.1	4.9	1.4	4.5	—	3.5	—	3.3	2.5	—	0.6
332	Furniture and fixtures	0.2	0.3	1.4	0.2	—	—	1.3	0.2	0.3	—	0.3
341	Paper and products	1.0	1.9	4.2	3.5	3.1	3.5	—	3.5	2.5	6.5	0.6
342	Printing, publishing	1.4	1.6	2.8	2.2	—	1.2	—	1.2	1.1	3.2	0.3
351	Industrial chemicals	19.2	0.8	4.2	22.9	7.8	2.3	8.1	6.3	10.0	16.1	29.3
352	Other chemical products	4.0	2.5	6.9	6.1	6.3	4.6	1.3	4.9	2.8	6.5	6.2
353	Petroleum refineries	0.5	—	—	0.9	1.6	1.2	—	0.9	0.3	3.2	0.6
354	Petroleum, coal products	0.5	0.3	—	0.6	—	1.2	—	0.7	0.3	—	0.3

355	Rubber products	3.3	2.7	4.2	3.0	6.3	2.3	1.3	1.6	2.2	3.2	1.8
356	Plastic products, n.e.c.	0.7	1.1	2.8	0.6	1.6	1.2	1.3	0.5	0.8	—	0.6
361	Pottery, china and earthenware	0.5	1.4	—	1.1	—	1.2	2.7	0.7	1.1	—	0.3
362	Glass and products	4.0	1.9	1.4	3.4	1.5	2.3	5.4	4.0	0.6	—	2.3
369	Non-metallic mineral products, n.e.c.	4.2	3.6	1.4	4.3	3.1	3.5	4.0	3.3	0.8	—	1.8
371	Iron and steel	1.4	1.1	4.2	3.4	1.6	4.6	4.0	5.2	2.8	—	2.3
372	Non-ferrous metals	5.2	0.3	2.8	1.1	—	—	1.3	1.6	2.8	—	5.9
381	Fabricated metal products	8.5	9.6	12.5	3.0	3.1	9.3	10.8	7.3	8.3	6.5	5.9
382	Non-electrical machinery	8.5	5.5	2.8	6.7	6.3	6.9	23.0	12.4	9.7	6.5	12.0
383	Electrical machinery	2.6	3.0	2.8	4.1	4.7	3.5	2.7	2.6	4.4	3.2	3.8
384	Transport equipment	1.6	2.5	2.8	3.7	1.6	2.3	8.1	4.4	3.3	3.2	3.2
385	Professional goods	8.3	5.5	1.4	5.4	1.6	1.2	5.4	9.1	7.2	3.2	7.3
390	Other industries	5.9	11.4	5.5	3.9	3.1	5.8	1.3	5.4	9.1	6.5	2.1
Total <sup>b)</sup>		100.1	100.0	100.2	100.3	100.3	100.0	100.4	100.1	100.2	100.0	100.1
Percentage share of 4-digit CCCN items affected in the total number of tariff items at this level		40.8	35.1	6.9	51.9	6.2	8.3	7.1	41.2	35.0	3.0	32.9

a) Number of 4-digit CCCN tariff items affected by import licencing converted into 3-digit ISIC-categories. — b) Deviations from 100 percent are due to rounding.

Source: See statistical appendix.

seventies, increasingly impose non-tariff barriers upon imports. The main reasons for this shift from tariff barriers to non-tariff barriers are that the latter ones can frequently be changed, that they cannot be easily detected and that they offer very selective measures to protect branches in total as well as marginal producers within a branch. Secondly, developed countries have started to bind their own trade policy concessions in favour of developing countries — such as tariff reductions or duty-free tariff quota within their individual schemes of the Generalized System of Preferences — to trade liberalization measures of the advanced developing countries the so-called graduation principle). This may necessitate a stronger engagement in detecting non-tariff barriers in developing countries and their effects. Thirdly, and these are our terms of reference in this paper, developing countries increasingly envisage to expand their trade among each other by reciprocal tariff cuts in order to weaken the links to developed economies and to enforce their collective and individual bargaining power. Whether this objectives are reasonable or not goes beyond the scope of this paper. In any case, however, it can be assumed that given the competing supply structures of countries at similar stages of development and the patterns of tariff protection, particularly the production of low-income consumer goods in many developing countries will be threatened by competing imports from other developing countries rather than by imports of high-income consumer goods originating from developed economies. In this case non-tariff barriers again offer efficient tools in order to discriminate close substitutes from developing countries and hence should be given priority in the investigation of intra-developing countries' trade obstacles.

In this paper a comparative analysis of the sectoral profiles of one major non-tariff barrier, the quantitative or administrative trade restrictions caused by import licencing<sup>4</sup>, is attempted for selected developing countries. Furthermore, we will analyse the degrees of affectedness of North-South and South-South trade flows by import licencing for one of the most heavily protected industrial sectors in developing countries, the textiles sector.

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<sup>4</sup> The heading of import licencing conceals that the range of procedures under this heading is wide covering among others simple administrative controls by automatic approvals, the possibilities of ad hoc interventions in a safeguard situation, obligatory or facultative ceilings, approvals linked to a clearance by local producers as well as quasi-import prohibitions by rejecting the issue of certificates which would exempt imports from prohibitive tariffs.

### Sectoral Profiles of Import Licencing Procedures

Our sample consists of eleven developing countries from which recent import licencing data on an adequate disaggregation level (four-digit CCCN tariff items) could be made available for the years around 1978. The countries differ in size, level of economic development and regional affiliation and thus are supposed to cover the wide range of developing countries sufficiently.

The items affected by import licencing in the individual countries were converted into three-digit ISIC categories of the manufacturing sector and plotted as a sectoral frequency distribution (table 1). In addition, a percent coverage by import licencing was computed, that is the number of tariff items subjected to import licencing as a share in the total number of tariff items in manufactures.<sup>5</sup>

The computations yield a rather uniform sectoral pattern of restrictions though both the coverage and the sectoral concentration of restriction considerably vary with respect to the individual country concerned. Measured as a cross-country average, five industries account for more than fifty percent of all restricted items: food products, industrial chemicals, textiles, non-electrical machinery and fabricated metal products.

Recent UN industrial statistics available for some of the sample countries (India, Ivory Coast, Kenya, South Korea and Tunisia<sup>6</sup>) suggest that these five industries overproportionally contributed to the growth of domestic industrial production during the seventies.

Among the five industries the food sector emerges as the only one which holds a top rank in import licencing irrespective of the development level of the countries concerned. With the exceptions of Morocco and Tunisia import licencing procedures always focus on food products whereas restrictions imposed upon imports in the other four industries display larger intercountry variations. One reason for these variations could be the level of industrial development. Countries at a relatively less advanced stage like Cameroon, the Ivory Coast and Kenya seem to give priority in import restrictions to light industries like textiles, in contrast to more advanced countries like India, Malaysia, Morocco and Tunisia where protection in fabricated metals and non-electrical machinery is more pronounced.

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<sup>5</sup> The total number amounts to 1037 items which totally or partly comprise products of the manufacturing sector. Items comprising agricultural and mineral raw materials have hence been disregarded.

<sup>6</sup> UN, Yearbook of Industrial Statistics, 1979, Vol. I, New York 1981.

However, this distinction is by no means robust as it is evidenced by a high protection profile of the Brazilian textile industry and the Cameroonian metal processing industries. These breaks may both reflect the product heterogeneity within the industries, especially in metal and machinery sectors, and the different objectives of balance of payments remedies or protection targets to which import licencing is designed to contribute. These caveats particularly hold for industrial chemicals where import licencing, for instance in the Ivory Coast, serves to protect the domestic production of plastic materials compared to the protection of the domestic fertilizer industry in India, Algeria and Taiwan.

With respect to both objectives mentioned above one can conclude from table 1 that the countries with a low import licencing coverage (for instance Malaysia and Taiwan) exhibit a stronger sectoral concentration of restrictive measures than it is highlighted for countries like Brazil and India where import licencing affects the whole range of manufacturing industries.. This split could support the hypothesis that for the former group the protection target and for the latter group the balance of payments target prevailed as the major criterion to introduce import licencing measures.

#### **The Impact of Import Licencing on North-South and South-South Trade Flows in Textiles**

Import licencing procedures introduced by developing countries are generally not selective in regional terms. That means that they are imposed upon imports from any source. Though there are some exceptions from this rule in the regional integration schemes to which, with respect to our sample, Brazil, the Ivory Coast and Cameroon are affiliated, preferential treatment towards member countries is usually confined to preferential tariffs and not to exemptions from non-tariff barriers. This seems to be plausible because otherwise non-tariff barriers would fail as a balance of payments remedy or as a shelter in favour of marginal domestic suppliers. We may thus assume that quantitative restrictions in developing countries are in general imposed upon imports from developed as well as from developing countries and this allows for splitting the share of actual imports affected by the restrictions into a South-North and a South-South trade component.

This breakdown is undertaken for one of the five most heavily protected industries which emerged from table 1, textiles. In this industry comparative advantages of many developing countries on world markets are clearly pronounced as far as the labour-intensive parts of textile

**Table 2: Regional Distribution of Selected Developing Countries' Textile Imports Subjected to Import Licencing, by Areas of Origin**

CCCN-Chapter	Areas of Origin of Developing Countries' Textile Imports Affected by Import Licencing (Percentage Shares)												Share of Textile Imports Affected by Import Licencing in Total Textile Imports
	Imports from Developed Market Economies and Socialist Countries						Imports from Developing Economies						
	50 - 59	60 - 61	62 - 63	64	65	Total Textiles	50 - 59	60 - 61	62 - 63	64	65	Total Textiles	
Importing Country (year)													
Brazil ..... (1978)	80	81	81	73	5	65	20	19	19	27	95	35	23
Cameroon ..... (1976)	60	56	54	68	—	61	40	44	46	32	—	39	64
Kenya ..... (1978)	70	64		76		68	30	36		24		32	25
Algeria ..... (1977)	61	100	83	—	—	67	39	—	17	—	—	33	9
Morocco ..... (1978)	68	87	96	89	72	69	32	13	4	11	28	31	32
South Korea .... (1978)	90	96	78	100	100	90	10	4	22	—	—	10	37
Tunisia ..... (1978)	53	99	—	—	—	56	47	1	—	—	—	44	14

CCCN 50 - 59 = Textile raw products, intermediates, fabrics, carpets (for Kenya: SITC 65);  
 CCCN 60 - 61 = Clothing } for Kenya: SITC 84;  
 CCCN 62 - 63 = Made-up textiles }  
 CCCN 64 = Footwear } for Kenya: SITC 85  
 CCCN 65 = Headgear }

Sources: See statistical appendix.



production are concerned whereas developed countries still dominate in the capital- and high quality-intensive production lines. Thus there might be a balance in non-tariff protection of developing countries against textile imports from developed as well as from developing countries. In accordance with this assumption the breakdown is disaggregated by five different subgroups of textiles, where in particular the discrimination between intermediates and finished products is essential.<sup>7</sup>

Three principal results emerge (Table 2): Firstly, the share of textile imports subjected to licencing in total textile imports differs widely between the countries concerned (from 9 percent in Algeria to 64 percent in Cameroon), and this range does not fully coincide with the weights of textiles and other related industries in the sectoral frequency distributions of import licencing (Table 1).

Secondly, a focus of restrictive measures against imports from developed countries is common to all countries. Roughly about two third of imports affected by these measures originate in the developed countries including socialist economies whereas only one third is South-South trade.

Thirdly, the restrictions against South-North and South-South imports are more balanced for finished goods (clothing, footwear, headgear) than for intermediates. This results seems to be fairly consistent with the structure of comparative advantages in international trade with textiles.

With regard to the differing shares of trade in restricted items one may argue that this outcome reflects whether restrictions are binding or not as well as differences in the import diversification degree which itself depends on the development level of the importing countries. Countries at an early stage of development like Cameroon display a relatively low diversification degree of textile imports, and these imports to a large extent compete directly with the domestic market-oriented local textile production. That means that especially in finished goods textile imports have to adjust in quality and price to the low-income consumer level and this provides competitive advantages for developing countries' suppliers producing textiles at this level rather than for suppliers from developed countries. This might explain the overproportional share of imports from developing countries affected by licencing in a low-income country like Cameroon and could lead to the conclusion that in particular at a low-income level trade among developing countries is hampered by non-tariff barriers.

<sup>7</sup> Only for seven of the sample countries recent trade statistics could be made compatible with import licencing schedules.

Furthermore, francophone African countries traditionally have established higher protective walls against external competitors for import-substituting industries than did anglophone African countries. This is witnessed not only by differences in the effective tariff protection rate but also by differences in the licencing coverage (Kenya versus Cameroon in Table 2). Due to the much higher per unit import value of top-quality textiles demanded by the small local high-income group, however, imports from developed countries affected by licencing still prevail by shares against imports from developing countries. Here balance of payments targets affecting the imports of "luxury" goods seem to be more relevant as motives for licencing than protection purposes.

With rising income levels the regional pattern of textile imports affected by licencing shifts from developing countries' suppliers to developed countries' suppliers. South Korea, one of the leading developing countries' producers of textiles, marks the extreme case with respect to this tendency.

In these advanced developing countries local production in finished goods has been diversified in such a way that it can meet high quality standards and high-income consumer preferences. In addition the product range has expanded from finished goods to the more capital-intensive intermediates. Both horizontal and vertical diversifications imply that quantitative restrictions serve protection purposes in favour of new production lines and hence are directed mainly against competing suppliers of intermediates from developed countries. This is highlighted by the shares recorded in table 2.

As a rule of thumb, the results suggest that the lower the income level of importing developing countries, is the more the quantitative restrictions in textiles hamper imports from developing countries compared to imports from developed countries. There do not seem to exist major objections against extending this rule to the other industries affected by import licencing.

### **Implications for South-South Trade**

The major outcome of assessing the consequences of import licencing on the regional pattern of trade flows is that quantitative restrictions impede South-South trade mainly at the lower end of the income scale. Low-income developing countries which pursue import substitution policies in light consumer industries or in assembly industries of metal manufacturing do not only impose tariff barriers but also non-tariff

barriers upon competing imports. Competitors are located in higher-income developing countries rather than in the developed countries. This seems to hold particularly for finished goods whereas in intermediates developed countries are still the major source of imports. Since income elasticities in low-income developing countries are high for these industrial products, import licencing contributes to suppress a rapid increase in South-South trade at this income level. Given the competitiveness of advanced developing countries in this range of products, consumers in low-income developing countries therefore suffer from real income losses due to South-South trade forgone.

A comparison of purchasing power parities between developing countries [Kravis, Heston, Summers, 1978, pp. 224 - 229] reveal that there are large inter-country differences for homogeneous goods which exceed the tariff margins. Thus, even if we consider transportation costs as one additional source of differences in parities<sup>8</sup>, there are still residuals to be explained by non-tariff barriers. Hence any attempt to enforce structural changes in developing countries by strenghtening economic interactions between developing countries of different income levels should not only aim at tariff cuts as the major tool to trade liberalization — as it is done by UNCTAD — but should additionally consider the reduction of import licencing procedures.

### Statistical Appendix

#### Trade Statistics:

- Algeria : Ministère des Finances, Direction des Douanes, Statistiques du Commerce Extérieur de l'Algérie, 1977.
- Brazil : Comércio Exterior do Brasil, Importação, Ano 7 (1978), Tono II.
- Cameroon : U.D.E.A.C., Statistiques Générales, Commerce Extérieur, Année 1976.
- Kenya : Customs and Excise Department, Annual Trade Report, 1978.
- Morocco : Statistiques du Commerce Extérieur, 1978.
- South Korea: Statistical Yearbook of Foreign Trade, 1978 (December).
- Tunisia : Ministère du Plan, Institut National de la Statistique, Statistiques du Commerce Extérieur, Année 1978.

The definition of „Developing Economies“ follows that of the United Nations, that means that Southern European countries are subsumed under „Developed Economies“.

<sup>8</sup> The Brazilian case (Langhammer, 1982) for example suggests that the tariff equivalent of transportation costs is only one third of the average nominal tariff imposed on Brazilian manufactured imports from developing countries.

## Import Licencing Schedules:

- Algeria : Licence d'Importation, Journal Officiel de la République Démocratique et Populaire, No.79, 4.12.1977, reprinted in: Bundesstelle für Außenhandelsinformation (BfAI), *Marktinformation*, MI-C/44, C/44a.
- Brasil : Comunicado CACEX No.78/2, Anexo C, reprinted in: BfAI, *Marktinformation*, MI-C/126.
- Cameroon : Licence Préalable à l'Importation, Ministère de l'Economie et du Plan, reprinted in: BfAI, *Marktinformation*, MI-C/56.
- India : Ministry of Commerce, Import Trade Control Policy, Vol. I, April 1977 - March 1978, Section II: Policy for Items Licensable to Actual Users.
- Ivory Coast : Licence d'Importation, Décret No.76-281, 1.5.1976, reprinted in: BfAI, *Marktinformation*, MI-C/59.
- Kenya : Imports Subjected to Licencing, Kenya Gazette Supplement No.26, „Legal Notice“, reprinted in: BfAI, *Marktinformation*, MI-C/137.
- Malaysia : Imports Subjected to Licencing, Restricted Items, Lists 2 and 3, Domestic Trade Division, Ministry of Trade and Industry, Kuala Lumpur, reprinted in: BfAI, *Marktinformation*, MI-C/122.
- Morocco : Produits Soumis à l'Autorisation d'Importation (Liste B), Programme Général d'Importation 1978, reprinted in: BfAI, *Marktinformation*, MI-C/124.
- South Korea: Restricted Import Items, Ministry of Commerce and Industry, Terminal Export-Import Notice for Second Half of 1978.
- Taiwan : Controlled Imports, Classification of Import and Export Commodities of the Republic of China, April 1979.
- Tunisia : Certificat d'Importation, Journal Officiel de la République Tunisienne, Circulaire aux Intermédiaire Agrées, No.77-18, reprinted in: BfAI, *Marktinformation*, MI-C/87.

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- Kravis, Irving B., Heston, Alan, Summers, Robert, 1978, *International Comparisons of Real Product and Purchasing Power* (Baltimore: Johns Hopkins University Press, 1978).
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- Yeats, Alexander S., 1979, Trade Barriers Facing Developing Countries. Commercial Policy Measures and Shipping. (London: Mac Millan).*